SME Finance Taskforce – Smart Data: improving SME lending to drive economic growth

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1. Foreword

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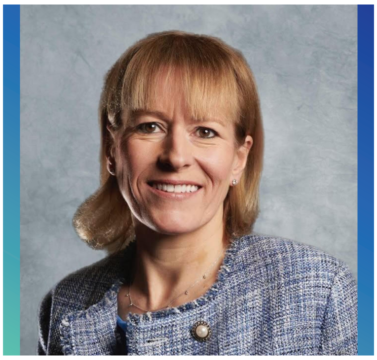

It has been my privilege to chair the SME Finance Taskforce and work alongside esteemed colleagues from all parts of the finance, lending, and data ecosystem. The taskforce has created a set of recommendations which, if and when implemented, have the opportunity to make a sizeable positive difference to our country's economy. It feels like a cliché to write that SMEs are "the backbone of the economy", but that doesn't mean that it isn't true. We need our SMEs to be successful, we need them to grow, and we need them to employ more people for the UK economy to thrive.

For SMEs to develop from start-up to scale-up, and from employing a handful of people to a hundred people, requires financing. While many SMEs are happy to stay small and we should recognise that, many want to grow and expand. These SMEs have the capabilities, ideas and desire, but often can't get access to the finance they need. This needs resolving. We discovered that this isn't anyone's fault; lenders, both traditional banks and specialist lenders, want to lend to businesses that can demonstrate they can afford to repay. It is, of course, in their interests to help find solutions, too.

This taskforce has brought together a diverse group from across industry to solve a real problem – how to get credit to businesses that need it, that can repay their loans, and which would generate more economic output with appropriate financing. I found it incredibly encouraging that people from organisations as diverse as banks, fintechs, accountancy software providers, payment schemes and credit reference agencies were aligned on their desire to help and their support for the recommendations outlined here. We knew that data – and getting quality reliable data to lenders – would be at the heart of the solution. But we didn't know enough about how this related in detail to the problem, or the range of solutions that were available.

Particularly pleasing is that the solutions are achievable, some more quickly than others. Given the size and scale of the opportunity, we should make an immediate start to building the long-term foundations for solving this complex issue and a roadmap that puts SMEs at the heart of the solution.

I strongly believe we have discovered practical solutions that can positively impact so many people here in the UK. I implore the new Government to read this Report and give the taskforce's recommendations the support they deserve while leveraging industry that stands ready to help drive through change.

I would like to give my sincere thanks to all the Taskforce members and the wider ecosystem for their contributions, and to those who gave up their time and resources to collaborate with their peers. I also want to thank the Secretariat, provided by Open Banking Limited, for their support and dedication to the research and report. I very much hope you'll look back on your work with the taskforce with pride in having made a real difference to many SMEs' futures and the livelihoods of the millions of people that work for SMEs.

Contents

2. SMEs' Access to Finance – Our 7-point Plan to Unlock SME Finance via Smart Data

Actions that should be taken forward immediately

1. Prioritise the Digital Information and Smart Data Bill
2. Fund and support an SME "Smart Data Challenge"
3. Review and improve HM Treasury's Bank Referral and Commercial Credit Data Sharing (CCDS) schemes
4. Accelerate reform of Companies House, in particular standardisation and verification of Company information such as directors' names
5. Unlock private sector data by providing information from HMRC e.g. digital receipt of VAT owed to match and verify cloud accounting data. In addition, allow greater access to HMRC data for approved organisations
6. Develop and consult on proposals for an e-invoicing scheme for the UK to align with overseas markets
7. Enable greater trust in using new specialist lenders e.g., through industry initiatives.

3. Executive Summary

The importance of SME finance

Small and medium-sized enterprises (SMEs), which employ approximately 60% of the UK private sector workforce and contribute over half of the turnover of UK plc, are vital contributors to economic growth across the UK. Making it easier for SMEs to obtain finance, whether for ongoing trading or to support their expansion would, therefore, have a positive impact not only on the UK economy but also on the lives and livelihoods of UK citizens.

There are over 5.5m SMEs in the UK, up from 4.5m in 2010, with employment in SMEs now running at 16.7m people (approximately 50% of the total UK workforce of 33m). Of these, around 30% have sought finance in the last three years. This demonstrates not only the importance of SMEs to the UK economy, but also the dynamic and evolving nature of the SME sector.

We cannot over-state how important an effective, efficient SME finance sector is for the UK's economic prospects. However, lending in real terms to the SME sector has been declining over the last decade.
The SME finance sector has changed markedly over the last decade. Most policy interventions have been based on the premise that SME finance is overwhelmingly provided by the traditional banks. However, this is no longer the case, with approximately 60% of lending now provided by challenger banks or specialist bank lenders. It is also evident that measures to increase competition with the traditional banks, whilst having the effect of raising the number of lenders in the sector, have not increased supply of credit. The reasons for this are complex and summarised below in our findings and within the report.

Our analysis has demonstrated that there are realisable changes that can be made, some in the relatively short term, that can improve the way the SME finance sector operates and deliver more affordable lending to SMEs. By doing so, SMEs will help to grow the UK economy, which is in the interests of everyone.

Recommendations

The inaugural report of the CFIT Open Finance Coalition[1] estimated that access to certain additional data would significantly increase lending acceptance rates. This follow-up report identifies a range of additional measures that would lead to the timely provision of more high-quality reliable data to lenders, and therefore deliver additional lending to the SME sector.

The unique nature of this CFIT taskforce means that our findings and recommendations have been developed, and agreed, by a wide range of industry participants, including banks, alternative lenders, payment providers, Credit Reference Agencies ("CRAs"), cloud accounting software providers and fintechs. There is recognition that industry, regulators and Government all have roles to play in making progress and delivering change, and that recent developments such as Open Banking can be leveraged in support. Finally, whilst there are some "big ticket" findings and recommendations for policy makers, there is also a range of smaller initiatives that can be built upon and delivered in the short term. There is no time to waste.

[1] See: https://cfit.org.uk/wp-content/uploads/2024/02/CFIT-Open-Finance-Blueprint.pdf

Some of our recommendations will take time, particularly those that are dependent on policy changes or technical developments. It is important that we make a start on these now. In addition, there are some actions that can be taken in the short term, to build momentum and to start delivering for our SMEs.

Recommendations for immediate action

Smart Data Provisions in the Digital Information and Smart Data Bill

The Digital Information and Smart Data Bill (DISD) was announced in the 2024 King's speech.[2] Published information surrounding this announcement suggest the bill will contains provisions that would enable the creation of "Smart Data schemes". These will make it possible to move data between organisations securely and easily, provided they have the consent of the data subject. We would welcome immediate progress by the Government to unlock the opportunities that Smart Data in financial services will provide for consumers and small businesses.

Action: Government to pass the DISD Bill

Small Business "Smart Data Challenge"

To move forward at pace and take advantage of the innovative ideas being considered by members of the taskforce, we propose a "Smart Data Challenge", where members and non-members are encouraged to put into practice proofs of concept that demonstrate the benefits of sharing data through Smart Data schemes. This will provide policy makers with data and evidence to take new concepts forwards. This could follow pre-existing formats such as the Smart Data Discovery Challenge.[3]

Action: Funding for challenge prizes and challenge organisation e.g. a Nesta challenge. Alternatively, FCA innovation services host the digital and regulatory sandboxes and could facilitate additional challenges.

Review of current schemes, including the Bank Referral Scheme and the Commercial Credit Data Scheme

Over the last decade, a number of initiatives have been put in place to help SMEs access the finance they need. These include the Bank Referral Scheme, which requires its designated banks (currently nine banks) to refer a declined loan application to a designated referral platform, and the Commercial Credit Data Sharing Scheme (CCDS) which facilitates sharing of some business account and loan information between Credit Reference Agencies (CRAs) and lenders.

Whilst these schemes have made and continue to make a positive contribution to the SME finance sector, the market has evolved significantly since they were put in place. The referrals scheme suffers from a potential lack of information on the SMEs that have been referred to it. The CCDS scheme was set up when lending was concentrated among a smaller group of more traditional lenders. We have a good understanding of potential areas for improvement, and we recommend that these schemes be reviewed at the earliest opportunity by the incoming Government so that they reflect today's lending environment.

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[2] See: https://assets.publishing.service.gov.uk/media/6697f5c10808eaf43b50d18e/The_King_s_Speech_2024_background_briefing_notes.pdf
[3] See: Smart Data Discovery Challenge | Challenge Works

Action: We propose that those involved in the schemes report back known issues and proposed changes to HMT. Changes progressed by the organisations that administer the schemes on the basis of HMT consultation in advance.

Longer term recommendations

Improve quality and provision of public sector-held data

Much of the data that lenders use is provided by the SMEs themselves, so lenders often want to validate and augment this data by reference to public sector sources. Examples are HMRC-held data, such as VAT, Corporation Tax and arrears, and Companies House data (for verification of directors). In the short-term, in the absence of full data access, there may be scope for delivering valuable enhancements such as a date-stamped receipt of VAT amount due and provisioning of third-party access to Government Gateway data. We propose that data access would only be available to suitably authorised organisations (see below for a follow-up recommendation regarding accreditation) and with consent (for example, of a director).

Whilst we accept that there may be a long lead-time for access to some public sector-held data, we believe that some measures – for example, accelerating reforms to Companies House verification of companies and directors[4] (where work has already commenced) could be completed in the short to medium term, and make a substantive difference.

Action: HMRC review adding VAT due to digital receipts; HMRC review Government Gateway access for lenders and data aggregators with SME consent; Companies House look to verify directors of companies and provide standardised naming conventions. In addition, HMRC and Companies House look for full digital API access and data standardisation.

Develop private sector-held SME data access schemes

There is substantial data currently held privately, for example data held by cloud accounting providers (such as invoicing and VAT data), and by banks and other financial services providers (such as savings account and insurance data), that would be valuable for lenders and intermediaries in assessing finance applications for SMEs.

To unlock this data, work needs to be undertaken to develop technical and other standards that enable interoperability, together with commercial frameworks to make such sharing worthwhile for both data holders and data brokers/data users. Such frameworks could take the form of multilateral agreements or "schemes", similar in construct to those proposed by the European Commission as part of the Financial Data Access (FiDA) Regulation. The "SME scheme" could also form part of, one or more, Smart Data schemes in the UK.

