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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

Type 1 borrowing events: 4% of all SMEs reported a Type 1 borrowing event YEQ2 2019, including the 2% who applied as a result of a need for finance and reported in the previous chapter

- SMEs with 1-9 or 10-49 employees were slightly more likely to have had a Type 1 event (both 6%) as were those already using finance (7%)

Automatically renewed overdrafts: 10% of all SMEs reported that their overdraft had been automatically renewed, increasing by size of SME from 9% of those with 0 employees to 19% of those with 50-249 employees

Any borrowing event: Overall, 14% of all SMEs reported a borrowing event YEQ2 2019 (4% a Type 1, 10% an overdraft renewal and 2% a Type2/3 where a facility is paid off early)

- Larger SMEs were more likely to have had such an event (13% of those with 0 employees to 24% of those with 50-249 employees) as were those already using finance (30% compared to 3% of those not using finance)
- There was no change in borrowing events overall between 2018 (14%) and H1 2019 (15%) but the largest SMEs were somewhat less likely to report an event in H1 2019 (22%) than in 2018 (32%) as were those already using finance (28% from 34%)

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

- Chapter 7 looked at whether SMEs had 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 analysis is by interview date.
- This chapter provides an overview of all borrowing ‘events’ (including Type 1a events), and the types of SME more or less likely to have had such events. This analysis is also by interview date.
- Chapter 9 looks at all the borrowing events reported in more detail, by interview date.
- Chapter 10 looks specifically at the Type 1 borrowing events, the final outcome of the applications made and the impact of the application on the SME. This analysis is based on all applications made between Q3 2017 and Q2 2019 and reported since the questionnaire changed in Q1 2018.

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 events are summarised below for YEQ2 2019 and show the continuing low levels of applications for finance amongst SMEs. YEQ2 2019, with the new questions, 14% of SMEs reported any borrowing event, with 4% reporting a Type 1 event, unchanged from YEQ4 2018:

Borrowing events in the previous 12 months		0	1-9	10-49	50-249
YEQ2 19 all SMEs	Total	emp	emps	emps	emps
Unweighted base:	18,002	3602	5800	5800	2800
Type 1 event:	4%	3%	6%	6%	3%
1a: New application re need for funding	2%	2%	4%	4%	2%
1b: New/renewed application for specific finance	2%	1%	2%	3%	1%
1c: Any other new/renewed application	*	*	*	*	*
Type 2/3: Cancel/pay off by bank or SME	2%	2%	3%	3%	2%
Automatic renewal of an overdraft	10%	9%	12%	12%	19%
Any borrowing event	14%	13%	18%	20%	24%

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.

BORROWING EVENTS BY KEY DEMOGRAPHICS

Analysis by risk rating showed that those with worse than average rating were somewhat less likely to report a borrowing event:

Borrowing events in the previous 12 months

YEQ2 19 all SMEs with risk rating	Total	Min	Low	Avg	Worse /Avg
Unweighted base:	18,002	3291	5378	3913	3715
Type 1 event	4%	4%	4%	4%	3%
1a: New application re need for funding	2%	3%	2%	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	2%	2%	2%	2%	2%
Automatic renewal of an overdraft	10%	9%	12%	11%	8%
Any borrowing event	14%	15%	16%	15%	13%

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 borrowing event, along with those in Wholesale/Retail:

Borrowing events in last 12 months

YEQ2 19 – all SMES	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop/ Bus	Hlth SWrk	Other Comm
Unweighted base:	1200	1500	3200	1800	1200	2000	3600	1502	2000
Type 1 event	4%	3%	3%	7%	4%	3%	3%	2%	4%
1a: re need for funding	3%	1%	2%	4%	3%	2%	2%	2%	3%
1b: re specific finance	1%	2%	1%	4%	2%	1%	1%	1%	2%
1c: Any other	*	*	*	-	*	*	*	-	-
Type 2/3	4%	2%	2%	3%	3%	2%	2%	1%	2%
Auto renewal	14%	10%	10%	13%	10%	10%	8%	7%	11%
Any borrowing event	19%	14%	13%	20%	15%	14%	12%	10%	15%

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

Analysis by age of business showed that 17% of Starts reported a borrowing event, compared to 11-15% of older SMEs. This was due to Starts being slightly more likely to report the automatic renewal of an overdraft facility:

Borrowing events in the previous 12 months		2-5	6-9	10-15	15
YEQ2 19 all SMEs	Starts	yrs	yrs	yrs	yrs+
Unweighted base:	1815	1613	2152	2955	9467
Type 1 event	3%	4%	3%	3%	4%
1a: New application re need for funding	1%	3%	2%	2%	2%
1b: New/renewed application for specific finance	1%	2%	2%	2%	2%
1c: Any other new/renewed application	*	*	*	*	*
Type 2/3: Cancel/pay off by bank or SME	3%	2%	2%	2%	2%
Automatic renewal of an overdraft	12%	8%	7%	10%	10%
Any borrowing event	17%	12%	11%	15%	15%

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 (30%) compared to 3% of those not using finance. Excluding the 44% of SMEs who are PNBs from the analysis increased the proportion of remaining SMEs with a borrowing event to 25%, with 6% having a Type 1 event:

Borrowing events in the previous 12 months		Use	No	All excl
YEQ2 19 all SMEs	Total	finance	finance	PNB
Unweighted base:	18,002	9957	8045	11753
Type 1 event	4%	7%	1%	6%
1a: New application re need for funding	2%	4%	1%	4%
1b: New/renewed application for specific finance	2%	3%	1%	3%
1c: Any other new/renewed application	*	*	-	*
Type 2/3: Cancel/pay off by bank or SME	2%	2%	1%	3%
Automatic renewal of an overdraft	10%	23%	-	17%
Any borrowing event	14%	30%	3%	25%

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 were more likely to report such an event, as were those in Agriculture and Wholesale/Retail and those currently using external finance. Once the PNBs were excluded, around a quarter of remaining SMEs reported a borrowing event.

Whilst the overall borrowing event figure has changed little between 2018 and H1 2019, SMEs with 50-249 employees were somewhat less likely to report an event in H1 2019, as were those with a minimal risk rating or in the Health sector. Meanwhile those in Wholesale/Retail have become somewhat more likely to report a borrowing event:

Had any borrowing event		
By date of interview		H1
Over time – row percentages	2018	2019
All SMEs	14%	15%
0 employee	13%	13%
1-9 employees	17%	18%
10-49 employees	21%	21%
50-249 employees	32%	22%
Minimal external risk rating	17%	13%
Low external risk rating	16%	17%
Average external risk rating	15%	15%
Worse than average external risk rating	12%	15%
Agriculture	19%	20%
Manufacturing	14%	15%
Construction	13%	14%
Wholesale/Retail	18%	22%
Hotels & Restaurants	14%	16%
Transport	15%	14%
Property/Business Services etc.	12%	13%
Health	15%	7%
Other Community	15%	16%
All SMEs excluding Permanent non-borrowers	27%	25%
Current using external finance	34%	28%
Not currently using external finance	3%	3%