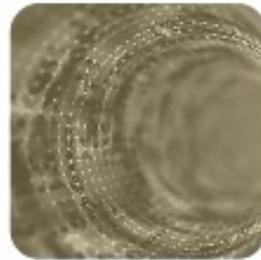


12. Why were SMEs not looking to borrow in the previous 12 months?



This chapter looks

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



Key findings

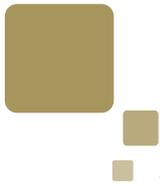
Most SMEs continued to meet the definition of a Happy non-seeker of finance (83% in 2017). 2% were Would-be seekers of finance, who had wanted to apply for loan or overdraft finance but something had stopped them, while 15% reported a borrowing 'event':

- Borrowing events increased by size of SME to 25% of those with 50-249 employees, as the proportion of Happy non-seekers declined (to 74%)
- Between 2012 and 2016 the proportion of borrowing events fell from 23% to 13%, before increasing slightly to 15% in 2017
- The proportion of Would-be seekers also fell over the same period (10% to 2%), leaving the Happy non-seekers as an increasingly large group (from 68% in 2012 to 84% in 2016 and 83% currently)
- Excluding the Permanent non-borrowers from the analysis increases events in 2017 to 28%, Would-be seekers to 4% and reduces the Happy non-seekers to 67% of remaining SMEs.

The small group of Would-be seekers in 2017 cited discouragement and the process of borrowing as key barriers to application:

- 47% cited discouragement as their main barrier, most of it (30%) indirect where the SME assumed they would be turned down and so did not apply. This was slightly more likely to be mentioned by smaller WBS (47% with 0-9 employees and 31% of those with 10-249 employees)
- 29% cited the process of borrowing (typically the hassle or expense) and this was slightly more likely to be mentioned by the larger WBS (38%).

Attitudinally, Would-be seekers were happy to use finance to grow and were more ambitious for their business, while Happy non-seekers were less ambitious, more risk averse and happier to grow more slowly rather than borrow to grow faster.

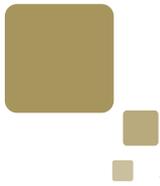


As already detailed in this report, a minority of SMEs reported any borrowing event in the 12 months prior to interview. This chapter looks at those that had not had a borrowing event, to explore whether they had wanted to apply for loan/overdraft finance in the previous 12 months, and any barriers to such an application

being made. Because this chapter covers not only those that have had a borrowing event, but also those that have not, analysis continues to be based on the date of **interview** (unlike chapters 7 to 10 which are entirely based on when the borrowing event in question *occurred*).

All SMEs have been allocated to one of three groups, encompassing 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.



Changes to definitions over time – a summary

Up until Q1 2016, respondents who hadn't reported a relevant loan and/or overdraft borrowing event were asked separately about whether they had wanted to apply for a loan and/or an overdraft. This meant that a respondent might have been allocated to two different categories, for example if they reported a loan 'event' and had also been a Would-be seeker of an overdraft. In that instance they would have been classed as having had an event (due to the loan) and their answers in terms of being a Would-be seeker of an overdraft would not have been included at the analysis stage, as each respondent can only appear in one of the three categories available.

This meant that some answers (which took time to gather during the interview) were never reported. So, from Q1 2016 onwards, potential Would-be seekers have been identified within the survey from amongst those who had reported neither a loan nor an overdraft event. Such SMEs were then asked whether anything had stopped them applying for either a loan or overdraft facility and if they identified any barrier, they qualified as a Would-be seeker of finance. Whilst this is a slightly different approach within the survey itself, the basis on which Would-be seekers are defined and reported here has not changed because the Monitor has only ever reported on Would-be seekers who had not had an 'event' as well.

