

11

NOT LOOKING TO BORROW

THIS CHAPTER PROVIDES

at those that had not had a borrowing event, to explore whether they wanted to apply for finance in the previous 12 months and any barriers to applying.

KEY FINDINGS

Most SMEs continued to meet the definition of a Happy non-seeker of finance (83% in 2018)

- Happy non-seekers can and do use external finance, they just hadn't applied for any in the previous 12 months. In 2018, 28% of HNS were using external finance
- The proportion of Happy non-seekers increased from 68% in 2012 to 84% in 2016 and has been stable since. Excluding the Permanent non-borrowers sees the proportion of Happy non-seekers decrease to 68% but they remained the largest group

14% of SMEs reported a borrowing event in the 12 months prior to interview. This has declined steadily over time from 23% in 2012. Excluding the PNBs increases the size of this group to 27% of remaining SMEs.

2% of SMEs met the definition of a Would-be seeker of finance – someone who wanted to apply but something stopped them. This group has decreased in size from 10% of SMEs in 2012 to 2% in 2016 and subsequent years. Excluding the PNBs increases the size of this group to 3% of SMEs.

Would-be seekers were asked why they had not applied for finance:

- 32% cited the process of borrowing as their main reason, typically the expense
- 27% cited discouragement, almost all of it indirect where the SME assumes they will be turned down so does not apply
- 23% cited the principle of borrowing, typically being able to raise personal funds if they needed to
- 17% cited the economic climate

Attitudinally, would-be seekers were similar to those who had applied for finance but were more likely to think that it might be difficult for them to get finance and less likely to be put off by an increase in the cost of credit.

A small minority of SMEs (3%) reported having ever been declined for a facility. 7 in 10 said it has made them more reluctant to apply for finance subsequently (the equivalent of 2% of all SMEs), with smaller SMEs somewhat more likely to be reluctant.

- That said, half of all those made more reluctant by a previous decline were using finance (52%), compared to 60% of those not made more reluctant by a decline and 36% that have never been declined
- Those made more reluctant by a previous decline were though more likely to meet the definition of a Would-be seeker of finance (12%) compared to 5% of those not made more reluctant by a decline and 1% of those never declined

As already detailed in this report, a minority of SMEs reported any borrowing event in the 12 months prior to interview. This chapter looks in more detail at those that had not had a borrowing event, to explore whether they had wanted to apply for finance in the previous 12 months, and any barriers to such an application being made. Because this chapter covers those that have not had a borrowing event, analysis continues to be based on the date of **interview**.

DEFINITIONS OVER TIME

In previous reports all SMEs were allocated to one of three groups, depending of their experience in the previous 12 months of both overdrafts and loans:

- **Had an event:** those SMEs reporting any Type 1, 2 or 3 loan or overdraft borrowing event in the previous 12 months, or an automatic renewal of an overdraft facility.
- **Would-be seekers:** those SMEs that had not had a loan or overdraft borrowing event/automatic renewal, and said something had stopped them applying for either loan or overdraft funding in the previous 12 months.
- **Happy non-seekers:** those SMEs that had not had a loan/overdraft borrowing event/automatic renewal, but said that nothing had stopped them applying for either loan or overdraft funding in the previous 12 months.

From Q1 2018, the scope of the SME Finance Monitor was widened to include more products than just loans and overdrafts. The definitions in this chapter have also been widened to cover all external funding, but the structure of the three groups remains essentially the same:

- **Had an event:** those SMEs reporting a Type 1 new or renewed borrowing event in the previous 12 months, or an automatic renewal of an overdraft facility, or any Type 2 or 3 borrowing event where either the bank or the SME was looking to reduce or repay an existing facility. These events were described in more detail in Chapter 8.
- **Would-be seekers:** those SMEs that not had a borrowing event of any kind and said something had stopped them applying for finance in the previous 12 months.
- **Happy non-seekers:** those SMEs that had not had a borrowing event of any kind, but said that nothing had stopped them applying for finance in the previous 12 months.

Where applicable, data is shown over time, accepting the changes made to the definitions in Q1 2018.

TO WHAT EXTENT DO SMES HAVE AN UNFULFILLED WISH TO BORROW?

The table below details how many SMEs have met each of the three definitions over time. Whilst the nature of the events has changed slightly from Q1 2018, data is still comparable.

