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AN OVERVIEW OF BORROWING EVENTS

THIS CHAPTER PROVIDES

information on the number and range of borrowing events now captured on the SME Finance Monitor.

KEY FINDINGS

The borrowing events arising from a need for finance are just one of the events captured on the SME Finance Monitor. Overall, in 2018:

- 4% of SMEs reported a Type 1 borrowing event, which is an application for new or renewed finance arising from a need for funding (2%) or another application (2%)
- 2% of SMEs reported a Type 2/3 borrowing event, where an existing facility is cancelled by the bank or repaid early by the SME
- 9% of SMEs reported that their overdraft had been automatically renewed

14% of SMEs interviewed in 2018 reported one or more of these events in the previous 12 months. This increased by size of SME from 13% of those with 0 employees to 32% of those with 50-249 employees (due to the latter being more likely to see an overdraft automatically renewed, 27%)

- SMEs with a better risk rating, those in Agriculture or Wholesale/Retail and Starts were more likely to report an event
- There was little difference in the overall proportion reporting an event H1 2018 (15%) to H2 2018 (14%) but larger SMEs were less likely to report an event in the second half of the year (for those with 50-249 employees, 39% reported an event in H1 and 26% in H2)

This is the second of four revised chapters looking at borrowing events in the wider finance market beyond loans and overdrafts:

- The previous chapter looked at whether SMEs identified a need for external funding and what steps they took as a result of that need, including whether they applied for finance (a Type 1a borrowing event).
- This chapter provides an overview of all borrowing ‘events’ (including the Type 1a events), and the types of SME more or less likely to have had such events.
- Chapter 9 looks at all the borrowing events reported in more detail.
- Chapter 10 looks specifically at the Type 1 borrowing events, the final outcome of the applications made and the impact on the SME.

The information gathered on these events is not always directly comparable with that gathered for loans and overdrafts for previous reports, but where possible historical data is shown for context. Before looking at the latest findings, the summary below looks at the changes made to how borrowing events have been defined from Q1 2018.

BORROWING EVENT DEFINITIONS OVER TIME

Previous SME Finance Monitor reports have focussed primarily on loan and overdraft borrowing ‘events’ reported over time by different demographics. The borrowing events included Types 1-3 described below:

- Type 1: an application for a new or renewed loan or overdraft facility. In 2017, 5% of SMEs reported such an event increasing by size from 4% of 0 employee SMEs to 10% of those with 50-249 employees.
- Type 2: a decision to cancel or re-negotiate a loan or overdraft facility by the bank ahead of time. In 2017, 1% of SMEs reported such an event.
- Type 3: a decision to reduce or pay off a loan or overdraft facility early by the SME. In 2017, 1% of SMEs reported such an event.
- In addition, those SMEs that had an overdraft were asked if this had been automatically renewed for them in the previous 12 months. In 2017, half of SMEs with an overdraft (51%) said that it has been automatically renewed, the equivalent of 9% of all SMEs.

Type 1-3 borrowing events, plus the automatic renewal of an overdraft all contributed to the previous net ‘Had an event’ code that sat beside ‘Would-be seekers’ and ‘Happy non-seekers’ to summarise behaviour in the 12 months prior to interview. In 2017, 15% of all SMEs reported a borrowing event.

From Q1 2018, SMEs have been asked more broadly about borrowing events across a range of products and providers, not just loans and overdrafts. SMEs could have had one or more of these events, or none:

- Type 1a: Where a need for funding resulted in a borrowing event (involving any product and any provider) – reported in the previous chapter.
- Type 1b: Where the SME had (also) applied for any other new or renewed facility, from a list of major products.
- Type 1c: Any other application made and not already mentioned as a Type 1 a or b event.
- Where the SME's overdraft had been automatically renewed.
- Type 2/3 events: Where the SME or the finance provider had sought to cancel or re-negotiate a facility before it was due to be repaid.

BORROWING EVENTS IN 12 MONTHS PRIOR TO INTERVIEW

These new events are summarised below for YEQ4 2018 and show the continuing low levels of applications for finance amongst SMEs. In 2018 as a whole, with the new questions, 14% of SMEs reported any borrowing event, with 4% reporting a Type 1 event:

Borrowing events in the previous 12 months		0	1-9	10-49	50-249
YEQ4 18 all SMEs	Total	emp	emps	emps	emps
Unweighted base:	18,002	3602	5800	5800	2800
Type 1 event:	4%	3%	5%	7%	4%
1a: New application re need for funding	2%	2%	3%	5%	2%
1b: New/renewed application for specific finance	2%	1%	2%	3%	2%
1c: Any other new/renewed application	*	*	*	*	*
Type 2/3: Cancel/pay off by bank or SME	2%	2%	3%	3%	3%
Automatic renewal of an overdraft	9%	8%	11%	12%	27%
Any borrowing event	14%	13%	17%	21%	32%

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018

Larger SMEs remained more likely to report a borrowing event but this was primarily due to a higher proportion of automatic renewals. The 50-249 SMEs were the only group to record a similar level of borrowing events in 2018 to 2017 as a whole.