Since the start of the Monitor a number of other adjustments have been made to this area of the questionnaire. These are summarised below but were reported in full in the Q4 2015 report:

- From the Q2 2012 report onwards, the definition of 'had an event' was amended to include automatic overdraft renewals, and all respondents from Q4 2011 re-classified under the new definition.
- From Q4 2012, the question used to separate the Happy non-seekers from the Would-be seekers was changed from:
 - Would you say that you would like to have an overdraft/loan facility for the business, even though you haven't applied for one?To
 - Has anything stopped you applying for an overdraft/loan, or was it simply that you felt that the business did not need one?
- In Q4 2012, the list of reasons available to Would-be seekers, explaining why they had not applied for a loan or overdraft facility was amended when the option 'I prefer not to borrow' was removed.
- From Q3 2015, a question has been asked that allows identification of Would-be seekers of other forms of finance (such as leasing). An initial assessment of the impact this would have on the overall Would-be seekers position is provided in this chapter but the main definition has not been changed in this report.



To what extent do SMEs have an unfulfilled wish to borrow?

The table below is based on the ‘Had an event’ definition described at the start of this chapter i.e. including automatic renewals as an ‘event’, and the revised Would-be seeker/Happy non-seeker questions.

The ‘Have had an event’ code includes not only applications for new or renewed loans and overdrafts (and the automatic renewal of overdrafts), but also Type 2 and Type 3 loan and

overdraft events where either the bank or the SME was looking to reduce or repay an existing facility. The table below therefore shows, beneath the ‘event’ line, the proportion of SMEs each quarter that had applied for a new/renewed facility or had had an overdraft facility automatically renewed, and then those that had had a facility reduced/cancelled or had chosen to do so (the Type 2 and 3 events experienced by a minority):

Any events (overdraft and loan)

Over time – all SMES	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	2015	2016	2016	2016	2016	2017	2017	2017	2017
Unweighted base:	5003	4500	4500	4500	4500	4500	4507	4505	4500
Have had an event	17%	13%	15%	11%	14%	11%	15%	17%	18%
• <i>New or (auto) renewed facility</i>	15%	11%	13%	11%	12%	10%	13%	15%	16%
• <i>Type 2 or 3 events</i>	4%	3%	3%	2%	3%	2%	3%	2%	3%
Would-be seekers	5%	3%	2%	2%	2%	2%	2%	2%	2%
Happy non-seekers	78%	83%	83%	87%	84%	86%	82%	81%	80%

Q115/209 All SMEs

This shows that over recent quarters, most SMEs met the definition of a Happy non-seeker of loan or overdraft finance (80% in Q4 2017), while the proportion of Would-be seekers remained low (2% in Q4 2017). The proportion of SMEs reporting an event has increased very slightly to 18%, the highest quarter figure since the end of 2015.

Happy non-seekers can, and do, use external finance (the definition is based on borrowing events in the previous 12 months). In 2015 and 2016, a quarter of Happy non-seekers were using external finance, increasing slightly in 2017 to 28%.

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



The table below shows the small and broadly stable proportion of Would-be seekers of loan and overdraft finance over recent quarters:

Would-be seekers

Over time – row percentages By date of interview	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
All SMEs	5%	3%	2%						
0 employee	5%	4%	2%	2%	2%	2%	2%	2%	3%
1-9 employees	4%	3%	3%	2%	3%	3%	2%	2%	2%
10-49 employees	2%	1%	1%	1%	2%	1%	1%	1%	2%
50-249 employees	1%	*	2%	2%	1%	1%	*	*	*
Minimal external risk rating	1%	3%	*	1%	3%	2%	1%	*	1%
Low external risk rating	3%	1%	1%	1%	1%	2%	2%	1%	2%
Average external risk rating	7%	3%	2%	2%	1%	2%	1%	2%	1%
Worse than average external risk rating	6%	5%	3%	3%	3%	2%	3%	1%	4%
Agriculture	6%	3%	1%	2%	2%	2%	1%	*	4%
Manufacturing	5%	4%	1%	4%	1%	*	2%	3%	3%
Construction	3%	4%	1%	2%	1%	2%	2%	1%	2%
Wholesale/Retail	6%	2%	1%	4%	3%	3%	3%	2%	3%
Hotels & Restaurants	4%	3%	6%	2%	4%	3%	5%	2%	1%
Transport	5%	5%	3%	2%	2%	2%	4%	4%	2%
Property/Business Services etc.	4%	4%	3%	*	2%	3%	3%	2%	3%
Health	1%	1%	*	1%	2%	*	*	3%	2%
Other Community	12%	2%	3%	2%	3%	3%	1%	1%	2%
All excluding PNBs	9%	7%	4%	4%	3%	4%	4%	4%	4%

