

10 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

11% of SMEs reported a borrowing event in 2022. Amongst the remaining SMEs, as in previous years, there were very few ‘Would-be seekers’ of finance and most met the definition of a ‘Happy non-seeker’:

- 11% of SMEs in 2022 reported a borrowing ‘event’. As detailed in an earlier chapter, this was somewhat lower than typically seen pre-pandemic (13-17% to 2019) and notably lower than 2020 and 2021 when 16-17% of SMEs had a borrowing event.
- Would-be seekers are SMEs that wanted to apply for finance but something stopped them. They make up a small minority of SMEs and this was also true in 2022 (3%) with little variation by other demographics.
- The remaining SMEs are those that had not sought finance nor wanted to, the Happy non-seekers. They continued to make up the majority of SMEs in 2022 (87%). Whilst they had not sought (more) finance, 30% of them were using external finance, in line with recent years.

4 in 10 Would-be seekers were put off by the process of borrowing, while 3 in 10 had felt discouraged from applying:

- In 2022, 41% of Would-be seekers said they had been put off by the process of borrowing, typically the hassle and expense and this has been the main reason cited over the past few years, along with discouragement.
- 29% had felt discouraged from applying for finance, primarily because they assumed they would be turned down (23%) rather than the bank putting them off in some way (6%).
- A new code ‘We are already borrowing as much as we feel we can’ was added part way through 2022 and so is not included in the analysis here. Early indications are that 6% of WBS chose it as their main reason.

Attitudinally, Would-be seekers were more likely to meet the definition of an Ambitious risk taker but were also concerned about accessing finance and the amount of debt the business had:

- 50% of Would-be seekers of finance met the definition of an ‘Ambitious Risk Taker’, an SME that is looking to be a bigger business and is prepared to take risks to succeed, compared to 35% of those reporting a borrowing event and 26% of Happy non-seekers.
- Would-be seekers were also the most likely to agree that they felt it would be difficult for a business like theirs to get finance (67% v 50% that had a borrowing event and 28% of HNS) while a quarter of them were worried about the amount of debt their business had (in line with those that had a borrowing event and compared to 7% of HNS).

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

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. Note that a proportion of Happy non-seekers use finance, as the metric is defined on borrowing ‘event’ not use of finance.

Where applicable, data is shown over time, accepting the changes made to the definitions in Q1 2018. Note too that an application for pandemic related funding at that specific question is not included within the “Had an event” definition, so as to keep comparability with pre Covid metrics. As time moves on, it becomes less likely that a pandemic borrowing event happened within the 12 months prior to interview and so the analysis in this chapter has not been adjusted to take such borrowing into account in any way.

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 changed slightly from Q1 2018, data is still comparable.

The proportion of SMEs reporting an event was 9% in Q4 2022, somewhat lower than in other recent quarters (and 11% for 2022 as a whole). Most SMEs continued to meet the definition of a Happy non-seeker of finance (88% in Q4 2022, somewhat higher than pre-pandemic levels), while the proportion of Would-be seekers remained low (3% in Q4 2022):

Any events

Over time – all SMEs By date of interview	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Unweighted base:	4252	4263	4250	3888	4085	4250	4250	4250	4252
Have had an event	19%	20%	19%	15%	14%	14%	12%	9%	9%
• <i>New or (auto) renewed facility</i>	18%	18%	18%	13%	11%	13%	10%	8%	7%
• <i>Type 2 or 3 events</i>	2%	3%	2%	2%	4%	2%	2%	1%	2%
Would-be seekers	3%	4%	3%	5%	4%	3%	2%	2%	3%
Happy non-seekers	77%	76%	78%	81%	82%	83%	86%	89%	88%

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, not on use of finance per se).

- From 2015 to 2018 around a quarter of Happy non-seekers had been using external finance, but it has typically been somewhat higher since at 30-38% (with the exception of 2020 at 27%).
- In 2022, 30% of Happy non-seekers were using external finance, with 20% using core finance and 17% other forms of finance.

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

In 2022, reflecting their current lower use of external finance, the largest SMEs with 50-249 employees were the least likely to have had an event and the most likely to be a Happy non-seeker of finance:

Any events		0	1-9	10-49	50-249
YEQ4 22 All SMES	Total	emp	emps	emps	emps
Unweighted base:	17,002	3279	5802	5668	2253
Have had an event	11%	11%	12%	13%	7%
Would-be seekers	3%	3%	2%	1%	*
Happy non-seekers	87%	87%	86%	86%	93%

Pastfin All SMEs

Overall, 12% of SMEs with employees had experienced a borrowing event (12%). 2% met the definition of a Would-be seeker of finance, with the largest group, as overall, the Happy non-seekers (86%).

