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SME lending Task Force Sprint Meeting 7 - 07/06/2024

Attendees:

Chair : Charlotte Crosswell (CFIT)

Secretariat : Nick Davey, Richard Koch (Open Banking)

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

Adrian Maguire	Experian
Alan Ainsworth	CCAF
Andrea Macleay	FSB
Andrew Neeson	Visa
Gavin Starks	Icebreaker One
Ghela Boskovich	Fdata
Glen Keller	CRIF
Helene Oger-Zaher	FCA
Hetal Popat	HSBC
James Guy	Lloyds Group
Kerstin Mathias	CoLC
Kim Jenkins	MoneyHub
Krystyna Biller	Iwoca
Lynsey Rodger	Natwest
Markos Zachariadis	Academic
Neil Taylor	MC
Nicole Green	Yapily
Owen Heeley	Transunion
Phillip Mind	UK Finance
Rebecca Hickman	Addleshaw Goddard
Scott Harrison	Experian
Stephen Wright	Natwest
Terence Trench	Sage

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Apologies:

Adam Jackson	Innovate Finance
Agnieszka Scott	DBT
Amber Boodt	Nationwide
Celso Nogueira	TransUnion
Conrad Ford	Allica Bank
Dame Jayne-Anne Ghadia	Ozone API
Dom Hallas	Startup Coalition
Francesco Simoneschi	Truelayer
Gary Parlett	Answer Digital
Hannah Gurga	ABI
Henk Van Hulle	Open Banking Limited
Jason Turner	Barclays
Leon Jayasinghe	Tide
Linda McKensey	Santander
Nick Lee	OakNorth
Nilixa Devlukia	OFA
Robert McKechnie	Equifax
Robert Pivoris	Intuit
Robert Sullivan	Token
Rory Tanner	Revolut

New Actions Arising:

1. Chair and secretariat to provide feedback to the TF on proposals that have arisen and are being considered for the final report.

Actions carried forward

1. Chair and secretariat to discuss SME education aspects with FSB.
2. Chair and Secretariat to look at suggested international comparisons where data sharing models work currently and the conditions that allowed them to come to market.

Summary of meeting:

Agenda:

- 1) Welcome
- 2) Early findings from Survey 2
- 3) Emerging proposals
- 4) AOB

Welcome and background

- The Chair welcomed attendees to the meeting. The Chair thanked taskforce members that had responded to the survey sent out last week; she noted that if people hadn't been able to send in time we were still taking in submissions, she thanked those that had said they will be sending a response after the deadline and awaiting those submissions.
- The session today included an analysis of the responses so far and what trends had been emerging. This has led to some consideration of proposals which would be developed further.
- Timings remained on track, with a draft skeleton report for Government departments due end-June with the final report to be published after the July election most probably w/c 15th July. Work has not yet started on the report but there is a need to get started to hit the deadlines so the next weeks will be crucial in refining the proposals that can be taken forward.

Taskforce Survey 2

- A 2nd survey had been circulated the week prior to the meeting with responses being sent in the day before.
- The survey asked about:
 - Data and sources that are available today and issues and gaps
 - Bilateral vs Multilateral contracts and commercial models
 - Further international comparisons we should look at
 - SMEs: size, consent,

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- Overarching questions on prioritising work for the next 12 months, 2-3 years and 3 years +
- It also included questions on areas that had not been covered as yet by the taskforce but were still important.
- Around a quarter of the taskforce members (excluding those from representative bodies) responded to the survey; with more survey responses promised in the coming days.
- It was noted that it was a great effort for taskforce members to turn it around in such a short window especially covering a period of school holidays.
- The survey only asked respondents to answer questions they wanted to, so not every question has the same number of responses. Even so there was good coverage for all the questions with multiple responses.
- The respondents were representative of data suppliers, data aggregators, big and smaller lenders. Broadly it covered the supply side of the market.

Survey responses to the questions on data

- We asked what data was currently used in processing business loans; the source of the data and how the data was provided. Below is the list of data that is commonly used in loan applications:
 - Company name and address and company information such as company purpose, SIC code, directors name.
 - This was used and the information was given by companies themselves, or else information was taken from Companies House or via Bureaus such as credit reference agencies.
 - Pros: data is free
 - Cons: A lot of manual processing; PDF formats are difficult to use especially from Companies House; often there is missing data that needed to be sourced from elsewhere; SIC codes difficult to obtain.
 - VAT Data
 - Around two third of respondents said it was either always used or used in cases where the loan amount crossed a value threshold. A third said it wasn't used currently.
 - The data was obtained from the company themselves although 1 respondent noted they got the data from HMRC [presumably from Government Gateway].
 - Pros: Highest ranked data in the CFIT blueprint for usefulness.