Q115/209 All SMEs base size varies by category



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

Any events (Overdraft <u>and</u> loan)		0	1-9	10-49	50-249
YEQ4 17 All SMES		emp	emps	emps	emps
	Total				
Unweighted base:	18,012	3607	5804	5801	2800
Have had an event	15%	14%	19%	23%	25%
Would-be seekers	2%	2%	2%	1%	*
Happy non-seekers	83%	84%	78%	75%	74%

Q115/209 All SMEs- new definitions from Q4 2012

SMEs with employees were more likely to have experienced a borrowing event (20%). 2% met the definition of a Would-be seeker of finance, with the largest group, as overall, the Happy non-seekers (78%).

By risk rating, those SMEs with a low risk rating were somewhat more likely to have had an event but across all risk ratings the majority of SMEs met the definition of a Happy non-seeker:

Any events (Overdraft <u>and</u> loan)					Worse/ Avge
YEQ4 17 All SMEs with a risk rating		Total	Min	Low	Avge
Unweighted base:	18,012	3086	5460	4186	3876
Have had an event	15%	16%	20%	15%	14%
Would-be seekers	2%	1%	1%	2%	3%
Happy non-seekers	83%	83%	79%	83%	84%

Q115/209 All SMEs- new definitions from Q4 2012

Those currently using external finance were no more or less likely to be a Would-be seeker (3% v 2% not using external finance), but remained much more likely to have had an event (37% v 2% not using external finance).



The proportion of Would-be seekers varied relatively little by sector (1-3%). More variation was seen in terms of Happy non-seekers, which accounted for 85% of those in the Construction and Other Community sectors, compared to 77% of those in Agriculture and Wholesale/Retail (who were more likely to have had an event):

Any events (overdraft and loan)

All SMEs YEQ4 17	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop / Bus	Hlth SWrk	Other Comm
Unweighted base:	1202	1501	3200	1800	1200	2004	3603	1502	2000
Have had an event	22%	19%	13%	20%	17%	14%	14%	16%	14%
Would-be seekers	2%	2%	2%	3%	3%	3%	3%	1%	2%
Happy non-seekers	77%	79%	85%	77%	80%	83%	84%	83%	85%

Q115/209 All SMEs

Analysis by age of business continued to show that, with the exception of Starts, the older the business the more likely they were to have had a borrowing event and the less likely to be a Happy non-seeker of finance (albeit 8 in 10 SMEs that had traded for 10 years or more did meet the definition of a HNS):

Any events (overdraft and loan)

All SMEs YEQ4 17	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	1822	1704	1994	2986	9506
Have had an event	15%	11%	12%	18%	17%
Would-be seekers	5%	2%	2%	1%	2%
Happy non-seekers	81%	87%	87%	81%	81%

Q115/209 All SMEs



The table below takes a longer term view back to 2012, accepting the slight 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 suggest the decline in appetite for finance may have stabilised:

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

Q115/209 All SMEs

As already reported, SMEs with 0 employees had less of an appetite for finance, but their responses form the majority of the “All SME” figures quoted. 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 20% in 2017), 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 78% in 2017.

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



An expanded definition of Would-be seekers

Mention was made earlier in this report of a new question from Q3 2015 which asked those who had not applied for any other form of finance (such as leasing or invoice discounting) whether something had stopped them applying (in much the same way as those who had not applied for a loan or an overdraft were asked the questions that define a Would-be seeker of finance).

YEQ4 2017, 2% of those asked the question said that yes, something had stopped them applying for one of these other forms of finance. This is the equivalent of 2% of all SMEs.

It is therefore now possible to provide a revised analysis of activity:

- The 'event' category can be expanded to include not just loans and overdrafts but those who applied for another form of finance (such as invoice discounting).
- The Would-be seeker category can be expanded to include those who wanted to apply for one of these other forms of finance but felt that something stopped them.