Action: An organisation that is familiar with standards and a user ecosystem should define and implement the standards that are required. The same organisation should set up a working group to progress an MLA, and later an associated commercial model.

[4] Economic Crime and Corporate Transparency Act reforms, see: https://changestoukcompanylaw.campaign.gov.uk/

E-invoicing

We recommend that use of e-invoicing, in other words invoices transmitted and received in a structured electronic format suitable for automatic electronic processing, should become the *de facto* standard for almost all invoices rather than the exception. This will not only improve the quality of invoicing data (and therefore VAT data), but would also improve supplier management and, by delivering more transparency about unpaid invoices, could help reduce the prevalence of late payments that continues to affect many SMEs.

The EU, Japan, Singapore, Australia and many other countries have implemented e-invoicing standards in their jurisdictions. We recommend that the UK's scheme adopts one of the global standards to ensure high levels of interoperability.

Action: Government to consult on proposals for UK e-invoicing standard and adoption.

Improving trust

SMEs are often reluctant to approach lenders for finance, which is one of the reasons that, if they do make an application, it tends to be to a lender they know, such as their existing bank. Being turned down for lending can sometimes feel like rejection which, when added to the administrative burden sometimes involved in making an application, results in SMEs deciding not to pursue their application with other lenders. We need to find ways in which to encourage SMEs to be more confident in applying for finance from a range of lenders. Most of our recommendations have been about improving supply and, whilst this is clearly a knock-on effect on demand, the taskforce was keen to consider demand-side measures too.

One specific measure that we believe will encourage SMEs to be comfortable applying to lenders that they do not know, is via trusted parties promoting lenders that can meet the needs of SMEs they represent. This could be through trade associations, through Business Support Service Providers, or through a list of accredited SME lenders similar to the British Business Bank's Growth Guarantee Scheme.

Action: BBB to work with trade associations and develop proposals that improve trust and education.

Key findings

Bank lending to SMEs falling year-on-year in real terms

While non-overdraft bank lending to SMEs in 2024 (estimated, based on current trends) is up 8% on 2014, in real terms this represents a decrease of 20%, or £10bn of lending at 2014 prices. The reasons for this fall are complex, and may be accounted for by structural changes, for example, Basel III[5] impact on banks' appetite to lend to SMEs. These changes are out of scope of this work.

[5] The impact of Basel III on SME lending has been considered globally with the impact dependent on jurisdiction; more information is available in: https://www.fsb.org/wp-content/uploads/P291119-1.pdf

There has equally been an increase in the number of new lenders to the SME sector, with non-traditional bank lending now accounting for over 60% of SME lending, this has not had the effect of increasing bank lending overall.

Business model shift not benefiting SMEs

One of the causes behind the increasing proportion of lending by non-traditional banks has been a shift by many traditional lenders away from commercial lending towards wholesale lending (i.e., to other financial institutions). One of the benefits of this approach is that newer lenders may be more agile and responsive to market changes, and able to reflect this in a more dynamic approach to risk assessment and pricing.

However, it remains the case that traditional lenders continue to have access to a range of proprietary data about the SMEs that bank with them, and are more likely to be members of the Commercial Credit Data Scheme, which provides them with access to credit data from other lenders on a reciprocal basis. Additionally, the continued high level of non-machine readable (such as pdf) or manual data is impeding the ability of new lenders (e.g., to SMEs) to catch up. This makes it difficult for newer lenders to price for risk, resulting either in declined applications or in higher interest rates, both of which have the effect of reducing the number of creditworthy SMEs taking up finance.

SMEs do not look elsewhere when declined

Over 50% of all SMEs whose applications are declined do not seek out alternative lenders.
The Bank Referral Scheme (BRS) was introduced in 2016 to ensure that SMEs are automatically offered a referral to an online finance platform if they are declined for finance by one of nine designated banks.
The British Business Bank (BBB), which partially administers the BRS on behalf of HM Treasury, publish an annual IPSOS survey on SME finance.[6] Survey responses suggested that around two-thirds of loan applicants will not look elsewhere for finance if declined by their first-choice bank. Additionally, the BRS is not working as intended, in part due to changes in the market since it was launched (such as it only being available to customers of nine traditional lenders).

High-quality data is in abundance; the issue is access

There is no doubt that access to high-quality data will help more lenders provide more finance to the SME sector. Such data exists in abundance; the challenge is access – both to publicly-held data (where the barriers are primarily technical) and privately-held data (where the barriers are technical and commercial). The taskforce believes that such barriers are not insurmountable.

The data in question comprises Government data (such as HMRC and Companies House data), Credit Reference Agencies' Data, and other private sector data (such as that held by cloud accounting companies, payment acceptance businesses, banks and other financial services providers).

[6] See: https://www.british-business-bank.co.uk/sites/g/files/sovrnj166/files/2024-03/ipsos-sme-finance-survey-2023.pdf

With regards to private sector data, there are several challenges that will need to be addressed. The first is technical, as much of the data is still held in formats that are not machine-readable, such as pdfs, and even digital information is not held in consistent, standardised formats. The second is commercial, as there needs to be sufficient incentive for the current data holder to provide access to others. Commercial arrangements could be bilateral (between one data holder and one lender or intermediary), or multilateral (whereby several data holders and lenders/intermediaries sign up to a single contract which may include agreements about reciprocity or monetary compensation.

Momentum and appetite

Whilst several challenges have been identified, there is an acknowledgement amongst taskforce members that much can be achieved by continuing to work together and build on the momentum of the last few months. Of course, the taskforce is looking for support from Government, but it recognises that policy implementation takes time and should not stop industry moving matters forward now with support from policy makers.

Verification and validation

Whilst data is in abundance, one of the major challenges faced by lenders and intermediaries is validating it. This applies not only to business performance data, such as sales, costs, profitability and cashflow, but also to data that confirms personal and corporate identity attributes, such as company directorships.

When lenders and intermediaries are approached for finance by SMEs, they will typically ask for data, which may be provided in various formats. The next step is to validate that data to ensure that it is accurate and relates to the business in question. While secure API access to VAT data may be complex to deliver, simply confirming the amount of VAT due e.g., in a digital receipt of submission to HMRC may be easier to be delivered in the short term. Such a digital receipt would allow validation of accounting information held in cloud accounting software, which could then be used with confidence by lenders.

Benefits

The taskforce believes that acting on these recommendations could have the effect of slowing down, and in time reversing, the downward trend in bank lending to SMEs. For the UK economy to thrive, it needs to be easier for SMEs to access the finance they need to grow. If we get this right, we will see more people employed by SMEs, rising SME GDP, and increased tax revenues from SMEs.

The specific benefits of implementing these recommendations are multiple:

- Better and quicker risk assessments and application decisioning will provide an improved customer experience to SMEs, with the effect of making them more comfortable with approaching lenders for finance. An important by-product will be a reduction in financial crime, in particular application fraud.
- This should improve the supply of credit, as easier access to quality and verified data should increase the proportion of creditworthy applications that are accepted.

We encourage the Government to get behind these recommendations, as industry stands behind the findings and recommendations that are needed to bring about change. The UK led the way in implementing Open Banking to bring about positive change for UK consumers and SMEs and can now show how its expansion to Smart Data use cases can solve real-world problems. This, in turn, shows how the UK is leveraging its global role in supporting financial innovation while delivering tangible benefits to the economy.

The issues we have identified in SME lending provides us with the first use case that shows the power of Open Finance. Increased levels of Smart Data and a vibrant industry of fintech aggregators and alternative lenders alongside incumbent lenders will help solve many of the known problems. To address them effectively, we must start implementing the recommendations now.

4. The market for SME lending in the UK

The UK SME sector – sources of information

The taskforce defined an SME as a business employing fewer than 250 employees, including sole traders. Sources of information used by the taskforce included:

- The British Business Bank, which produces an annual survey and a Small Business Finance Markets Report;
- The Bank of England;
- The OECD, which published a 2024 report on Financing SMEs and Entrepreneurs and an OECD scoreboard.
- Credit Reference Agencies (CRAs), which compile data on SMEs and have shared with us broad trends in SME activity.

At the beginning of 2023, there were 5.5 million small and medium sized businesses in the UK, categorised in Table 1 below. The categories are:

I. self-employed type businesses that had no other employees
II. microbusinesses that had between 1 and 10 employees
III. small businesses employing 10 to 49
IV. medium sized businesses with 50 to 249 employees
V. large businesses with 250 or more employees.

The vast majority of businesses in the UK are either self-employed sole traders or microbusinesses. In terms of employment, the figures are similar between the different categories of firms which in aggregate account for 60% of the UK workforce. Large businesses account for 40% of the workforce.

Table 1: Estimated number of private sector businesses in the UK, start of 2023

Type of business	**Number of businesses**	**Total number of employees**	**Turnover**	**Turnover % of total**
Sole traders (no employees)	4.1mn	4.5mn	£330bn	7%
1 to 9 employees	1.2mn	4.2mn	£592bn	13%
10 to 49 employees	223k	4.3mn	£670bn	15%
50 to 249 employees	37k	3.6mn	£763bn	17%
>250 employees	8k	10.8mn	£2,124bn	47%