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- Cons: Automation is difficult as there is high friction in getting the data therefore only manual submission is typically used.
- Company Accounts
 - All respondents said these were used
 - Sources were commonly from manual submission, Companies House if accounts listed; or Cloud Accounting Providers.
 - Pros: useful to see past performance of the company as well as other important factors listed in the accounts.
 - Cons: PDF data formats; issues with small company exemptions and abridged accounts.
- Bank Account level data
 - All respondents said this was used.
 - Quite often this was PDFs of statements, although some lenders use Open Banking; some noted that the SME would hold accounts with them and they could source the data inhouse.
 - Pros: up to date view of financial health of the company; Open Banking data is from a dependable source; active market in Third Party Providers (TPPs) to get Open Banking data and provide products and services.
 - Cons: for Open Banking not every bank or account is covered; multibanked can present an issue specifically.
- Invoice Data (money owed)
 - Around 60% of respondents said this data was used, 40% said it wasn't.
 - In some cases it is only used in invoice financing.
 - Sources were again submission by the company; or Cloud Accounting Providers.
 - Pros: proactive monitoring of the company performance, it also aids reconciliation of management accounts
 - Cons: The data is not well trusted and could be manipulated by the company to get a more favourable outcome.
- Sales Data
 - 85% said this was used and 15% said it wasn't used.
 - Source was again companies own submissions; although some respondents noted that some sales platforms were used; and Cloud Accounting Providers
 - Pros: same as invoice data in looking at company performance
 - Cons: similar trust issues, although the data could be validated against Open Banking data but they had additional costs and complexity.

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- Invoices paid to other suppliers
 - 60% said this was currently used and 40% said it wasn't.
 - Again the source for this is companies submitting their own data; or CRAs.
 - A number of respondents said this is only asked for on a case by case basis.
 - Pros: a view of the current position regarding companies debt position and its ability to pay its supply chain
 - Cons: trust in the data.

- Assets
 - 70% said it is used, 30% said it wasn't.
 - Quite often it is only used in assets financing loans or asset backed.
 - Sources were primarily companies submitting their own data, some noted cloud accounting providers are also a source.
 - Pros: this is essential for asset backed loans
 - Cons: manual submission and manual validation are resource intensive.

- Other data listed as being used
 - Future projections either from a third party providing analysis or from the company.
 - Number of employees and number of contractors regularly employed.
 - Group relationships – if a company is within a group structure.
 - CRA information.
 - Energy consumption.
 - Climate change related information e.g. flood and other physical risks; carbon emissions.
 - Court Judgement information.
 - Insolvency information.
 - Commercial contracts.

We asked what other data, if automated, was wanted by either Lenders or Aggregators.

- Data listed as desirable contained:
 - Full Companies house data e.g. full accounts for every company.
 - VAT data from HMRC.
 - Commercial credit card data.
 - Marketplace scores e.g. trust pilot, feefo, Checkatrade.
 - Trusted identity.
 - E-Invoicing.
 - Bacs files broken down into line items.
 - Climate change related information.

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- Direct link to cloud accounting providers to get real time information.
- Full Open Banking coverage.
- Pensions data.
- Planning applications and approvals.
- Exposures to connected companies e.g. previous liquidations or defaults.
- Sector level information in a centralised place.

We asked whether there was existing electronic information that was difficult to obtain because of high frictions.

- Data / sources were given as:
 - Companies House data in PDF format, in addition their XBRL standards were seen as inconsistent.
 - Some Open Banking data was seen as difficult in that some banks restrict access to third parties accessing the data even with consent; or else third party access is not easy to set up with little process or information surrounding it.
 - Energy performance (EPC) information is PDF downloads from Government website
 - There is a lack of a unique identifier in trading data.

We asked whether there was existing electronic information that had data quality issues that it would be useful to address.

- Data / sources were given as:
 - Land registry – not the data itself but the time lag in updating it, meant that data was out of date when used.
 - Companies House naming conventions e.g. John Smith, J Smith etc. for the same person.
 - Companies house time lag – companies need to be 18 month old at least before any accounts will be filed and published.
 - Court Judgement Data – company registration number is often wrong or omitted.
 - Open Banking – inconsistencies between banks.

The respondents also provided a list of initiatives that could be taken forward that included:

- Incentivising Cloud Accounting Providers to open up data access but also them incentivising companies using them to keep their data up to date and accurate so it could be used with trust. As part of that greater certainty what data has been provided to HMRC and companies house using them.
- Sales data provided directly via Point of Sale (POS) terminals.
- A government approved invoicing scheme (preferably interoperable with the EU).

- Commercial Credit Data Sharing (CCDS) to be expanded to new lenders.

What was surprising to the taskforce was that so much data used today was manually submitted via the company as part of the application, even where new open access to data has been available (e.g. Open Banking). Where there were alternative sources these seemed to be largely publicly available information through Companies House, or using a CRA. Using Government Gateway for some data such as VAT data was a potential option but was seen as very high friction. Cloud accounting providers were at times also used but it seems that this is not a mainstream source for many at the moment, although the suggestions were that this data should be opened up and used more but with the appropriate validations to give trust in the data. It appears that there are many options for greater automation and modernisation in the loan process.