This shows that over recent quarters, most SMEs met the definition of a Happy non-seeker of finance (85% in Q4 2018), while the proportion of Would-be seekers remained low (1% in Q4 2018). The proportion of SMEs reporting an event was 13% in Q4 2018, in line with recent quarters:

Any events

| Over time – all SMES By date of interview | Q4 2016 | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Unweighted base: | 4500 | 4500 | 4507 | 4505 | 4500 | 4500 | 4500 | 4502 | 4500 |
| Have had an event | 14% | 11% | 15% | 17% | 18% | 14% | 15% | 14% | 13% |
| • <i>New or (auto) renewed facility</i> | 12% | 10% | 13% | 15% | 16% | 12% | 12% | 13% | 12% |
| • <i>Type 2 or 3 events</i> | 3% | 2% | 3% | 2% | 3% | 3% | 4% | 2% | 2% |
| Would-be seekers | 2% | 2% | 2% | 2% | 2% | 2% | 1% | 2% | 1% |
| Happy non-seekers | 84% | 86% | 82% | 81% | 80% | 83% | 83% | 83% | 85% |

Pastevt All SMEs NEW DEFINITION Q1 2018

Happy non-seekers can, and do, use external finance (the definition is based on borrowing events in the previous 12 months). Since 2015 around a quarter of Happy non-seekers have been using external finance (28% for 2018).

Permanent non-borrowers are by definition part of the Happy non-seekers group. The impact on the analysis above once these PNBs are removed is discussed later in the chapter.

ANALYSIS BY KEY DEMOGRAPHICS

As in previous periods, SMEs with no employees were less likely to have had an 'event' than those with employees and were therefore somewhat more likely to meet the definition of a Happy non-seeker of finance:

| Any events | | 0 | 1-9 | 10-49 | 50-249 |
|-------------------------|---------------|-------------|-------------|-------------|-------------|
| YEQ4 18 All SMES | Total | emp | emps | emps | emps |
| Unweighted base: | 18,002 | 3602 | 5800 | 5800 | 2800 |
| Have had an event | 14% | 13% | 17% | 21% | 32% |
| Would-be seekers | 2% | 2% | 2% | 1% | 1% |
| Happy non-seekers | 83% | 85% | 81% | 78% | 67% |

Pastfin All SMEs

SMEs with employees were more likely to have experienced a borrowing event (18%). 2% met the definition of a Would-be seeker of finance, with the largest group, as overall, the Happy non-seekers (80%).

By risk rating, those SMEs with a worse than average risk rating were somewhat less likely to have had an event but across all risk ratings 8 in 10 SMEs met the definition of a Happy non-seeker:

| Any events | | Min | Low | Avge | Worse/ Avge |
|-------------------------------------|---------------|-------------|-------------|-------------|----------------|
| YEQ4 18 All SMEs with a risk rating | Total | | | | |
| Unweighted base: | 18,002 | 3160 | 5423 | 3997 | 4018 |
| Have had an event | 14% | 17% | 16% | 15% | 12% |
| Would-be seekers | 2% | 1% | 1% | 1% | 2% |
| Happy non-seekers | 83% | 83% | 83% | 83% | 84% |

Pastfin All SMEs

Those currently using external finance were no more or less likely to be a Would-be seeker (2% v 2% not using external finance) but remained much more likely to have had an event (34% v 3% not using external finance).

The proportion of Would-be seekers varied relatively little by sector (1-3%). Only slightly more variation was seen in terms of Happy non-seekers, which accounted for 85% of those in the Property/Business Services sector, compared to 80% of those in Agriculture and Wholesale/Retail (who were more likely to have had an event):

Any events

| All SMEs YEQ4 18 | Agric | Mfg | Constr | Whle Retail | Hotel Rest | Trans | Prop / Bus | Hlth SWrk | Other Comm |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Unweighted base: | 1200 | 1500 | 3200 | 1800 | 1200 | 2001 | 3599 | 1502 | 2000 |
| Have had an event | 19% | 14% | 13% | 18% | 14% | 15% | 12% | 15% | 15% |
| Would-be seekers | 1% | 2% | 2% | 1% | 3% | 1% | 2% | 2% | 2% |
| Happy non-seekers | 80% | 84% | 84% | 80% | 83% | 83% | 85% | 82% | 83% |

Pastfin All SMEs

Analysis by age of business showed little variation in the proportion of Would-be seekers. Starts were somewhat more likely to report a borrowing event than their older peers and thus less likely to have been a Happy non-seeker of finance (although three quarters of them were):