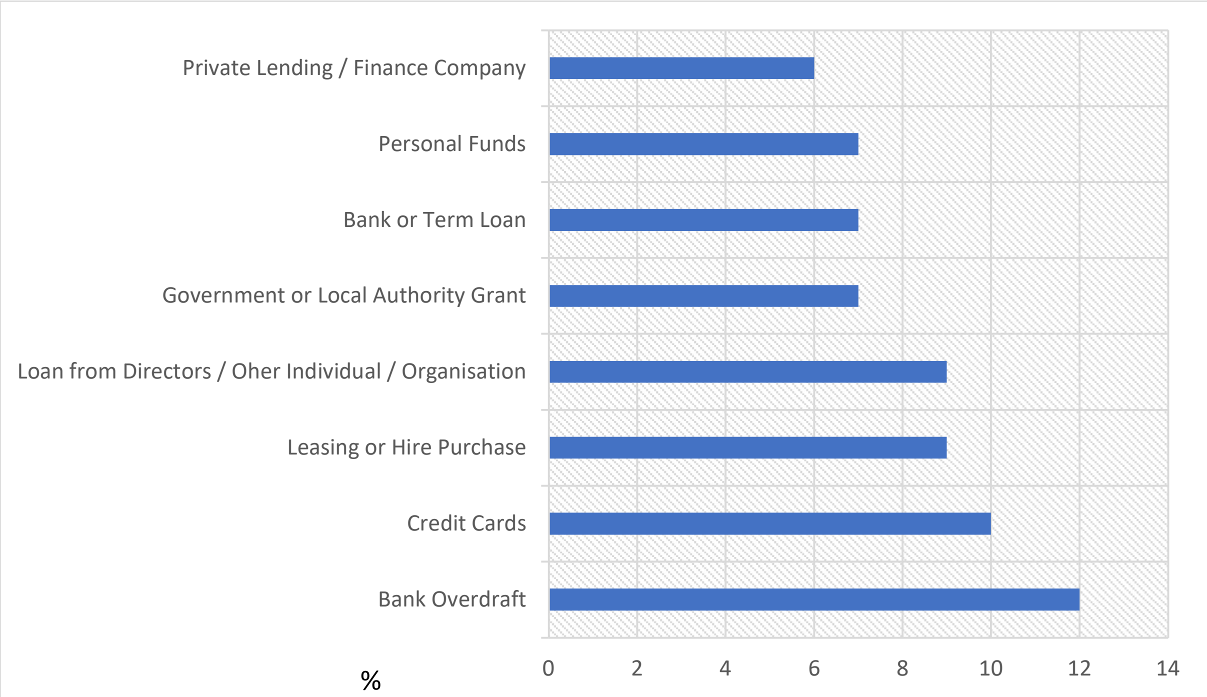
Source: Official statistics, October 2023

The picture is rather different regarding turnover, which increases as the size of businesses increases. Sole traders accounted for only 7% of total turnover of £4,480 billion, whereas large businesses delivered 47% of total turnover.

SME finance

The British Business Bank SME Finance Survey[7] shows that around 30% of SMEs have sought external finance in the past three years, which equates to slightly under 1.7 million businesses seeking finance. Businesses are not all seeking loans, however, and were looking to access a range of financial products, the most sought being overdrafts and credit cards, which would correlate with the high number of businesses without any employees or microbusinesses.

Chart 1: Finance applied for or sought in the past three years



Source: BBB SME finance Survey – categories of finance applied for over 5% of total.

While the evidence suggests that there were more businesses looking for overdrafts and credit cards, the difference in percentage terms between those forms of finance and others forms of credit remain relatively low as can be seen in chart 1. If you aggregate bank loans with private lending, this would produce a higher figure, around 15%.

On the basis of 1.7million businesses seeking access to finance, it would suggest that around 250,000 businesses wanted access to a bank loan or private lending, compared to around 200,000 businesses wanting access to an overdraft, and 170,000 businesses wanting access to a credit card. These categories

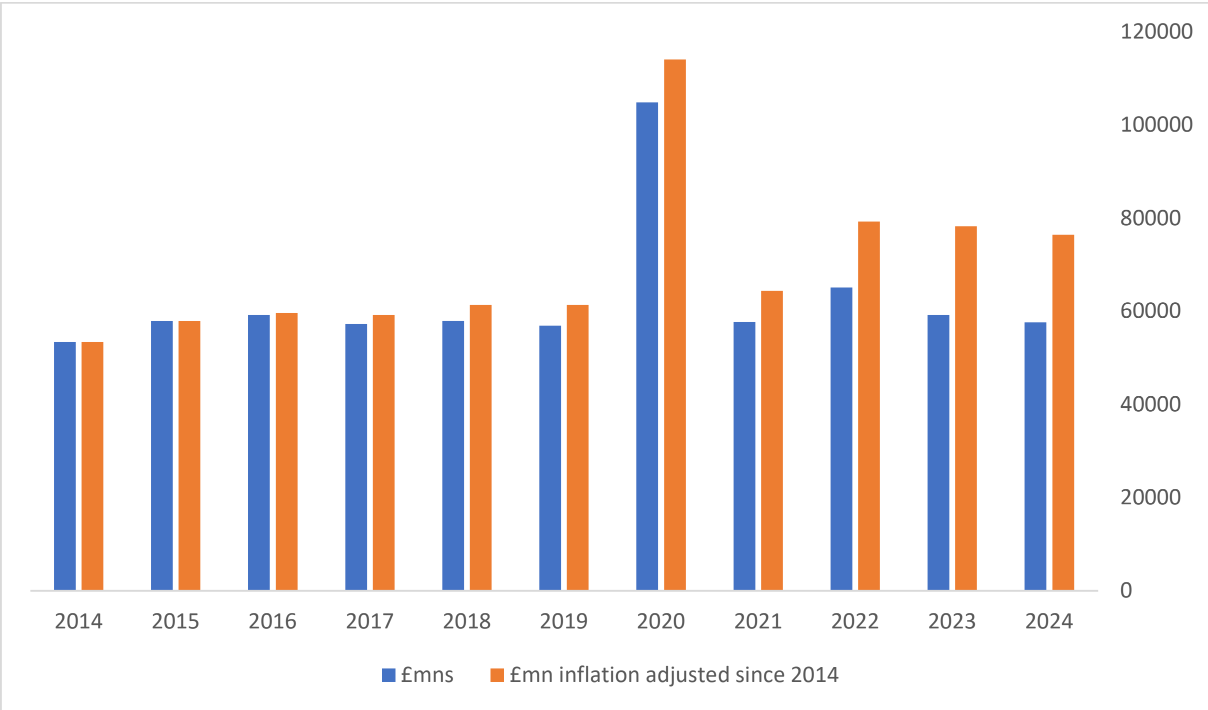
[7] See: https://www.british-business-bank.co.uk/sites/g/files/sovrnj166/files/2024-03/ipsos-sme-finance-survey-2023.pdf

are not mutually exclusive, so some businesses may have sought several different types of finance, others only one.

The main reason that SMEs sought finance is for day-to-day funding of working capital including rising energy costs. SMEs also sought finance to buy fixed assets, to invest in business growth or to develop new products and services.

It is likely that the type of finance sought would be linked to the business need; so the large number of businesses looking for unsecured finance from overdrafts and credit cards is most likely linked to the need for working capital; the businesses looking for loans are most likely linked to investing in business growth, new products and services and to some degree purchasing fixed assets, however purchasing fixed assets is also likely to be linked to Hire Purchase products too.

Chart 2: Bank lending to SMEs excluding overdrafts



Source: Bank of England Bank Stats; 2024 is estimated based on data Jan-April 2024; 2014 prices is calculated using CPI inflation between 2014 and the respective year.

In nominal terms, lending to SMEs has remained relatively flat for several years, excluding the Covid impact of 2020. Given the nature of rising prices over this period, flat nominal lending means a fall in real terms lending. We show the level of lending we may have expected in each year based on the rise in inflation since 2014 as an example. Given more recent price rises for example we can see that rather than nominal lending being relative flat around previous level, there is a case for it being much higher.

Businesses are borrowing less and less compared to rising prices. That gap has been growing in real term lending that will relate to missed opportunities for business and for economic growth in the UK.

Lost opportunities in lending to SMEs

It is difficult to unpack the reasons why lending is declining in real terms. Post-Covid, with economic uncertainty and with higher interest rates, businesses may be reluctant to borrow. However, lenders would be taking this into account in terms of their marketing and be aware that, while nominal interest rates may appear high, real interest rates would be lower.

What is clear from the information the British Business Bank (BBB) collects is that loan applications to the Top 7 UK banks have been falling over the last 2-3 years and around 60% of lending to SMEs is now outside of the big UK banks, accounted for by new fintech and specialist lenders.

Also, the success rate of getting a loan from one of the Top 7 has fallen significantly since the pandemic, and in 2023 the success rate fell to around 1 in 2 applications not being successful. Low success rates of traditional lenders may not be a problem if borrowers are getting loans from other providers when their traditional lender turns them down. However, evidence suggests this is not the case.

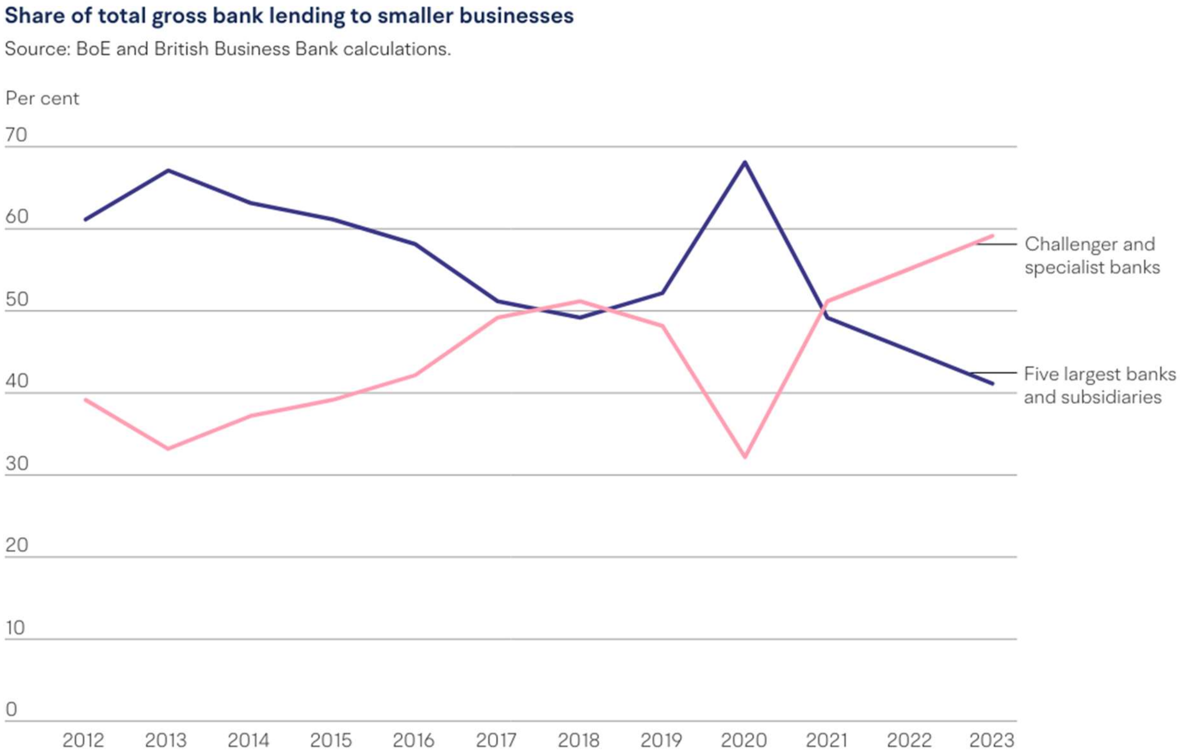
SME behaviours towards loan applications

BBB survey evidence suggests that around half of all potential borrowers apply to only one lender. Typically, the lender will be the financial institution with which they have a pre-existing financial relationship such as holding a bank account. This evidence also suggests that if a SME does not get the full amount of the loan, more than half of applicants will not proceed with finding a loan. While there are initiatives such as the referral scheme[i] partially administered by the BBB, anecdotally many potential borrowers don't progress through that scheme.