As the table below shows, the impact of including Would-be seekers of other forms of finance in a revised definition of Would-be seekers overall, was minimal. The proportion with an 'event' increased from 15% to 24% and the proportion of Happy non-seekers reduced accordingly:

Any events (overdraft and loan) – original and new definition		Original definition	Revised definition
YEQ4 17			
Unweighted base:		18,012	18,012
Have had an event		15%	24%
Would-be seekers		2%	2%
Happy non-seekers		83%	74%

Q115/209i/Q222b3 All SMEs

67% of those defined as a WBS under the original definition remained in this category under the new definition, while a third moved into the 'event' category because they had applied for another form of finance. 90% of HNS in the original definition remained in this category under the new definition, while 10% moved into the 'event' category and 1% into the WBS category.

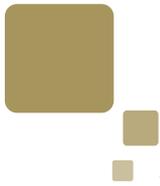


Analysis over time is limited at this stage, but is shown below in half year periods from when the question was first asked. In H2 2015 a quarter of SMEs (26%) reported a loan/overdraft or other borrowing event, decreasing to 20% for H2 2016, before recovering in 2017 (25% in H2). The proportion of would-be seekers remained limited and 7 in 10 or more SMEs in each period met the alternate definition of a Happy non-seeker of finance:

Any events – new definition	H2	H1	H2	H1	H2
Over time – all SMEs	2015	2016	2016	2017	2017
<i>Unweighted base:</i>	10,007	9000	9000	9007	9005
Have had an event	26%	22%	20%	23%	25%
Would-be seekers	4%	3%	2%	2%	2%
Happy non-seekers	70%	75%	78%	75%	73%

Q115/209i/Q222b3 All SMEs

This expanded definition has not been used in the analysis in the remainder of this chapter.



Barriers to overdraft or loan application

SMEs that were identified as Would-be seekers (i.e. they had wanted to apply for an overdraft/loan 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.

As described at the start of this chapter, this is now only asked once, across both loans and overdrafts, instead of separately for each form of finance. This limits the trend data available, but some analysis has been provided of the answers given by loan and overdraft Would-be seekers on a combined basis for 2015.

The reasons given YEQ4 2017 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 50% of all Would-be seekers YEQ4 2017 (the equivalent of 1% of all SMEs), and has become somewhat more of an issue over time (42% in 2015, 45% in 2016)

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 48% of all Would-be seekers YEQ4 2017 (the equivalent of 1% of all SMEs), back to levels seen in 2015 (having been 32% in 2016)

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 19% of all Would-be seekers YEQ4 2017 (the equivalent of <1% of all SMEs), and has become less of an issue over time (29% in 2015 and 26% in 2016)

Current economic climate – those that felt that it had not been the right time to borrow. This was given as a reason by 9% of all Would-be seekers YEQ4 2017 (the equivalent of <1% of all SMEs) and was somewhat less of an issue than previously seen (having been 11% in 2015 and 13% in 2016)



The table below shows the results for YEQ4 2017, and all the reasons for not applying for a loan or overdraft that are included in the summary categories above.

All reasons for not applying for loan or overdraft when wanted to

All Would-be seekers YEQ4 17 excluding DK	Total	0-9 emps	10-249 emps
Unweighted base:	280	203	77*
Issues with <u>process</u> of borrowing	48%	48%	55%
-Would be too much hassle	16%	16%	17%
-Thought would be too expensive	18%	18%	25%
-Would be asked for too much security	5%	5%	20%
-Too many terms and conditions	8%	8%	14%
-Did not want to go through process	11%	11%	20%
-Forms too hard to understand	8%	8%	5%
Discouraged (any)	50%	50%	36%
-Direct (put off by bank)	21%	21%	17%
-Indirect (thought would be turned down)	36%	37%	25%
Issues with <u>principle</u> of borrowing	19%	18%	31%
-Not lose control of business	8%	8%	13%
-Can raise personal funds if needed	8%	9%	4%
-Prefer other forms of finance	6%	6%	14%
-Go to family and friends	4%	4%	9%
Economic climate	9%	9%	14%
-Not the right time to apply	9%	9%	14%

Q210 All Would-be seekers SMEs that wished they had applied for an overdraft or a loan



An additional question was asked of those giving more than one reason, asking them to nominate the key reason for not applying. The remaining analysis focuses on the main reason given by Would-be seekers for not having applied for an overdraft or loan in the previous 12 months.