Any events

| All SMEs YEQ4 18 | Starts | 2-5 yrs | 6-9 yrs | 10-15 yrs | 15+ yrs |
|-------------------------|-------------|-------------|-------------|-------------|-------------|
| Unweighted base: | 1815 | 1722 | 2219 | 3072 | 9174 |
| Have had an event | 20% | 11% | 11% | 14% | 14% |
| Would-be seekers | 2% | 3% | 1% | 2% | 1% |
| Happy non-seekers | 77% | 85% | 86% | 84% | 85% |

Pastfin All SMEs

ANALYSIS OVER TIME

The table below takes a longer term view back to 2012, accepting the changes to the questionnaire made over this period (summarised at the start of the chapter). The proportion of Happy non-seekers of finance rose steadily 2012 to 2016, as appetite for finance fell. Figures for 2017 and 2018 show appetite for finance may have stabilised:

| Any events | | | | | | | |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|
| Over time – all SMEs | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| <i>Unweighted base:</i> | 20,055 | 20,036 | 20,055 | 20,046 | 18,000 | 18,102 | 18,002 |
| Have had an event | 23% | 17% | 16% | 17% | 13% | 15% | 14% |
| Would-be seekers | 10% | 6% | 5% | 3% | 2% | 2% | 2% |
| Happy non-seekers | 68% | 77% | 79% | 80% | 84% | 83% | 83% |

Pastfin All SMEs

Analysis of SMEs with employees over time showed that they had also become less likely to have had an event (from 33% in 2012 to 18% in 2018), or to have been a Would-be seeker of finance (8% to 2%). As a result, the Happy non-seekers increased from 59% of SMEs with employees in 2012 to 80% in 2018.

The impact on these longer term trends once the Permanent non-borrowers are excluded is reported later in this chapter.

Taking a longer term view of Would-be seekers back to 2012 shows the proportion declined from 10% in 2012 to 2% in 2016 and has been stable since. The decline was most marked for smaller SMEs and those with a worse than average risk rating as larger SMEs and those with a minimal risk rating were always less likely to have been a Would-be seeker of finance.

Would-be seekers

Over time – row percentages

By date of interview

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|------------|-----------|-----------|-----------|-----------|-----------|-----------|
| All SMEs | 10% | 6% | 5% | 3% | 2% | 2% | 2% |
| 0 employee | 10% | 6% | 5% | 4% | 2% | 2% | 2% |
| 1-9 employees | 9% | 6% | 4% | 3% | 3% | 2% | 2% |
| 10-49 employees | 6% | 3% | 2% | 2% | 1% | 1% | 1% |
| 50-249 employees | 4% | 1% | 1% | 1% | 1% | * | 1% |
| Minimal external risk rating | 4% | 3% | 1% | 1% | 2% | 1% | 1% |
| Low external risk rating | 7% | 3% | 2% | 2% | 1% | 1% | 1% |
| Average external risk rating | 8% | 6% | 3% | 3% | 2% | 2% | 1% |
| Worse than average external risk rating | 11% | 6% | 6% | 4% | 3% | 3% | 2% |
| Agriculture | 7% | 4% | 3% | 3% | 2% | 2% | 1% |
| Manufacturing | 8% | 4% | 4% | 4% | 3% | 2% | 2% |
| Construction | 10% | 7% | 4% | 3% | 2% | 2% | 2% |
| Wholesale/Retail | 10% | 6% | 5% | 4% | 3% | 3% | 1% |
| Hotels & Restaurants | 9% | 7% | 6% | 4% | 4% | 3% | 3% |
| Transport | 11% | 8% | 7% | 4% | 3% | 3% | 1% |
| Property/Business Services etc. | 9% | 6% | 3% | 3% | 2% | 3% | 2% |
| Health | 8% | 5% | 4% | 2% | 1% | 1% | 2% |
| Other Community | 11% | 5% | 6% | 5% | 2% | 2% | 2% |
| All excluding PNBs | 15% | 10% | 8% | 6% | 4% | 4% | 3% |

Pastfin All SMEs base size varies by category

BARRIERS TO APPLICATION FOR WOULD-BE SEEKERS

SMEs that were identified as Would-be seekers (i.e. they had wanted to apply for finance in the 12 months prior to their interview but felt that something had stopped them) were asked about the barriers to making such an application.