Given the rates of traditional lenders granting loans to SMEs has fallen, and that SMEs often drop out after being turned down, there are several potential growth businesses that are not borrowing, investing and growing. If the SME had chosen to apply to an alternative lender or multiple lenders or even through a marketplace, the loan is more likely to have been granted. This growth gap means the SME sector is not employing as many people as it could, is not providing as many products and services as it could, and may be less productive than they otherwise would be.

Chart 3 shows how the SME lending profile has shifted over recent years, again noting Covid in 2020 does distort the picture a little bit. Overall, there is an upward trend in the market share of challengers and specialist lenders since 2013, which has switched from traditional lenders having the majority share since 2021.

Chart 3:



While many SMEs only approach their account holder for finance, the overall lending position shows that challenger and specialist bank lenders now lend around 60% of lending to SMEs as of 2023 with the Top 5 traditional lenders accounting for 40% (*see chart 3*). Therefore, it must be the case, that an increasing number of SMEs are approaching other lenders. BBB data suggests there has been a slight increase in the number of SMEs that approached more than one lender in 2023, and some of this could well be to other specialist lenders that the SME has either been introduced to, or has seen advertised.

Even though SMEs are finding new lenders to provide finance, the nominal value of loans has not been increasing, so there is a substitution effect between traditional and newer lenders but no new economic activity in terms of additional lending that has been forthcoming.

Possible reasons for reduction in successful loan applications

The reasons could be supply-side (for example, a requirement to increase returns due to increasing cost of capital) or demand-side (for example, SMEs being reluctant to borrow due to lack of confidence in the economy).

5. Data used in loan applications and known issues

Traditional lenders business model changes (supply-side)

Many traditional lenders have shifted their focus from commercial lending (i.e., direct to SMEs) to wholesale lending (i.e., to other lenders who supply products and services to SMEs).

The reason for this is that traditional lenders believe that returns on wholesale lending can be higher, taking account of the resource and time-hungry nature of the commercial sector, particularly at the smaller end of the SME market where there is a high level of manual processing. Newer, more agile fintech and specialist lenders, may be better able to implement digital processes and reduce resource costs, so from an economic point of view it may be more efficient for traditional lenders to focus on balance sheet management rather than direct-to-SME lending.

Lower levels of data quality available to new retail lenders (supply-side)

Newer retail lenders may not have access to the quantity of historic data and information that a traditional lender may have built up over time, particularly if the SME had a long-standing personal and business relationship with the bank.

In addition, despite the benefits of agility and automation, data sources are still often inconsistent, non-standard or incomplete or in analogue formats such as pdfs. This reduces efficiency and may result in risk and pricing models based only on partial information. This means that the lender may need either a higher return to compensate for process inefficiencies or incomplete credit risk assessment data, or result in more declined applications, depending on risk appetite.

Reluctance to seek alternative loans after decline (demand-side)

We discovered that SMEs that are declined by one lender often do not seek to borrow from an alternative provider. The reasons behind this behaviour are complex, but include a reluctance to risk being rejected again, and a lack of understanding of the alternatives that may be available.

Lack of understanding of finance markets (demand-sde)

The structural changes in the SME finance sector are not well-understood by all SMEs, particularly at the smaller end of the market. The shift away from traditional lenders to the new fintech and specialist lending sector requires SMEs to think differently about where and how to borrow money. Some SMEs may be unaware that there are marketplaces in which they can apply for loans, and digital lenders with fully automated processes that provide a decision in hours or minutes. While there are increasing numbers of SMEs looking at more than one lender, this still accounts for only half of SMEs applying for loans.

The purpose of this report, particularly the recommendations, are to address the issues and barriers within the SME lending market. There is a need to ensure where good scalable SMEs want to borrow, they have the opportunity to do so, and this is lacking in existing systems.

The prospective lender wants to know about the credentials of the borrower, about the purpose of the finance (in order to match the product to the need of the borrower), about affordability, and about the risk that some or all of the loan will not be repaid. The application process is effectively a data exchange from applicant to lender to enable the assessment to be made and a decision provided. The more comprehensive and reliable the data, the easier it is to process a loan and reach a decision.

The taskforce researched the data that is available today in various forms and used in the processing of lending applications, and those data items that are more problematic or have issues associated with them but are still valuable. This has led to a range of findings and recommendations as to what would drive better outcomes for both SMEs and lenders.

In Annex 1 we detail a specific survey of taskforce members on the data. Broadly we found that data almost always used was:

- Company administrative details such as directors' names and details, company address; what the company does etc.
- VAT submissions
- Company accounts
- Bank account information e.g., Open Banking transaction data or bank statements
- Credit Reference Agency data

Much of this data is obtained manually, with lenders having to rely on information submitted by the loan applicant. This creates risks of inaccuracy and using unverified data, even where data is collected from official sources such as Companies House.

Lenders may also ask for additional data dependent on the loan type and specifics that relate to the SME such as:

- Number of full-time employees and regular contractors
- Company group relationship (where relevant)
- Energy consumption information e.g., Energy Performance Certificate
- Carbon emissions
- Court Judgements
- Insolvency information
- Invoice Data (sent and received)
- Sales data
- Information on company-owned assets

Much of this information is not provided in easy-to-use digital formats and/or cannot be verified. Whilst past invoices could be verified against bank account transaction data, unpaid invoices cannot be verified in the same way. In part this is why an e-invoicing scheme would be beneficial for SMEs and lenders.

Our proposals look to enhance the availability and accessibility of this data by moving to more up-to-date digital formats, and a greater emphasis on verification of the data or ways for the data to be better verified using alternative sources. Unlocking data in this way will lead to greater levels of automation, make it easier for SMEs to go through a loan application, and lead to better decisions by lenders.

Additional data requested but currently unavailable

Annex 1 covers all the data information provided in the survey from taskforce members. In summary there are several data sources that they do not currently access and that would enhance their ability to take timely and more informed decisions on loan applications.

Lenders and aggregators suggested they would want:

- Full company filings at Companies House
- Access to applicants' data within cloud accounting software packages
- HMRC filings – VAT returns and information on any repayment plans
- A broader set of Open Banking data (to include, for example, loans and savings data).
- Economic sector level information
- Aggregate social media rating scores comprising Feefo, Trustpilot etc.
- Pensions information about the SME
- A standardised and trusted unique company ID used across data sets including trading data
- A UK wide E-Invoicing Scheme
- Expansion of the Commercial Credit Data Sharing (CCDS) scheme. There is a wide range of data that both lenders and aggregators thought useful in helping to assess a loan application and each can be seen to have applicability either in a wider sense for all SME applications or specifically to SMEs looking for a particular type of finance such as invoice finance or specific to the trading behaviour of the firm.

Some of the data mentioned here is consistent with the findings from the CFIT Coalition into Open Finance,[8] for example, HMRC filings and Companies House data were both highly ranked. Other data has not been mentioned in relation to SME lending before, which is testament to the breadth and focus of the taskforce. While we do not propose that these data sources are equally important, we believe that all of these data sources could and should become available as part of a Smart Data ecosystem.

[8] See: https://cfit.org.uk/open-finance/

Summary of data findings

The main takeaways from our analysis are that there are both private sector and public sector data sources that could be accessed to unlock a much better process for all concerned. Not only will it help with SME financing, but it can help other products and services too.

The work has illustrated that there are several categories of lenders in the UK, all of which use and require similar data but consume and use it differently. There are lenders that remain very manual, expecting the SME to collate their data pack from multiple sources and present it and there are lenders that have engineered getting access to digital data, where possible from trusted third parties. All would benefit from a move to greater digitisation and automation.

The main public sector requests are better access to data from HMRC, better quality, consistent[9] and accessible data from Companies House, more accessible datasets such as Energy Performance Certificates (EPCs) and more timely updates to and from HM Land Registry.

On the private sector data side, access to cloud accounting data would deliver substantial benefits, especially if more can be done to ensure the data is up-to-date and can be verified against other data sources – for example, verification that data in accounting software is the same as that submitted to HMRC and Companies House.

Additionally, there are some public-private sector hybrids, such as the CCDS data scheme which has government ownership but is administered in the private sector. This is a very valuable source of data to lenders who use it, and it would benefit from expansion and greater participation. In addition, a government-backed e-invoicing scheme is seen as critical to unlocking verification and transparency of invoicing across the UK, with the added benefits of helping supplier management, in particular late payments.

[9] A specific issue was raised regarding the lack of standardisation of directors' names across Companies House filings, which meant lenders were unable to reconcile application information with Companies House data. This has led to delays in processing loans, or refusals. Some lenders want to understand whether directors have other business relationships, which may then impact the loan offer. Because there is no standardisation of names across the filings, lenders are unable to do this analysis in a credible way. In these cases there will likely be delays to an application, and is more likely to end in a refusal than it otherwise would.

6. Issues with being able to supply data

The Digital Information and Smart Data (DISD) Bill

The Smart Data proposals in the Bill should provide a legislative framework for Smart Data schemes to be rolled out in new sectors of the UK economy, beyond Open Banking into Smart Data and elsewhere. We expect that Digital Information and Smart Data Bill will follow on from the previous Data Protection and Digital Information (DPDI) Bill in that the main power will allow a Secretary of State, or HM Treasury, to make regulations requiring suppliers of particular types of goods and services to provide their customers with access to their customer data.