BORROWING EVENTS BY KEY DEMOGRAPHICS

Analysis by risk rating shows that those with worse than average rating were somewhat less likely to report a borrowing event primarily due to a lower proportion of automatic overdraft renewals:

Borrowing events in the previous 12 months

YEQ4 18 all SMEs with risk rating	Total	Min	Low	Avg	Worse/ Avg
Unweighted base:	18,002	3160	5423	3997	4018
Type 1 event	4%	4%	4%	4%	4%
1a: New application re need for funding	2%	2%	3%	2%	2%
1b: New/renewed application for specific finance	2%	1%	2%	2%	1%
1c: Any other new/renewed application	*	*	*	*	*
Type 2/3: Cancel/pay off by bank or SME	2%	3%	2%	2%	2%
Automatic renewal of an overdraft	9%	11%	11%	10%	7%
Any borrowing event	14%	17%	16%	15%	12%

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018

Those in Agriculture remained somewhat more likely to report a Type 1 (or indeed any) borrowing event, along with those in Wholesale/Retail:

Borrowing events in last 12 months

YEQ4 18 – all SMES	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
Type 1 event	6%	3%	3%	7%	5%	5%	3%	3%	5%
1a: re need for funding	4%	2%	1%	5%	3%	3%	2%	2%	3%
1b: re specific finance	3%	1%	2%	2%	2%	2%	1%	1%	2%
1c: Any other	*	-	*	-	*	*	*	-	-
Type 2/3	3%	2%	2%	3%	3%	3%	2%	3%	2%
Auto renewal	11%	10%	9%	10%	9%	9%	7%	9%	10%
Any borrowing event	19%	14%	13%	18%	14%	15%	12%	15%	15%

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018

Analysis by age of business shows that 20% of Starts reported a borrowing event, compared to 11-14% of older SMEs. This was due to more Starts reporting the automatic renewal of an overdraft facility:

Borrowing events in the previous 12 months

YEQ4 18 all SMEs	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15 yrs+
Unweighted base:	1815	1722	2219	3072	9174
Type 1 event	4%	4%	4%	4%	3%
1a: New application re need for funding	2%	3%	3%	2%	2%
1b: New/renewed application for specific finance	2%	2%	1%	2%	1%
1c: Any other new/renewed application	*	*	*	*	*
Type 2/3: Cancel/pay off by bank or SME	4%	2%	3%	2%	2%
Automatic renewal of an overdraft	13%	5%	6%	10%	9%
Any borrowing event	20%	11%	11%	14%	14%

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018

Those already using finance were more likely to report a borrowing event (34%) compared to 3% of those not using finance. Excluding the almost half of SMEs who are PNBs from the analysis increased the proportion of remaining SMEs with a borrowing event to 27%, with 7% having a Type 1 event:

Borrowing events in the previous 12 months				
YEQ4 18 all SMEs	Total	Use finance	No finance	All excl PNB
Unweighted base:	18,002	9256	8746	11,294
Type 1 event	4%	8%	1%	7%
1a: New application re need for funding	2%	5%	1%	5%
1b: New/renewed application for specific finance	2%	4%	*	3%
1c: Any other new/renewed application	*	*	-	*
Type 2/3: Cancel/pay off by bank or SME	2%	3%	2%	5%
Automatic renewal of an overdraft	9%	24%	-	17%
Any borrowing event	14%	34%	3%	27%

Pastevt Q31/50/50a/70/71/75 (25/26) All SMEs – new definition from Q1 2018

BORROWING EVENTS OVER TIME

The table below summarises the incidence of any borrowing event by key demographics (and will build over time).

Larger SMEs and those with a better risk rating were more likely to report such an event, as were those in Agriculture and Wholesale/Retail. Once the PNBs are excluded, around a quarter of remaining SMEs reported a borrowing event.

Whilst the overall borrowing event figure has changed little between H1 and H2 2018, SMEs with 10-249 employees were somewhat less likely to report an event in H2 than in H1:

Had any borrowing event		
By date of interview		
Over time – row percentages	H1 2018	H2 2018
All SMEs	15%	14%
0 employee	13%	12%
1-9 employees	16%	18%
10-49 employees	23%	18%
50-249 employees	39%	26%
Minimal external risk rating	17%	16%
Low external risk rating	16%	16%
Average external risk rating	15%	15%
Worse than average external risk rating	13%	11%
Agriculture	20%	18%
Manufacturing	16%	12%
Construction	14%	13%
Wholesale/Retail	17%	19%
Hotels & Restaurants	14%	15%
Transport	16%	14%
Property/Business Services etc.	12%	12%
Health	15%	14%
Other Community	15%	15%
All SMEs excluding Permanent non-borrowers	29%	26%
Current using external finance	36%	32%
Not currently using external finance	4%	2%