These are reported below, firstly in terms of how frequently they were mentioned at all and secondly how frequently they were nominated as the main barrier.

The reasons have been grouped into the themes shown below, and respondents could initially nominate as many reasons as they wished for not having applied when they wanted to.

The reasons given in 2018, using the new questionnaire structure were:

Discouragement – those that had been put off, either directly (they made informal enquiries of the bank and were put off) or indirectly (they thought they would be turned down by the bank so did not ask). This was given as a reason by 29% of all Would-be seekers in 2018 and was somewhat less of an issue than in previous years (50% in 2017).

Process of borrowing – those who did not want to apply because they thought it would be too expensive, too much hassle etc. This was given as a reason by 37% of all Would-be seekers in 2018 having been 48% in 2017.

Principle of borrowing – those that did not apply because they feared they might lose control of their business, or preferred to seek alternative sources of funding. This was given as a reason by 29% of all Would-be seekers in 2018, up from 19% in 2017 and back to levels previously seen (29% in 2015).

Current economic climate – those that felt that it had not been the right time to borrow. This was given as a reason by 19% of all Would-be seekers in 2018, the highest level seen to date (9% in 2017).

The table below shows the results for 2018, and all the reasons for not applying for finance that are included in the summary categories above. An additional question was asked of those giving more than one reason, asking them to nominate the key reason for not applying and these are also shown in the table below:

| All Would-be seekers YEQ4 18 excluding DK | All reasons | Main reason |
|---|-------------|-------------|
| Unweighted base: | 225 | 209 |
| Issues with <u>process</u> of borrowing | 37% | 32% |
| -Would be too much hassle | 13% | 8% |
| -Thought would be too expensive | 18% | 16% |
| -Would be asked for too much security | 5% | 2% |
| -Too many terms and conditions | 8% | 2% |
| -Did not want to go through process | 4% | 3% |
| -Forms too hard to understand | 1% | * |
| Discouraged (any) | 29% | 27% |
| -Direct (put off by bank) | 9% | 7% |
| -Indirect (thought would be turned down) | 23% | 20% |
| Issues with <u>principle</u> of borrowing | 29% | 23% |
| -Not lose control of business | 7% | 1% |
| -Can raise personal funds if needed | 15% | 13% |
| -Prefer other forms of finance | 8% | 6% |
| -Go to family and friends | 4% | 2% |
| Economic climate | 19% | 17% |
| -Not the right time to apply | 19% | 17% |

Q32/77 and Q32b/77b (210/210a) All Would-be seekers SMEs that wished they had applied for finance excl DK

3 in 10 gave the process of borrowing as their main reason for not seeking finance, specifically the hassle and the expense. Almost as many, a quarter of Would-be seekers, cited either discouragement (most of it indirect where the SME assumes they will be turned down and so does not apply) or the principle of borrowing, with the main reason being an ability to raise personal funds.

17% cited the economic climate, the highest level recorded to date but still lower than when SMEs look forward, where almost 6 in 10 of Future would-be seekers cite the economic climate (or their performance in that climate) as the reason why they won't be applying for finance in future.

Accepting the changes made to the way in which Would-be seekers have been defined over time, the table below shows, on an annual basis from 2015, any mentions of each of the four key themes by Would-be seekers:

| All reasons for not applying for finance | | | | |
|---|-------------|-------------|-------------|-------------|
| Over time – all Would-be seekers | 2015 | 2016 | 2017 | 2018 |
| <i>Unweighted base:</i> | 485 | 318 | 277 | 225 |
| Discouraged (any) | 42% | 45% | 50% | 29% |
| Issues with <u>process</u> of borrowing | 48% | 32% | 48% | 37% |
| Issues with <u>principle</u> of borrowing | 29% | 26% | 19% | 29% |
| Economic climate | 11% | 13% | 9% | 19% |

Q32/77 and Q32b/77b (210/210a) All Would-be seekers SMEs that wished they had applied for finance excl DK

In the past, the two key reasons for not applying were discouragement (almost all of it indirect) and the process of borrowing. In 2018, the reasons were more evenly spread across the 4 potential categories than previously, with fewer mentions than in 2017 of discouragement and more of the economic climate and the principle of borrowing.