We believe that this power could be helpful in unlocking much of the data that lenders and intermediaries would find useful in providing credit to SMEs.

Regulatory certainty

Data is usually accumulated by lenders, data aggregators and CRAs from sources in which the data is a biproduct of a service or process supplied to a company. For example, in declaring VAT receipts and paying tax to HMRC, a dataset on sales and revenue is created. Similarly for cloud accounting software providers, in providing business services to SMEs, data about company purpose, director information, accounting data, invoicing data, wages and salaries and expenditure and other data is accumulated. This typically leads into a comprehensive dataset on an SME, which has multiple uses outside of the core reason for which the data was provided in the first instance.

Cloud accounting products and services are generally outside consumer credit regulatory perimeters; these are business services for SMEs that automate many requirements on businesses and reduce the amount of manual work that SMEs have to undertake. The move to making tax digital has led to an uptake in SMEs using these services. If the data could be guaranteed to be up-to-date (and there is a legal requirement to be relatively up-to-date already) and also verifiable, this could provide a lot of useful data for lenders. In certain cases, some of this data is already accessible under bilateral arrangements – typically in the invoice finance sector.

Concerns have been raised that, by providing data to lenders in return for a fee, these providers may unintentionally fall inside the regulatory perimeter and be considered to be brokers and/or financial advisers.[10] The alternative point of view is that data providers are simply providing data, they are not involved in selling or recommending financial products. From an economic point of view, the wider concern is that, if this activity were deemed to be regulated, the costs of compliance could outweigh the potential benefits of sharing the data.

[10] Examples here include Cloud Data providers providing information on behalf of SME clients to a set of pre-vetted lenders, for which they receive a fee for supplying the data and potentially a further fee on successful completion of a loan. It appears unclear where the boundary between data supply and broker activity is.

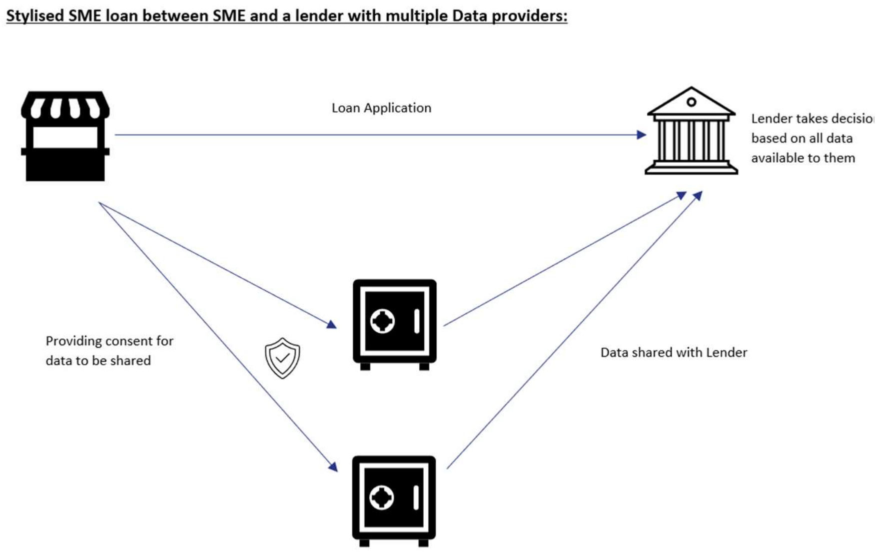
The taskforce has not had time to verify what regulations and underpinning legislation may need to be clarified. We believe that further work should be carried out with regulators to ensure that data providers are not inappropriately captured by regulations that pre-date the evolution of Smart Data.

7. Data models between data providers, aggregators, and lenders

Models of data supply and use

There are multiple possible delivery models for how trusted digital data could be supplied to lenders to reduce the administrative burden on SME loan applications and improve and automate credit assessment. It is important to visualise how the arrangements for a Smart Data model could work in order to understand the steps required to deliver a sustainable ecosystem. Here we look at three different ways that a data sharing system could be enabled to unlock SME finance.

Model 1: Data provision directly to lenders



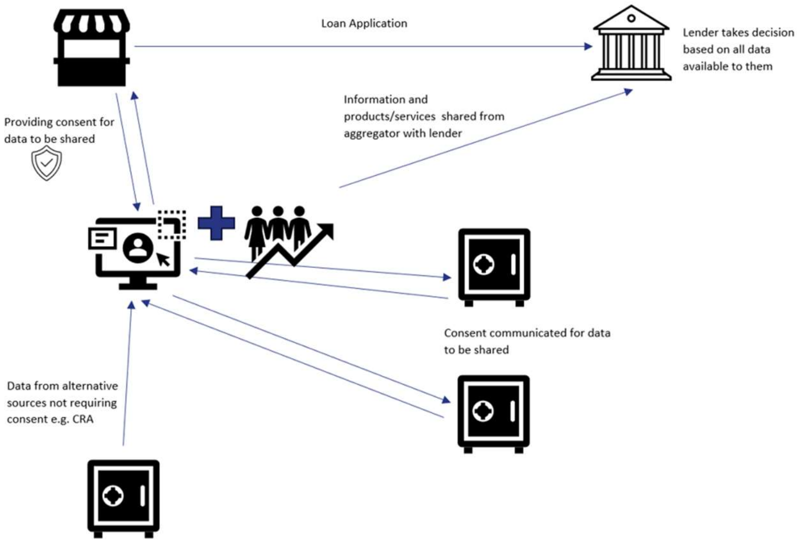
Under Model 1 above, the SME applies for a loan and gives consent to data providers for its data to be shared with the lender. The lender takes that data and augments it with any additional data provided by the applicant. On the basis of all the information, the lender is then able to process the loan. The lender's preference is to automate this process as much as possible because this will be most efficient in getting a timely and objective response to the application and require little manual intervention.

In the model above, the SME would need to provide less manual data which should be quicker and easier for them. The data providers would each need the SME's consent and financial incentives to at least cover the cost of opening up and maintaining the data. The lender benefits from having the data so in this model so should pay for the data. It is likely that the lender will pass on the associated costs.

While there are many pros to this model, the main drawback is that the lender will need to build interfaces to each of the different data providers, and be able to accept data in the various formats and frequencies from the providers. The lenders would also need to update their own assessment and decision models off the back of the data.

We found in our research that some smaller fintech and specialist lenders had implemented this model. They integrated to one or two data suppliers which held data useful for their specific product offerings. Beyond this there wasn't a significant desire for lenders to directly connect with a large number of data providers, as it would be costly to maintain multiple connections and difficult to scale.

Model 2: Data Aggregator



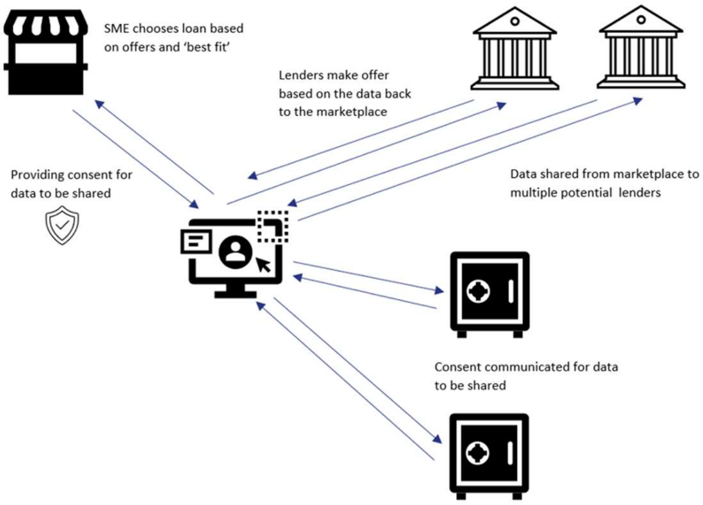
Model 2 is a data aggregator model. In this instance the SME applies for a loan and the lender informs the SME that it uses a specific data aggregator. That aggregator manages the consent for the SME and connects to multiple data providers. The aggregator then collects all the data the lender wants – and in this case may also offer value-add propositions such as a credit score – and sends it to the lender.

The benefits of this model are multiple; the lender only needs one connection with the aggregator rather than multiple, and the products the data aggregator provides are scalable as more Smart Data sources come online. It is also possible for the data aggregator to customise its data provision to what individual lenders want.

The financial incentives move between the lender and the aggregator. The aggregator then needs to provide financial incentives to all the data providers it connects to. As in Model 1 we would expect the costs of data provision to be passed on.

The potential downsides to this model could be in relation to competition in the market for data aggregators. The aggregator that has access to the most comprehensive and rich data sources could dominate the market. Although it could also be the case that different aggregators compete in specific data sectors, and lenders choose which sectors and information they want to use. Overall supply would be based on a number of smaller data aggregators rather than fewer dominant larger aggregators.

Model 3:



Model 3 is a marketplace type model where there is no specific lender that the applicant is applying to but instead the aggregator is working directly with the SME. With the SME's consent, the aggregator receives data from data providers to put together a consolidated package of data that is then used to send to a panel of lenders. Those lenders digest that data, automating it as much as possible within models, and make offers back to the SME, who can then choose which offer best meets their needs.

In this model the aggregator would show the SME what information is being collected and provided to lenders, so in addition to supplying to a panel of lenders the SME could also choose to apply directly to a specific lender in parallel.

In each of the stylised models we have shown just one aggregator, however, in practice we could see a competitive market comprising different aggregators, even sub-aggregators, as well as value added service providers and marketplaces. The market would build businesses to fit the appropriate commercial models and given the number of potential data providers and the number of SMEs and lenders we expect that there would be multiple entities in a competitive market.

What is the experience to date?

Some of these models do exist today in the UK. Examples are shown in boxes such as CRIF and the Commercial Credit Data Sharing Scheme (CCDS).

CRIF

CRIF considers itself an end-to-end knowledge company. Founded in 1988 in Italy, it now a global entity providing Credit Reference Agency (CRA) services in many markets worldwide. It is not a CRA in the UK though, where alongside other services, it is similar to a version of a data aggregator that uses multiple data feeds, including Open Banking, to provide products and services with a focus on adding an analytical layer to enhance and interpret that data.