Multilateral Agreements vs bilateral contracting

- We posed three scenarios about how a model could work. There needs to be some arrangement that covers factors about the data, data quality, consent management, commercial arrangements. The first model is that this is governed by bilateral contracts so they are individually agreed between the parties. The second was that there is at least one multilateral contract (MLA) that governed all aspects but didn't contain any commercial arrangements – prices would still be set by bilateral contracting. The third was at least one MLA that also included commercial arrangements.
- Respondents were asked which ones they preferred and broadly why.
- All but one respondent argued that an MLA was required; and that as part of the MLA standards were very important. However most respondents suggested that they would prefer a model without a commercial model in it. There were various reasons for this, such as scalability and efficiency gains, with some practical elements about not having a commercial model included such as speed to market.
- In terms of commercial models, if they were to be used, examples to look at included card systems; CRA models and SPAA in the EU.

SMEs

- We asked questions about what size of SMEs would have the biggest impact. Respondents noted that the SMEs that would benefit the most were smaller SMEs and Microbusinesses because there is a lot of friction and costs in loan applications for smaller firms. It was felt that these firms would suffer most from having to collate the amount of information required for loan applications, and may suffer from a lack of experience in how best to present their company to the lenders. It was also felt that new start-ups didn't have a lot of

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data that is usually required such as HMRC and companies house data, they would benefit from being able to consent to alternative, more real time data sources.

- However in terms of UK economic growth the larger the SME the more impact they would have. This would be true especially in high growth sectors that can use funding to scale and grow. They are also considered easier to support as they will have more staff and are therefore more likely to employ staff that are technologically and financially literate and may have previous experience in applying for loans.
- We also asked whether SMEs needed more education on lending products and services. Evidence suggested that there is a lack of knowledge or trust in alternative lenders if an SME is turned down a loan from a traditional lender. More education is needed to avoid good, lendable, SMEs just walking away from the process. This is ideally in advance of the point of need, so SMEs know what to expect when making an application and the benefits of consenting to data to aid the process in their favour. Ultimately this could lead to informed decisions about when and how to apply for a loan in the first instance.
- Respondents warned that the SME market is diverse and that adoption of a one size fits all approach would not be ideal. It was also suggested that commercial providers could provide insights and options (but unlikely to be regulated financial advice) to SMEs. The important point here was that the SME trusted the provider and therefore were likely to be informed by their guidance.

Prioritisation

- We asked respondents to say what they think should be prioritised over the next 12 months, then 2-3 years and 3 years +

Responses were

12 months

Prioritisation	What does good look like
<ul style="list-style-type: none">• DPDI bill passed• Continue to define Minimum standards, target data sets and commercial model• Access to HMRC VAT data and RTI employees• Allowing SMEs to access their CCDS for free• UTI for CRA data	<ul style="list-style-type: none">• A foundation legal basis for Open Finance• Frictionless APIs for HMRC data• SME credit reports become available via more software tools• Standard APIs with public data dictionary

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<ul style="list-style-type: none"> Bacs debit line item into Open Banking standard 	
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2-3 years

Prioritisation	What does good look like
<ul style="list-style-type: none"> Commercial pilot of a smart data scheme Development and implementation of data sharing standards Increasing levels of digital accounts data shared by micro-enterprises Access to VAT data Government approved eInvoicing scheme Companies house standard APIs 	<ul style="list-style-type: none"> Commercial pilot of a smart data scheme Development and implementation of data sharing standards Increasing levels of digital accounts data shared by micro-enterprises Access to VAT data Government approved eInvoicing scheme Companies house standard APIs

3 years+

Prioritisation	What does good look like
<ul style="list-style-type: none"> Market wide implementation of a smart data scheme extending out beyond finance into other sectors SME marketplace (Standard Chartered Solv platform could be an example) Availability of SME tools to inform about financial health, and facilitating loans applications. Companies house extending out to full accounts in structured API 	<ul style="list-style-type: none"> Multiple smart data schemes in place Robust and quantum secure digital platform & network Providers of SME tools are not subject to existing regulations designed for lenders e.g. AISP is not a bank, so information providers that facilitate deals are not financial advisors.

The taskforce discussed timing and whether these things were really achievable in the time frames listed. While we aim to be optimistic and challenging on time frames the risks of timetables were noted. When presenting this information in the final report and information it would be key to ensure that the messaging is about short, medium and longer

term initiatives. Although it was also noted that some initiatives need to be started in the short term to have any chance of delivery in the medium to long-term.

The next steps were to take onboard any later submissions and turn these into proposals for the final report.

AOB

- There was no AOB so the Chair thanked the taskforce members for attending and looked forward to the next meeting on 14 June to discuss views of the taskforce, emerging recommendations and other relevant findings.

[End Summary]