Would-be seekers constituted a minority of all SMEs (2%). The table below shows, for the main reasons given by Would-be seekers for 2018, the equivalent proportion of all SMEs:

| Main reason for not applying | Would-be seekers | All SMEs |
|--|-------------------------|-----------------|
| YEQ4 18 | | |
| Unweighted base: | 209 | 18,002 |
| Discouraged (any) | 27% | * |
| -Direct (put off by bank) | 7% | * |
| -Indirect (thought I would be turned down) | 20% | * |
| Issues with <u>process</u> of borrowing | 32% | 1% |
| Issues with <u>principle</u> of borrowing | 23% | * |
| Economic climate | 17% | * |

Q32/77 and Q32b/77b (210/210a) All Would-be seekers SMEs that wished they had applied for finance excl DK

The equivalent of less than 1% of all SMEs reported having felt discouraged from applying for a facility.

WOULD-BE SEEKERS - ATTITUDES TO FINANCE

Earlier in this report a series of attitude statements about external finance showed key variations by different demographics. These statements are repeated here (for YEQ4 2018 with the exception of the ambition statement which was run in H2 2018 only) analysed by recent borrowing behaviour, to provide additional insight into those who had not applied for finance.

The table below typically shows similar attitudes between those that have had an event and the Would-be seekers who wanted to apply, with the exception of Would-be seekers being more likely to think that it would be difficult for them to get finance, and less likely to say they never think about using (more) finance or that they would feel discouraged from applying by an increase in the cost of credit:

| Attitudes to finance YEQ4 18 – all SMEs | Had an event | Would-be seeker | Happy non-seeker |
|---|---------------------|------------------------|-------------------------|
| Unweighted base: | 3666 | 208 | 14,059 |
| Plans based on what can afford ourselves | 78% | 83% | 80% |
| Accept slower growth rather than borrow | 72% | 68% | 72% |
| Increase in cost of credit would discourage application | 66% | 55% | 49% |
| Never think about using (more) external finance | 46% | 36% | 50% |
| Because the future feels uncertain we are being very cautious with our plans for the business | 65% | 63% | 52% |
| As a business we are prepared to take risks to become more successful | 55% | 51% | 41% |
| My impression is that it is quite difficult for businesses like ours to get external finance | 53% | 62% | 35% |
| Happy to use finance to help business grow | 50% | 53% | 29% |
| We have a long term ambition to be a significantly bigger business (H2 only) | 52% | 47% | 37% |

Q96 (238a5) All SMEs

Happy non-seekers of finance were not as happy to use finance to grow, or as prepared to take risks as other SMEs, nor were they as likely to have a longer term ambition to be bigger. They were though less likely to feel the future was uncertain or that it would be difficult for them to get finance if they wanted.

THE EFFECT OF THE PERMANENT NON-BORROWER

Almost half of all SMEs met the definition of a Permanent non-borrower and this proportion has increased steadily over time. If such SMEs were excluded from the analysis in this chapter (because there is no indication from their answers that they will borrow), the results when scaled to the population of SMEs would reduce to around 2.7 million from 5 million.

27% of this group of SMEs excluding PNBs reported a borrowing event, compared to 14% of SMEs overall:

| Any events (Overdraft and loan) | | |
|--|---------------|-----------------------|
| YEQ4 18 – all SMES | All SMEs | All SMEs excl. PNB |
| Unweighted base: | 18,002 | 11,294 |
| Have had an event | 14% | 27% |
| Would-be seekers | 2% | 3% |
| Happy non-seekers | 83% | 68% |

Pastfin All SMEs

The proportion of Happy non-seekers declined to 68% but remained the largest group and 3% met the definition of a Would-be seeker, compared to 2% of all SMEs.

The table below shows the pattern over recent quarters, once the PNBs had been excluded. In the latter half of 2016 and early 2017, the proportion reporting an event was somewhat lower at around a quarter, before returning to around 3 in 10 from Q2 2017 to Q3 2018, but this proportion was reduced again in Q4 2018 (24%):

| Any events | | | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--|
| All SMES, excluding PNBs – over time | | | | | | | | | | |
| By date of interview | Q4 16 | Q1 17 | Q2 17 | Q3 17 | Q4 17 | Q1 18 | Q2 18 | Q3 18 | Q4 18 | |
| Unweighted base: | 3017 | 3011 | 3038 | 2890 | 3001 | 2735 | 2868 | 2848 | 2843 | |
| Have had an event | 23% | 21% | 28% | 32% | 32% | 28% | 29% | 28% | 24% | |
| Would-be seekers | 3% | 4% | 4% | 4% | 4% | 4% | 3% | 4% | 3% | |
| Happy non-seekers | 73% | 74% | 68% | 64% | 64% | 66% | 67% | 67% | 72% | |

Pastfin All SMEs excluding PNBs

On an annual basis and accepting the changes in definition over time, the proportion of SMEs (excluding the PNBs) reporting a borrowing event has been fairly stable (25-28%) with the exception of 2012 (35%) and 2015 (32%) .