In the SME market, CRIF's Credit Passport® product provides multiple data feeds to lenders via a single API, offering aggregated raw data. Additionally, it builds on this data to deliver insights and reports on SMEs that consent to data usage. These reports are valuable to lenders, offering a broad range of information and insights wrapped as a portable credit file. CRIF can also provide a credit score and Probability of Default for SMEs, along with contributing factors and underlying data.

SMEs can obtain their report and score before any application, giving them a view of their financial health and guidance on building a positive credit file or improving their credit score.

CRIF was co-lead in the SME stream of the first CFIT coalition and has been part of the taskforce.

Commercial Credit Data Sharing Scheme

The Commercial Credit Data Sharing Scheme (CCDS) is a reciprocal credit data sharing scheme set up by HM Treasury to support SME lending. It went live in April 2016.

Under the Small Business Enterprise and Employment Act 2015, the Government mandated nine banking groups, through designation, to share credit data with four designated credit reference agencies (CRAs) who in turn make the data available to finance providers signed up to the scheme. The information shared is business current account data and monthly updates on the performance of business loans and corporate credit cards for the majority of SMEs with a turnover up to £25 million.

This was introduced to provide information on credit-worthiness on SMEs that until that point had been lacking, potentially limiting SMEs access to finance thereby opening up competition in the SME lending market.

Beyond the mandated providers, lenders can get access to data on the basis of reciprocity, that is, providing their own data in order to access the data they need. Many lenders do exactly this to be able to access the data. Many lenders have benefited from having access to this data in order to make lending decisions.

Open Banking data is complementary to CCDS data; CCDS data are key data points e.g. outstanding balance or payment status rather than granular transactional level data. CCDS data is in arrears whereas Open Banking data is same-day. However, CCDS data provides information on performance of loans and the extent of the future liability which will not be covered by Open Banking data so can provide richer insights.

While CCDS data is very good, much like Open Banking, the data is not ubiquitous. CCDS only covers those mandated organisations and those which have opted in. Therefore, an SME is unlikely to know whether its data is accessible through CCDS to potential lenders or not. There are several reports and views accessible that suggest ways that CCDS can be improved and enhanced; however, it still remains a very powerful tool in terms of data sharing.

While some of the problems have been solved, it is also clear that in these examples, neither the aggregator, the CRAs, or the lender have access to all data and data sources that would be valuable to process a loan application. There could be new and improved data sets from elsewhere that would augment the data and products and services currently available to lenders. It could also be clearer to SMEs themselves what data is likely to be available to a lender if they undertake an application.

Continuing to develop a competitive market for SME lending through marketplaces

The taskforce considered how a marketplace approach could improve competition for lending to SMEs. Using Smart Data and data aggregation, marketplaces can send information to prospective lenders and those lenders can decide whether a loan is within their appetite and make offers accordingly. Or else the lenders can share its loan criteria with the marketplace which can then match an SME to a lender.

There exist models like this today. There are also marketplaces that are designated and used under the Bank Referral Scheme (BRS). Under the referrals scheme, if any of the large banks refuse a loan to a small or medium business, they are obliged to offer the SME a referral to a designated online finance platform. Under advice from the BBB, HMT designates the online finance platforms that can participate in the scheme, of which there are currently three: Alternative Business Funding, Funding Options and Funding Xchange.

The referrals scheme does not seem to have satisfactorily addressed the issues in SME finance, and a greater level of analysis needs to be conducted to understand exactly what has hampered adoption.

We are aware that when an SME has been declined by its primary bank, it may feel that it has either done something wrong in terms of the application, or that it is just not eligible for finance. There is often little expectation of getting a loan from an alternative lender. It is therefore unlikely that an SME will proceed with a marketplace and lenders unknown to them, and especially trust sharing data with them.

Customer education would appear very important in making a referrals scheme, or indeed a marketplace business model, successful. Ideally, for some SMEs a marketplace should be the first destination for an SME rather than a last port of call after a refusal, and SMEs would be alive to the likely benefits that a model like this would have. It would make the competitive nature in the provision of finance more visible, and, for many viable SMEs, it may provide a series of options for financing future plans.

The importance of trust in the market for lending

Trust in lending products, new alternative lenders and marketplaces are critical to the success of these models, and there needs to be good levels of understanding that allows SMEs to accept and use them. We cover this more in section 6 that looks at SME education and consent.

The purpose of marketplace-like products is to give more benefit to the SME, increasing the likelihood of a successful loan offer and providing more choice of lenders. However, it could be seen as daunting to a SME that is not particularly knowledgeable about the lending market and who would normally pay a broker if they wanted to look at different potential lenders and/or an accountant if they were supplying an application for finance. It requires a different mindset to go from a more traditional finance world to one that is primarily online and one that is data-centric.

Trust in the benefits of a marketplace will be required to get SMEs to sign up to it. SMEs also need to trust that the data being provided to the marketplace is secure.

8. How we unlock the benefits by using Smart Data

Smart Data

For all models where Smart Data is being shared there are benefits for both the SME applicant and the lender. Under the current manual process, it can be costly and time consuming for the SME to get the data pack together often using manual data sources. For the lender it requires manual processing of that information, and then understanding what the data infers about the SME, including what gaps there are. This can often be a manual process and will be hindered by data quality.

Having wider and deeper availability of timely and accurate data is still not enough to unlock all the benefits. Additional requirements are data standards (to make connections function more efficiently) and ecosystem management, to help resolve issues, support implementation, and maintain conformance to the standards.

Data governance

An important part of unlocking benefits is through governance of the end-to-end 'system' that covers the aspects of understanding user needs and builds the business case on top of this. A focus on what is required by the user is extremely important in driving the right outcomes from the rest of the process, ensuring standards, contracts, commercial models and SME education achieve the desired outcomes. This is more likely to lead to solutions that are accepted, trusted and widely used. For SME lending it is important to understand both the SME and the lender needs and ensure the system surrounding it is set up to achieve those outcomes.

Data standards

As well as commercial incentives that allow Smart Data access to the various data sources, there can be cost and complexity in connecting to multiple providers and data sources. If we take cloud accounting providers as an example, there is a competitive market with large providers as well as large banks providing their own software for SMEs. To get data feeds from all these sources in different proprietary formats and be able to compare 'what good looks like' between them will take efforts in any model. Either the lender has to do it, or the aggregator.

This increases cost, which is not desirable, and increases the probability of misinterpretation or misunderstanding of different aspects of the data, leading to poorer decisioning – not just what could be good loans being refused, but unaffordable loans being offered.

The best way to overcome these issues is to provide technical standards that fit alongside the data. These should be provided at source to ensure that aggregators and lenders know what they are getting and that it is directly comparable and usable within decisioning models. These standards could be across similar data suppliers or more widespread across all data suppliers. However, it is not simply technical standards as such that are likely to be required, it is also standards on consent, data security, data usage and data retention that need to be considered too.

This would require a standard-setting body to develop standards that data suppliers, aggregators and lenders would implement. Ideally the standards setting body would develop conformance services to ensure quality implementation, and also maintain and update standards over time.

Multilateral versus bilateral agreements

As part of the taskforce work, we considered how a data market could operate, and facilitate adoption.

There are effectively two types of agreement, either bilateral, where two parties agree to the terms and conditions of data sharing between themselves, or multilateral, where all parties agree common rules, with the Multilateral Agreement (MLA) usually administered by a third party.

Bilateral agreements already exist between lenders and some data suppliers typically in more specialist lending markets. The issue of bilateral agreements is that each of them need to be individually negotiated and administered, creating market fragmentation. Bilateral arrangements may be quicker to market because only two parties are involved, but the number of contracts required creates complexity and can be a barrier to participation by new entrants or smaller players.

Multilateral agreements are effectively a set of rules that parties sign up to; usually with a third party. Once established, they are much faster to scale, as each signatory knows what their obligations are; they can refer to centralised standards that can be administered and maintained in the knowledge of how they are implemented and used. However, as a result of needing multiple parties to agree on a single rulebook and commercial arrangements, setting them up in the first place can be difficult, particularly if a new central body needs to be established.

The taskforce was at times slightly divided between the benefits of each of those methods, although noting they are not mutually exclusive. The faster speed to market of bilateral contracts was appealing against the inability to really scale to multiple data providers, whereas the ability to plug in more and more data providers was seen as an appealing feature of MLAs.

Following a survey of taskforce members, they concluded by majority that the best way to ensure a market in Smart Data in this way was a combination of standards and MLAs.

There can be a competitive market in MLAs in the same way as there can be one or more MLAs that co-exist with bilateral agreements. This could mean that there is an MLA that cover all existing Smart Data providers, or an MLA operator for specific types of Smart Data where another operator has an MLA for different data suppliers which may or may not have overlap. The market would need to develop in the way that was most efficient and cost-effective for data suppliers, aggregators and lenders.

Commercial models in MLAs

A commercial model is a framework for aligning the incentives between data providers and data users (i.e. lenders or aggregators), and usually includes a payment from data user to data provider who bears the cost of implementing the API. Under a bilateral contract the fee structure is negotiated between the lender and the data provider, alongside other considerations such as standard conformance, change management, reciprocity and liability.

A commercial model for any MLA is clearly a complex consideration, as there will need to be uniform elements that every member will have to agree to. However, it is a common model in payments with default fees being paid between different participant types such as issuers and acquirers (of card payments) and ATM providers and account providers (for ATM services).

We recognise the challenges involved in developing MLAs[11] and considered that a focus on standards would be a feasible starting point, supplemented by bilateral arrangements as a way to price for data provision. In terms of organisational support (for example, in standard-setting and/or in developing and maintaining an MLA), industry could deliver this without the need for a regulatory mandate in the first instance. However, future iterations may develop multilateral pricing and be subject to regulation.

[11] An MLA is being progressed as part of OBL and Pay.UK commercial Variable Recurring Payment (cVRP) work.

9. Consent and SME education

Consent

Consent is at the heart of unlocking Smart Data in multiple sectors. The SME needs to be comfortable for its data to be shared and understand why it is used, how it is used and the protections surrounding it.

One of the issues the taskforce discussed is consent fatigue. This is when an applicant is overwhelmed by managing a significant number of consents, especially if they are in different places, look unfamiliar and have different terms and conditions. In a wider Smart Data ecosystem, where more sectors provide open APIs and each require consent, this issue is exacerbated.