Discouragement and the process of borrowing have typically been the two main reasons given over time for not applying for a facility. The latest data shows discouragement as the main barrier for Would-be seekers with 0-9 employees whilst larger Would-be seekers were more likely to cite the process of borrowing:

Main reason for not applying for loan or overdraft when wanted to		0-9	10-249
All Would-be seekers YEQ4 17 excluding DK	Total	emps	emps
Unweighted base:	277	203	74*
Discouraged (any)	47%	47%	31%
-Direct (put off by bank)	17%	17%	14%
-Indirect (thought would be turned down)	30%	30%	17%
Issues with <u>process</u> of borrowing	29%	29%	38%
Issues with <u>principle</u> of borrowing	10%	10%	18%
Economic climate	5%	5%	6%
Other	4%	4%	10%

Q210a All SMEs that wished they had applied for an overdraft or a loan

Amongst all Would-be seekers with employees, the process of borrowing (40%) was slightly more of a barrier than discouragement (36%). Around 1 in 10 mentioned the principle of borrowing (11%) and just a few mentioned the current economic climate (2%).



Analysis by external risk rating showed discouragement was the main barrier for both groups:

Main reason for not applying for loan or overdraft when wanted to

All Would-be seekers YEQ4 17 excluding DK

	Total	Min/ Low	Avg/WTA
Unweighted base:	277	70*	167
Discouraged (any)	47%	57%	45%
-Direct (put off by bank)	17%	18%	16%
-Indirect (thought would be turned down)	30%	39%	29%
Issues with <u>process</u> of borrowing	29%	25%	36%
Issues with <u>principle</u> of borrowing	10%	10%	9%
Economic climate	5%	*	4%
None of these	9%	8%	6%

Q210a All SMEs that wished they had applied for an overdraft or a loan

Base sizes are currently too small for analysis by sector.



Previous analysis over time has tracked the reasons for not applying for an overdraft separately to the reasons for not applying for a loan. This makes comparisons with the new question more difficult.

The table below shows, on an annual basis from 2015, any mentions of each of the four

key themes by Would-be seekers, whether they had been put off applying for a loan or an overdraft. It compares the 2015 results (from the previous questions) to the results in 2016 and 2017 of the new, combined, question. This shows that discouragement remained the key barrier:

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

Q210 All SMEs that wished they had applied for an overdraft or a loan – question changed in 2016 and now excludes DK

In all instances, the two key reasons for not applying were discouragement (almost all of it indirect) which has increased slightly over time, and the process of borrowing, which has varied over time as a reason.



Would-be seekers constituted a minority of all SMEs (2%). The table below shows, for the main reasons given by Would-be seekers for YEQ4 2017, the equivalent proportion of all SMEs:

Main reason for not applying YEQ4 17	Would-be seekers	All SMEs
Unweighted base:	277	18,012
Discouraged (any)	47%	1%
-Direct (put off by bank)	17%	*
-Indirect (thought I would be turned down)	30%	1%
Issues with <u>process</u> of borrowing	29%	1%
Issues with <u>principle</u> of borrowing	10%	*
Economic climate	5%	*

Q210a All SMEs v all that wished they had applied for an overdraft or a loan

The equivalent of 1% of all SMEs reported having felt discouraged from applying for a loan or overdraft facility.



Would-be seekers - attitudes to finance

Earlier in this report a series of attitude statements about external finance showed key differences by size and age of business. These statements are repeated here (for H2 2017 so that the latest statements can also be included) analysed by recent borrowing behaviour, to provide additional insight into those who had not applied for finance.