The proportion of Would-be seekers declined significantly 2012-16 (15% to 4%) but has been stable since. As a result, the proportion of Happy non-seekers has been around 7 in 10 since 2016, up from 51% in 2012:

| Any events | | | | | | | |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Over time – excl PNBs | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Unweighted base: | 15,312 | 14,578 | 13,613 | 13,011 | 11,634 | 11,940 | 11,294 |
| Have had an event | 35% | 28% | 28% | 32% | 25% | 28% | 27% |
| Would-be seekers | 15% | 10% | 8% | 6% | 4% | 4% | 3% |
| Happy non-seekers | 51% | 62% | 64% | 62% | 70% | 67% | 68% |

Pastfin All SMEs excl PNBs

The table below shows the main reasons for not applying, using the revised ‘all SME’ definition that excludes the PNBs:

| Main reason for not applying when wished to YEQ4 18 | Would-be seekers | All SMEs excl. PNB |
|---|------------------|--------------------|
| Unweighted base: | 209 | 11,294 |
| Discouraged (any) | 27% | 1% |
| -Direct (put off by bank) | 7% | * |
| -Indirect (thought I would be turned down) | 20% | * |
| Issues with <u>process</u> of borrowing | 32% | 1% |
| Issues with <u>principle</u> of borrowing | 23% | 1% |
| Economic climate | 17% | * |

Q32b/77b (210a) All SMEs v all that wished they had applied for an overdraft or a loan

The equivalent of 1% of all SMEs (excluding the PNBs) reported having felt discouraged from applying for a facility.

THE LONGER TERM IMPACT OF PREVIOUS DECLINES

Qualitative research conducted amongst Would-be seekers revealed that a number of them felt discouraged due to a previous decline from a bank, which might have occurred a number of years before. In order to understand the impact of such declines on the wider SME population as a whole, a question was added to the SME Finance Monitor from Q1 2014, which has remained unchanged.

3% of SMEs reported a declined banking facility at some time in the past and this has changed very little over time:

| Previous decline by bank | All SMEs YEQ4 2018 |
|--------------------------|---|
| By size of SME | <p>The largest SMEs were somewhat less likely to report a previous decline:</p> <ul style="list-style-type: none"> • 3% of 0 employee SMEs • 4% of those with 1-9 employees • 3% of those with 10-49 employees • 1% of those with 50-249 employees <p>Amongst SMEs with employees, 3% had previously been declined.</p> |
| Excluding the PNBs | Once the PNBs were excluded, 5% of remaining SMEs had experienced a previous decline (compared to 1% of PNBs). |
| Risk rating | There was little difference by risk rating (2-4%). |
| Use of external finance | 5% of those currently using external finance had experienced a previous decline, compared to 2% of those who had not used external finance in the past 5 years (and 5% of the small group that had used finance in the past but were not using it now). |

Amongst SMEs who had experienced a previous decline, 72% said that this had made them more reluctant to apply for bank finance subsequently (the equivalent of 2% of all SMEs).

- The smaller the SME experiencing the decline, the more likely they were to say they had been made more reluctant (74% of 0 employee SMEs that had been declined compared to 35% of such SMEs with 50-249 employees).
- Those declined who had a minimal risk rating were less likely to have been made more reluctant (61%) than those with any other rating (70-73%).