Consent fatigue is particularly problematic when each data source requires separate consent. The taskforce's proposed remedy would be to move to one-to-many consent, if and when this is legally possible. Conceptually, a consent management framework enabling consent to be passed downstream to data providers would reduce consent fatigue. It would likely lead to richer datasets being compiled and used benefiting SMEs by the number and variety of loan offers they could receive.

There are potential models of consent dashboard that give SMEs more confidence that they can change or switch on or off data permissions as required, or even specific data permissions within a data set.

SME education

Many SMEs may not have experience of consenting to provide data to third parties. Given that many loan applications are still manual processes, SMEs may feel uncomfortable in this data being shared more widely. The SME may fear that the data could show negative aspects of their business, or that it is more likely to lead to a refusal. These fears are likely to be unfounded because lenders already access information that provide an indication of SME risk and, where they have no data, they infer high levels of risk already. However, SMEs will need to be educated so they are aware of the benefits of consenting to data sharing.

As an SME you are more likely to trust business service providers that you already use, your own bank, or else trade representative groups, rather than unfamiliar lenders.

Dashboards and ability to control consent may help SMEs being comfortable they are in control of the data. Additionally, sharing a credit score or credit passport with the SME on a regular basis, and with their consent, would create a degree of familiarity and also allow the SME to understand their financial health better.

10. Recommendations and priorities

Short, medium and longer term

There are realisable changes that can be made, including in the relatively short term, that can improve outcomes for SMEs and how the SME finance sector operates. By doing so, SMEs will help to grow the UK economy, and therefore lead to overarching better outcomes.

Our findings and recommendations have been developed and agreed by a wide range of industry participants including banks, alternative lenders, payment services providers, CRAs, cloud accounting software providers and fintechs. There is recognition that regulators and Government all have roles to play in supporting progress, and that recent developments such as Open Banking can be leveraged in support.

While there are some "bigger ticket" findings and recommendations for policy makers, there is also a range of smaller initiatives that can be built upon and delivered in the short term. Below we outline the recommendations and how these could be progressed going forward.

Recommendations

Recommendations for immediate action

Smart Data Provisions in the Digital Information and Smart Data Bill

The Digital Information and Smart Data Bill (DISD) was announced in the 2024 King's speech.[12] Published information surrounding this announcement suggest the bill will contains provisions that would enable the creation of "Smart Data schemes". These will make it possible to move data between organisations securely and easily, provided they have the consent of the data subject. We would welcome immediate progress by the Government.

Action: Government to pass the DISD Bill.

Small business "Smart Data Challenge"

To move forward at pace and take advantage of the innovative ideas being considered by members of the taskforce, we propose a "Smart Data Challenge", where members and non-members are encouraged to put into practice proofs of concept that demonstrate the benefits of sharing data through Smart Data schemes. This will provide policy makers with data and evidence to take new concepts forwards. This could follow pre-existing formats such as the Smart Data Discovery Challenge.[13]

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[12] See: https://assets.publishing.service.gov.uk/media/6697f5c10808eaf43b50d18e/The_King_s_Speech_2024_background_briefing_notes.pdf
[13] See: Smart Data Discovery Challenge | Challenge Works

Action: Funding for challenge prizes and challenge organisation e.g. a Nesta challenge. Alternatively, FCA innovation services host the digital and regulatory sandboxes and could facilitate additional challenges.

Review of current schemes, including the Bank Referral Scheme and the Commercial Credit Data Scheme

Over the last decade, a number of initiatives have been put in place to help SMEs access the finance they need. These include the Bank Referral Scheme, which requires its members (currently nine banks) to refer a declined loan application to a designated referral platform, and the Commercial Credit Data Sharing Scheme (CCDS) which facilitates sharing of some business account and loan information between Credit Reference Agencies (CRAs) and lenders.

Whilst these schemes have made and continue to make a positive contribution to the SME finance sector, the market has evolved significantly since they were put in place. The referrals scheme suffers from a potential lack of information on the SMEs that have been referred to it. The CCDS scheme was set up when lending was concentrated among a smaller group of more traditional lenders. We have a good understanding of potential areas for improvement, and we recommend that these schemes be reviewed at the earliest opportunity by the incoming Government so that they reflect today’s lending environment.

Action: We propose that those involved in the schemes report back known issues and proposed changes to HMT. Changes progressed by the organisations that administer the schemes on the basis of HMT consultation in advance.

Longer term recommendations

Improve quality and provision of public sector-held data

Much of the data that lenders use is provided by the SMEs themselves, so lenders often want to validate and augment this data by reference to public sector sources. Examples are HMRC-held data, such as VAT, Corporation Tax and arrears, and Companies House data (for verification of directors). In the short-term, in the absence of full data access, there may be scope for delivering valuable enhancements such as a date-stamped receipt of VAT amount due and provisioning of third-party access to Government Gateway data. We propose that data access would only be available to suitably authorised organisations (see below for a follow-up recommendation regarding accreditation) and with consent (for example, of a director).
Whilst we accept that there may be a long lead-time for access to some public sector-held data, we believe that some measures – for example, accelerating reforms to Companies House verification of companies and directors - could be started in the short to medium term, and make a substantive difference.

Action: HMRC review adding VAT due to digital receipts; HMRC review Government Gateway access for lenders and data aggregators with SME consent; Companies House look to verify directors of companies and provide standardised naming conventions. In addition, HMRC and Companies House look for full digital API access and data standardisation.

Develop private sector-held SME data access schemes

There is substantial data currently held privately, for example, data held by cloud accounting providers (such as invoicing and VAT data), and by banks and other financial services providers (such as savings account and insurance data), that would be valuable for lenders and intermediaries in assessing finance applications for SMEs.

To unlock this data, work needs to be undertaken to develop technical and other standards that enable interoperability, together with commercial frameworks to make such sharing worthwhile for both data holders and data brokers/data users. Such frameworks could take the form of multilateral agreements or "schemes", similar in construct to those proposed by the European Commission as part of the Financial Data Access (FiDA) Regulation. The "SME scheme" could also form part of, one or more, Smart Data schemes in the UK.

Action: An organisation that is familiar with standards and a user ecosystem should define and implement the standards that are required. The same organisation should set up a working group to progress an MLA, and later an associated commercial model.

E-invoicing

We recommend that use of e-invoicing, in other words invoices transmitted and received in a structured electronic format suitable for automatic electronic processing, should become the *de facto* standard for almost all invoices rather than the exception. This will not only improve the quality of invoicing data (and therefore VAT data), but would also improve supplier management and, by delivering more transparency about unpaid invoices, could help reduce the prevalence of late payments that continues to affect many SMEs.

The EU, Japan, Singapore, Australia and many other countries have implemented e-invoicing standards in their jurisdictions. We recommend that the UK's scheme adopts one of the global standards to ensure high levels of interoperability.

Action: Government to consult on proposals for UK e-invoicing standard and adoption.

Improving trust

SMEs are often reluctant to approach lenders for finance, which is one of the reasons that, if they do make an application, it tends to be to a lender they know, such as their existing bank. Being turned down for lending can sometimes feel like rejection which, when added to the administrative burden sometimes involved in making an application, results in SMEs deciding not to pursue their application with other lenders.

We need to find ways in which to encourage SMEs to be more confident in applying for finance from a range of lenders. Most of our recommendations have been about improving supply and, whilst this is clearly a knock-on effect on demand, the taskforce was keen to consider demand-side measures too.

One specific measure that we believe will encourage SMEs to be comfortable applying to lenders that they do not know, is via trusted parties promoting lenders that can meet the needs of SMEs they represent. This could be through trade associations, through Business Support Service Providers, or through a list of accredited SME lenders similar to the British Business Bank's Growth Guarantee Scheme.

Action: BBB to work with trade associations and develop proposals that improve trust and education.

Benefits of following the recommendations

The inaugural report of the CFIT Open Finance Coalition estimated that access to certain additional data would significantly increase lending acceptance rates. This follow-up report has identified a range of additional measures that would lead to the timely provision of more high-quality reliable data to lenders, and therefore deliver additional lending to the SME sector.

The taskforce believes that acting on these recommendations could have the effect of slowing down, and in time reversing, the downward trend in gross lending to SMEs. For the UK economy to thrive, it needs to be easier for SMEs to access the finance they need to grow. If we get this right, we will see more people employed by SMEs, rising SME GDP, and increased tax revenues from SMEs.

The specific benefits of implementing these recommendations are multiple:

- Better and quicker risk assessments and application decisioning will provide an improved customer experience to SMEs, with the effect of making them more comfortable with approaching lenders for finance.
- This should improve the supply of credit, as easier access to quality and verified data should increase the proportion of creditworthy applications that are accepted.

Further benefits from our proposals are in the arena of preventing economic crime. By having a greater, diverse range of data from trusted third parties and especially verified or verifiable data it avoids different types of fraud such as a company creating false data e.g., invoices that can't be verified; or false companies for example. This means lenders can be more certain about the businesses they lend to, and more certain that the loans are going into economic growth rather than the hands of criminals.

We encourage the Government and industry to continue to provide momentum behind the findings and recommendations in this report, which are needed to bring about change. Smart Data use cases like this can solve real world problems. This, in turn, shows how the UK is leveraging its global role in supporting financial innovation while delivering to the real economy.

The issues we have identified in SME lending provides us with the first use case that shows the power of Open Finance. Increased levels of Smart Data and a vibrant industry of fintech aggregators and alternative lenders alongside incumbent lenders will help solve many of the known problems. To address them effectively, we must start implementing the recommendations now.

11. International comparisons and other learnings

When investigating the issues and Smart Data solutions to SME lending, we were keen to understand whether solutions had already been achieved in different jurisdictions that we could 'import' into the UK. It was quite clear early on that, while there is a significant amount of investment in, and adoption of Open Banking and Open Finance, the narrow issue of Smart Data for SME lending was not prominent in those developments.

In its response to the 2019 van Steenis review on the Future of Finance, the Bank of England[14] noted that concerns about SME finance were neither new nor unique internationally. Other countries had tried to fill the gap with national credit registers[15]. The response suggested that using digital data would offer a different way of solving the problem and give SMEs more diverse and competitive sources of finance.