The table below shows clear differences amongst the small group of Would-be seekers of finance, who were more ambitious for their business, happier to use finance to grow the business and not as willing to accept slower growth. Happy non-seekers on the other hand were less ambitious, less willing to take risks and less willing to use finance to grow:

Attitudes to finance H2 17 – all SMEs	Had an event	Would-be seeker	Happy non-seeker
<i>Unweighted base:</i>	2026	140	6839
Happy to use finance to help business grow	52%	61%	30%
Plans based on what can afford ourselves	81%	83%	82%
Accept slower growth rather than borrow	70%	61%	70%
Never think about using (more) external finance	54%	39%	52%
Fall in cost of credit would not encourage application	63%	45%	54%
We have a long term ambition to be a significantly bigger business	55%	66%	33%
As a business we are prepared to take risks to become more successful	56%	61%	39%

Q238a5 All SMEs



The effect of the Permanent non-borrower

As identified earlier in this report, 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 population of SMEs would reduce to around 2.7 million from 5 million.

28% of this group of SMEs excluding PNBs reported a borrowing event, compared to 15% of SMEs overall:

Any events (Overdraft and loan)

YEQ4 17 – all SMEs	All SMEs	All SMEs excl. PNB
Unweighted base:	18,012	11,940
Have had an event	15%	28%
Would-be seekers	2%	4%
Happy non-seekers	83%	67%

Q115/209 All SMEs

In this analysis, the proportion of Happy non-seekers declined to 67% but remained the largest group and 4% of these SMEs 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. Until Q2 2016 the proportion reporting an event had varied very little at around 30%. It then dropped to 23% in Q3 2016 and remained at this lower level for the rest of 2016 but was higher from Q2 2017 (28% in Q2 2017 and 32% in both Q3 and Q4 2017):

Any events (overdraft and loan)

All SMES, excluding PNBs									
– over time	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By date of interview	2015	2016	2016	2016	2016	2017	2017	2017	2017
Unweighted base:	3338	2854	3008	2755	3017	3011	3038	2890	3001
Have had an event	30%	26%	29%	23%	23%	21%	28%	32%	32%
Would-be seekers	9%	7%	4%	4%	3%	4%	4%	4%	4%
Happy non-seekers	61%	67%	67%	73%	73%	74%	68%	64%	64%

Q115/209 All SMEs excluding PNBs



Accepting the slight changes in definition over time, the proportion of SMEs (excluding the PNBs) reporting a borrowing event remained fairly stable between 2012 and 2015, before dropping to 25% for 2016 but then increasing again to 28% in 2017. The proportion of Would-be seekers of finance declined more steadily over time (15% to 4%). As a result, the proportion of Happy non-seekers increased from 51% of SMEs excluding the PNBs in 2012 to 70% in 2016 and 67% for 2017:

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

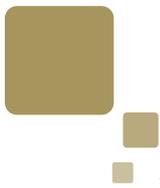
Q115/209 All SMEs excl PNBs

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 17	Would-be seekers	All SMEs excl. pnb
Unweighted base:	277	11,940
Discouraged (any)	47%	2%
-Direct (put off by bank)	17%	1%
-Indirect (thought I would be turned down)	30%	1%
Issues with <u>process</u> of borrowing	29%	1%
Issues with <u>principle</u> of borrowing	10%	*
Economic climate	5%	*

Q210a All SMEs v all that wished they had applied for an overdraft or a loan

The equivalent of 2% of all SMEs (excluding the PNBs) reported having felt discouraged from applying for a loan or overdraft facility.



The longer term impact of previous declines

Qualitative research conducted amongst discouraged 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.

5% 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 2017

By size of SME	The largest SMEs were somewhat less likely to report a previous decline: <ul style="list-style-type: none">• 5% of 0 employee SMEs• 5% of those with 1-9 employees• 4% of those with 10-49 employees• 2% of those with 50-249 employees Amongst SMEs with employees, 5% had previously been declined.
Excluding the PNBs	Once the PNBs were excluded, 8% of remaining SMEs had experienced a previous decline (compared to 1% of PNBs).
Risk rating	There was little difference by risk rating (3-5%)
Use of external finance	7% of those currently using external finance had experienced a previous decline, compared to 3% of those who had not used external finance in the past 5 years (and 7% 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, 71% said that this had made them more reluctant to apply for bank finance subsequently (the equivalent of 3% of all SMEs).