The tables below explore this reluctance in more detail, across all SMEs. 2% of all SMEs had been made more reluctant by a previous decline with larger SMEs somewhat less likely to have been impacted:

| Impact of previous decline by bank | | 0 | 1-9 | 10-49 | 50-249 |
|---|---------------|-------------|-------------|-------------|-------------|
| All SMEs YEQ4 18 | Total | emps | emps | emps | emps |
| Unweighted base: | 18,002 | 3602 | 5800 | 5800 | 2800 |
| More reluctant to apply after a decline | 2% | 3% | 2% | 2% | * |
| Declined but not more reluctant | 1% | 1% | 1% | 1% | 1% |
| Have not been declined in past | 97% | 97% | 96% | 97% | 99% |

Q78su (240x and Q240y) All SMEs

THE SAME PATTERN WAS SEEN WHEN THE PNBS WERE EXCLUDED:

| Impact of previous decline by bank | | 0 | 1-9 | 10-49 | 50-249 |
|---|---------------|-------------|-------------|-------------|-------------|
| All SMEs YEQ4 18 excl PNBS | Total | emps | emps | emps | emps |
| Unweighted base: | 11,294 | 1879 | 3337 | 3782 | 2296 |
| More reluctant to apply after a decline | 4% | 4% | 4% | 3% | 1% |
| Declined but not more reluctant | 1% | 1% | 2% | 2% | 1% |
| Have not been declined in past | 95% | 95% | 94% | 95% | 98% |

Q78su (240x and Q240y) All SMEs excluding PNBS

There was relatively little difference overall by risk rating:

| Impact of previous decline by bank | | | | | |
|---|---------------|-------------|-------------|-------------|---------------|
| All SMEs YEQ4 18 | Total | Min | Low | Avg | Worse/ Avg |
| Unweighted base: | 18,002 | 3160 | 5423 | 3997 | 4018 |
| More reluctant to apply after a decline | 2% | 1% | 2% | 2% | 3% |
| Declined but not more reluctant | 1% | 1% | 1% | 1% | 1% |
| Have not been declined in past | 97% | 98% | 97% | 97% | 96% |

Q78su (240x and Q240y) All SMEs

Amongst those currently using external finance, 3% had become more reluctant to apply as the result of a previous decline, compared to 5% of those that had used finance in the past five years but were not using it currently and 2% of those who have not used external finance for at least the past 5 years.

Analysis was then undertaken to see what impact this previous decline might have had on actual use of external finance and borrowing behaviour in the 12 months prior to interview. As the table below shows:

- Those who had been declined but said it had not made them more reluctant were the most likely to be using external finance (60%) slightly ahead of those made more reluctant by a decline (52%).
- Those who had never been declined were less likely to be using external finance (36%) and more likely to qualify as a Happy non-seeker of finance (85%). 13% had had a borrowing event, compared to around a third of those previously declined.
- Those who reported that the decline had made them more reluctant to apply for bank finance were more likely to meet the definition of a Would-be seeker of finance (12%) than either those not put off by their decline (5%) or those who had never been declined (1%).

| Impact of previous decline by bank | | Made more reluctant by decline | Declined but not made more reluctant | Not previously declined |
|---|---------------|---------------------------------------|---|--------------------------------|
| All SMEs YEQ4 18 | All SMEs | | | |
| Unweighted base: | 18,002 | 333 | 197 | 17,472 |
| Using external finance | 36% | 52% | 60% | 36% |
| Have had an event | 14% | 38% | 30% | 13% |
| Would-be seekers | 2% | 12% | 5% | 1% |
| Happy non-seekers | 83% | 46% | 63% | 85% |

Q78/78b and pastfin (240x and Q240y and Q115/209) All SMEs

To put these figures in context, less than 1% of all SMEs had been made more reluctant by a previous decline and were currently Would-be seekers of finance (the 12% group shown above).

The table below presents the same analysis once the PNBs had been excluded. Use of external finance increases in all groups, but more markedly for those who have never been declined (from 36% to 70%). The most likely to be using finance are those who were not made more reluctant by a decline (83%) while those made more reluctant by a decline were now the least likely (61%):

| Impact of previous decline by bank | | Made more reluctant by decline | Declined but not made more reluctant | Not previously declined |
|---|---------------|---------------------------------------|---|--------------------------------|
| All SMEs YEQ4 18 excl PNBs | All SMEs | | | |
| Unweighted base: | 11,294 | 302 | 169 | 10,823 |
| Using external finance | 70% | 61% | 83% | 70% |
| Have had an event | 27% | 45% | 42% | 26% |
| Would-be seekers | 3% | 14% | 7% | 3% |
| Happy non-seekers | 68% | 36% | 48% | 70% |

Q78/78b and pastfin (240x and Q240y and Q115/209) All SMEs excluding PNBs

Whilst those with no previous decline were likely to be using finance, they were less likely than the other groups to have had a borrowing event (26%) and most still met the definition of a Happy non-seeker of finance.