Potential further Consumer Data Rights (CDR) reforms in Australia may present opportunities for helping SMEs, but have not been progressed. CDR has focused on consumer access to information, although many industry groups have been advocating for an expansion into the SME space. In particular, they note that expanding access to data can improve with the quality of conversations with advisors help SMEs manage business administration and cashflow and improve access to finance.

[14] See: https://www.bankofengland.co.uk/-/media/boe/files/report/2019/response-to-the-future-of-finance-report.pdf#page=6
[15] See: https://www.worldbank.org/en/publication/gfdr/gfdr-2016/background/credit-registry

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13. Annex 1: comprehensive list of data in lending decisions

Information on which data is currently used, and how, was captured as part of the exercise. In addition, we looked at issues with existing data sources, and what data could be valuable for lenders but was simply not accessible. In this annex we detail those data sources for completeness.

Table 1: Information always or nearly always used

Data Items	Source	Pros/Cons
Company Name, Address, Company Purpose, Directors, SIC classification	Companies provide it themselves; Companies House; CRAs; company websites	**Pros:** good availability of information online; information generally free. **Cons:** data can be fragmented; siloed; often missing elements that need to be augmented from multiple sources. SIC can also be wrong or difficult to determine.
VAT Submissions	Companies provide it themselves; HMRC in some cases via Government Gateway	**Pros:** Gives reliable indicator of revenue; is able to verify other financial accounts information. **Cons:** Legacy formats such as PDFs supplied by the company require mostly manual processing; access to HMRC data is high friction.
Company Accounts	Companies provide it themselves; Companies House; cloud accounting providers	**Pros:** Useful to understand the past performance of the company; whether it is profitable. **Cons:** Legacy data formats such as PDFs; information is often 12 months in arrears so not the same as at time of application; smaller companies have exemptions from filing or file abridged accounts.
Bank Account Information	Companies provide it themselves; Open Banking e.g., via TPP; CCDS scheme	**Pros:** reconciliation of management accounts, up to date transactional history and balances; dependable if straight from a bank.

		Cons: either manual processing of PDFs or else Open Banking doesn't cover all PSPs and all accounts.
Credit Bureau Data	CRAs	**Pros:** Broad data source covers multiple information streams, such as other loans as well and credit assessments; also mandated data sharing schemes e.g., CCDS. **Cons:** data is not real-time and supplied with a lag.

Lenders may also ask for additional data dependent on the loan type and specifics that relate to the SME; these are covered in Table 2 below.

Table 2: Information specific to loan type and circumstances

Data Item	Source	When used?
Invoices sent	Self-provided, cloud accounting providers, CRAs	Typically used on invoice financing loans; or on a case-by-case basis when relevant to the loan.
Invoices received	Self-provided, cloud accounting providers, CRAs	Typically used on a case-by-case basis when relevant to the loan. Late payment and invoice arrears can be an indicator or financial health.
Sales	Self-provided, cloud accounting providers, sales platforms	Typically used on a case-by-case basis when relevant to the loan. This can also include details of commercial contracts.
Assets	Self-provided, cloud accounting providers, asset registers e.g., Land registry	Typically used for asset backed loans; or verifying management accounts for acquisitions and disposals.

Asset-backed finance is significant, and lenders want to be able to independently verify that an SME owns the assets backing the loan. The most significant asset register is the Land Registry, providing information on property ownership. In addition, machinery can also be listed as an asset and there are examples of where individual manufacturers give access to assets registers – e.g., John Deere for agriculture and construction equipment.

Table 3: Other Information sometimes required

Data Item	Source	Any additional information
Employee numbers and regular contractors	Companies provide it themselves	Allows sizing of the firm alongside turnover e.g., microbusiness, small, medium etc.
Company group relationships	Companies provide it themselves	Applicable when the company is within a group, understating its status.
Company projections e.g., next five years of growth	Companies provide it themselves; third parties such as CRAs and Cloud Accounting can provide independent projections.	Typically, financial model and expectations but can include future strategy including expansion plans, capital expenditure, employee profile etc.
Court Judgements	Published Judgements	Court judgements usually use company registration numbers, although they can be wrong or omitted.
Insolvency	CRA	Can include insolvency within group.
Energy Consumption	EPCs – Government Website	PDFs by individual site.
Climate change	Desktop research	Physical risks due to extreme weather such as flooding; carbon emissions.

Table 3 provides a good view on the range of additional information that may be requested dependent on the lender and sector. Some of these are likely to be checked for each applicant as they would be less likely to volunteer, such as court judgements or insolvencies. Company projection information is likely to be dependent on the lender as much as the size of the SME and the loan amount. Some lenders want to know exactly what the loan is for, and to get a view of the strategic plans for the applicant; other lenders focus specifically on the affordability of the loan and for small loans may even have pre-authorised an amount based on existing financial metrics.

At times, lenders look at energy consumption and climate change related information in processing some loan applications. One reason is to help evaluate the risk to the plant and machinery of the business based on its geographic location, which may increase insurance costs as well as anticipated future interruptions. Other information is about aspects of carbon emissions which may suggest that lenders are looking at adherence to government and legal targets and the future longevity of the business if outside of those targets.

Data not currently used but that is desirable by lenders and aggregators in the process of assessing loan applications

Existing data with high levels of friction

Data with high levels of friction are digital data sources available but the levels of accessing them is particularly high which means either they are not used, or they are selectively used, for example for higher value loans.

Table 4: Data items with high levels of friction

Data Items	Information [where given]
Companies House Data	Typically available in PDF format which is difficult to absorb digitally without higher costs; XBRL format exists but lack of true standardisation.
HMRC data	Only digital way to connect is via Government Gateway and lender or aggregator being set up as an agent; has associated issues.
Open Banking data	Customers have reported friction in setting up lenders or aggregators to access customer data – bank-dependent.
EPC register	PDFs that are manually downloaded from Government website – no flag when new updates are available.
Trading data	Lack of unique identifier for companies in trading data therefore reconciliation difficult and time consuming.

Existing data that has data quality or verification issues
In addition to the friction issues there are digital data sources available but where data either isn't used or used sparingly because of known quality issues with the data.

Having spoken to a number of lenders, they have confirmed that when they use data from different sources, they always seek to understand how reliable the data is, and whether usage of it needs to be weighted accordingly when data is unverified, or where there is poor standardisation or is prone to errors.

Table 5: Data items with quality and/or verification issues

Data Items	Information [where given]
Invoice data	Reconciliation of invoice data can be difficult as it can be difficult to verify the counterparty, especially if it's international. Invoice accuracy or legitimacy are also difficult to verify. eInvoice schemes seek to address these gaps.
Companies house – directors and shareholders names	There is a lack of standardisation in Companies House naming conventions so the same person could be listed as full name, initial and surname, and variations in the

	same documents, or between documents. This makes reconciliation difficult.
Court Judgements	Company registration number and details are often wrong or omitted.
Land Registry	Lag in posting updates to the register means that data is less useful as not considered fully up-to-date.
Open Banking data	Inconsistencies is what is provided by different banks to lenders for comparable data requests.

Helpful data currently unavailable

Lenders and data aggregators have indicated to us useful data which is currently unavailable, but which would help their assessment or risk.

Table 6: What data would lenders want?

Data Items	Information [where given]
Full Company filings at Companies House	Removing abridged account or full exemptions for having to file accounts, and instead filing full accounts for every SME.
Applicants' financial records in cloud accounting packages	This was direct access to seeing up to date financial information held in cloud account software by provides such as Sage, Xero, Intuit QuickBooks.
HMRC Filings	Specifically, VAT made available digitally by HMRC.
Connected exposures	Any past liquidations in the network of any connected or related companies.
Open Banking data – savings and loans	Expanding Open Banking APIs to get information on savings accounts, Loans, credit cards.
Open Banking data for a wider set of banks	Not all banks are covered by open banking, as well as not all accounts; so more banks participating would have a positive impact. Other solutions could be widening the range of banks providing information to CRAs.
Economic sector level Information	A central source of information about different sectors that the applicant operates in – rather than having to get reports for individual sectors and/or desk based research.
Planning application statuses	Where the applicant has one/many planning applications – being able to see the status in near real-time rather than individual council websites.

Table 7: What data would aggregators want?

Data Items	Information [where given]
Social Media / Marketplace scores	Feefo, Trustpilot etc. ratings on the firm, including how many ratings, average score, date of reviews, positive or negative sentiment in reviews.
Standardised Company Identity	A trusted source for issuing an SME an identity that can be wisely used and searched through multiple data sources.
Directors' personal details	This is to allow credit checks on the individuals.
UK wide e-Invoicing system	To have centralised invoicing in a standardised digital format.
Pension data	Access to provider plans and drawdowns.

There is a wide range of data that both lenders and aggregators would use in helping to assess a loan application either in a wider sense for all SME applications or specifically to SMEs looking for a particular type of loan.

New initiatives that could provide a valuable future data resource.
In addition to the above, there are initiatives that could be implemented that would provide new and valuable data sources. Table 8 below illustrates some of the proposed initiatives.

Table 8: Initiatives that could provide a valuable future resource

Data Items	Information [where given]
Cloud Accounting Providers – data	Flagging where data has been submitted to Companies House and HMRC within the SME accounts on Cloud accounting software including a digital receipt with verification of what has been submitted. Also Cloud accounting providers incentivising SMEs keeping their data up to date and high quality so it can be trusted.
Government approved e-Invoicing scheme	Noting developments in the EU, and interoperability; a UK scheme that allows verification of the counterparty and that the counterparty has accepted the invoice.
Removal of any exemptions from Companies House reporting	Full accounts available from Companies House – Microbusiness accounts could be made available to trusted third parties.
Common identification reference for companies to be used across multiple data sources	A common reference is deemed useful, which is used for each company as a

	identifier in each Smart Dataset that is opened up.
Expansion of CCDS scheme and scheme access	Move beyond the mandated banks to include new specialist and fintech lenders; incorporate more business lending products; widen access to SMEs themselves and consented third parties such as data aggregators and marketplaces to provide better use cases.
Pre-agreed payment plans for non-payment of tax	Where HMRC has agreed to a repayment plan because a company has not paid tax or been in arrears, this information is useful to lenders to understand for example the reasons behind a loan e.g. repayment of debt rather than expansion.