- The smaller the SME experiencing the decline, the more likely they were to say they had been made more reluctant (73% of 0 employee SMEs that had been declined compared to 47% of such SMEs with 50-249 employees).
- By external risk rating, those declined who had an average (73%) or worse than average risk rating (74%) were slightly more likely to have been made more reluctant than those with a minimal (64%) or low (55%) external risk rating.



The tables below explore this reluctance in more detail, across all SMEs. 3% of all SMEs had been made more reluctant by a previous decline, increasing to 5% once the PNBs were excluded. Larger SMEs remained somewhat less likely to have been impacted:

Impact of previous decline by bank

All SMEs YEQ4 17	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	18,012	3607	3804	5801	2800
More reluctant to apply after a decline	3%	3%	3%	2%	1%
Declined but not more reluctant	1%	1%	2%	1%	1%
Have not been declined in past	95%	95%	95%	96%	98%

Q240x and Q240y All SMEs

Impact of previous decline by bank

All SMEs YEQ4 17 excl PNBs	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	11,940	1812	3645	4265	2218
More reluctant to apply after a decline	5%	6%	5%	3%	1%
Declined but not more reluctant	2%	2%	2%	1%	1%
Have not been declined in past	92%	92%	92%	96%	98%

Q240x and Q240y All SMEs excluding PNBs



There was relatively little difference overall by risk rating:

Impact of previous decline by bank

All SMEs YEQ4 17	Total	Min	Low	Avge	Worse/ Avge
Unweighted base:	18,012	3086	5460	4186	3876
More reluctant to apply after a decline	3%	3%	2%	4%	4%
Declined but not more reluctant	1%	2%	2%	1%	1%
Have not been declined in past	95%	96%	97%	95%	95%

Q240x and Q240y All SMEs

Amongst those currently using external finance, 5% 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:

- Around half of those who had previously been made more reluctant by a decline were currently using any external finance, increasing to 7 in 10 of those who had also been declined but said that it had not made them more reluctant
- Those who had never been declined were less likely to be using external finance (37%) and more likely to qualify as a Happy non-seeker of finance (84%).
- 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 (15%) than either those not put off by their decline (6%) or those who had never been declined (2%).



Impact of previous decline by bank		Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
All SMEs YEQ4 17	All SMEs			
Unweighted base:	18,012	485	248	17,279
Using external finance	38%	55%	71%	37%
Have had an event	15%	35%	50%	14%
Would-be seekers	2%	15%	6%	2%
Happy non-seekers	83%	51%	44%	84%

Q240x and Q240y and Q115/209 All SMEs

To put these figures in context, less than 1% of all SMEs were Would-be seekers of finance who had been made more reluctant by a previous decline (the 15% group shown above).

The table below presents the same analysis once the PNBs were excluded. This increased the use of finance amongst those with no previous decline from 37% to 72%, while those made more reluctant by a previous decline remained more likely to be a would-be seeker of finance:

Impact of previous decline by bank		Made more reluctant by decline	Declined but not made more reluctant	Not previously declined
All SMEs YEQ4 17 excl PNBs	All SMEs			
Unweighted base:	11,940	433	216	11,291
Using external finance	72%	65%	83%	72%
Have had an event	28%	41%	59%	27%
Would-be seekers	4%	17%	7%	3%
Happy non-seekers	67%	42%	35%	70%

Q240x and Q240y and Q115/209 All SMEs excluding PNBs

A similar pattern was seen for future borrowing intentions. Excluding the PNBs, 22% of remaining SMEs were planning to apply for finance in the next 3 months. Amongst those who had been made more reluctant by a decline this proportion was higher (42%) and consequently they were less likely to meet the definition of a Future happy non-seeker of finance (36% v 59% of all SMEs excluding the PNBs).