There was relatively little variation by risk rating, with the majority of SMEs in each category meeting the definition of a Happy non-seeker. Those with a worse than average risk rating were the most likely to meet the definition of a Would-be seeker of finance, but it was still a small minority (4%) of such SMEs:

Any events					Worse/ Avge
YEQ4 22 All SMEs with a risk rating	Total	Min	Low	Avge	Avge
Unweighted base:	17,002	3390	4804	4454	3143
Have had an event	11%	8%	13%	10%	12%
Would-be seekers	3%	1%	2%	2%	4%
Happy non-seekers	87%	91%	86%	88%	85%

Pastfin All SMEs

The proportion of SMEs reporting a borrowing event ranged by sector from 8% in Property/Business services to 16% of those in the Other Community sector. The proportion of Would-be seekers varied relatively little by sector (2-5%) and in all sectors the majority had been Happy non-seekers of finance, including 90% in the Property/Business services sector :

Any events

All SMEs YEQ4 22	Agric	Mfg	Constr	Whle Retail	Hotel Rest	Trans	Prop / Bus	Hlth SWrk	Other Comm
Unweighted base:	869	2224	2724	2158	1049	1485	3506	1029	1958
Have had an event	12%	12%	11%	11%	11%	11%	8%	10%	16%
Would-be seekers	2%	3%	2%	2%	2%	2%	2%	5%	4%
Happy non-seekers	86%	84%	87%	87%	86%	87%	90%	85%	80%

Pastfin All SMEs

Analysis by age of SMEs showed that, as overall, most SMEs had been a Happy non-seeker of finance. Starts were somewhat less likely to have had an 'event':

Any events

All SMEs YEQ4 22	Starts	2-5 yrs	6-9 yrs	10-15 yrs	15+ yrs
Unweighted base:	743	1297	1584	3323	10,055
Have had an event	6%	10%	12%	13%	12%
Would-be seekers	4%	5%	4%	2%	1%
Happy non-seekers	90%	85%	85%	85%	86%

Pastfin All SMEs

Those currently using external finance were no more or less likely to have been a Would-be seeker (3% v 2% not using external finance) but remained much more likely to have had an event (25% v 3% of SMEs not using external finance).

ANALYSIS OVER TIME

The table below takes a longer-term annual view back to 2015. The proportion of Happy non-seekers of finance rose steadily to 85% in 2019, was slightly lower in 2021 (79%) due to more borrowing events and Would-be seekers, but back to previous levels in 2022:

Any events								
Over time – all SMEs	2015	2016	2017	2018	2019	2020	2021	2022
<i>Unweighted base:</i>	<i>20,046</i>	<i>18,000</i>	<i>18,102</i>	<i>18,002</i>	<i>18,000</i>	<i>17,768</i>	<i>16,486</i>	<i>17,002</i>
Have had an event	17%	13%	15%	14%	13%	16%	17%	11%
Would-be seekers	3%	2%	2%	2%	1%	2%	4%	3%
Happy non-seekers	80%	84%	83%	83%	85%	82%	79%	87%

Pastfin All SMEs

Analysis of SMEs with employees showed that

- Up to 2019 they became less likely to have had an event (from 33% in 2012 to 17% in 2019). Events were then stable for 2020 and 2021 at 22%, before a marked decline in 2022 to 12%.
- The proportion of Would-be seekers of finance declined to 2019 (8% to 1%) and has been stable since (2% in 2022).
- The marked drop in events and little change in Would-be seekers resulted in a marked increase in Happy non-seekers in 2022 (to 86%).

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, the proportion declined from 10% of all SMEs in 2012 to 2% in 2016 and has remained broadly stable since (3% in 2022). 0 employee SMEs and those with a worse than average risk rating have typically been more likely to have been a Would-be seeker of finance:

Would-be seekers

Over time – row percentages

By date of interview

	2015	2016	2017	2018	2019	2020	2021	2022
All SMEs	3%	2%	2%	2%	1%	2%	4%	3%
0 employee	4%	2%	2%	2%	1%	2%	5%	3%
1-9 employees	3%	3%	2%	2%	2%	2%	3%	2%
10-49 employees	2%	1%	1%	1%	1%	1%	1%	1%
50-249 employees	1%	1%	*	1%	1%	*	*	*
Minimal external risk rating	1%	2%	1%	1%	1%	1%	1%	1%
Low external risk rating	2%	1%	1%	1%	1%	1%	1%	2%
Average external risk rating	3%	2%	2%	1%	2%	2%	3%	2%
Worse than average external risk rating	4%	3%	3%	2%	2%	2%	7%	4%
Agriculture	3%	2%	2%	1%	1%	2%	2%	2%
Manufacturing	4%	3%	2%	2%	2%	3%	5%	3%
Construction	3%	2%	2%	2%	1%	1%	3%	2%
Wholesale/Retail	4%	3%	3%	1%	1%	2%	4%	2%
Hotels & Restaurants	4%	4%	3%	3%	3%	2%	2%	2%
Transport	4%	3%	3%	1%	2%	2%	4%	2%
Property/Business Services etc.	3%	2%	3%	2%	1%	2%	3%	2%
Health	2%	1%	1%	2%	1%	3%	7%	5%
Other Community	5%	2%	2%	2%	2%	3%	7%	4%
All excluding PNBs	6%	4%	4%	3%	2%	3%	7%	5%

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, and respondents could initially nominate as many reasons as they wished for not having applied when they wanted to.

The reasons given YEQ4 2022 (excluding DK answers) were:

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 47% of all Would-be seekers YEQ4 2022, back in line with 2020 but still slightly lower than in 2019 (52%).

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 32% of all Would-be seekers YEQ4 2022, little changed from 2018 (26-34%) and still less of an issue than in earlier years (50% in 2017). From Q3 2022, an additional answer option was added 'We are already borrowing as much as we feel we can' and this will be included in this net code in future reports.

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 32% of all Would-be seekers YEQ4 2022, stable since 2020.

Current economic climate – those that felt that it had not been the right time to borrow. This was given as a reason by 17% of all Would-be seekers YEQ4 2022, slightly higher than in 2020-2021 (11-14%).

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 2016, 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	2016	2017	2018	2019	2020	2021	2022
<i>Unweighted base:</i>	318	277	225	190	221	279	219
Discouraged (any)	45%	50%	29%	26%	29%	34%	32%
Issues with <u>process</u> of borrowing	32%	48%	37%	52%	46%	42%	47%
Issues with <u>principle</u> of borrowing	26%	19%	29%	37%	28%	32%	32%
Economic climate	13%	9%	19%	17%	11%	14%	17%

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

From 2015 to 2017, the two most mentioned reasons for not applying were discouragement (almost all of it indirect) and the process of borrowing. In 2018, discouragement, the process of borrowing and the principle of borrowing were mentioned more equally, then from 2019 to date the process of borrowing has been most mentioned by Would-be seekers, with discouragement and the principle of borrowing in equal second place.

The table below shows the results for YEQ4 2022, 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 22 excluding DK	All reasons	Main reason
Unweighted base:	219	200
Issues with <u>process</u> of borrowing	47%	41%
-Would be too much hassle	25%	18%
-Thought would be too expensive	21%	14%
-Would be asked for too much security	3%	*
-Too many terms and conditions	12%	6%
-Did not want to go through process	6%	2%
-Forms too hard to understand	3%	*
Discouraged (any)	32%	29%
-Direct (put off by bank)	10%	6%
-Indirect (thought would be turned down)	24%	23%
Issues with <u>principle</u> of borrowing	32%	23%
-Not lose control of business	9%	2%
-Can raise personal funds if needed	23%	16%
-Prefer other forms of finance	6%	4%
-Go to family and friends	6%	1%
Economic climate	17%	7%
-Not the right time to apply	17%	7%

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

Analysis of the main reasons for not applying for finance showed that:

- 4 in 10 (41%) gave the process of borrowing as their main reason for not seeking finance, specifically the hassle or expense.
- 3 in 10 gave discouragement as their main reason (29%), almost all of it indirect where the SME assumes they will not be successful and so does not apply.
- 2 in 10 Would-be seekers (23%) cited the principle of borrowing as their main reason.
- 7% cited the economic climate, down from 17% in 2018 which remains the highest level recorded to date. As reported later though, this remained lower than when SMEs looked forward, where 8 in 10 Future would-be seekers gave the economic climate (or their performance in that climate) as the reason why they wouldn't be applying for finance in future.

From Q3 2022, an additional answer option was added 'We are already borrowing as much as we feel we can'. In H2 2022, 12% of Would-be seekers gave this as a reason for not having applied for finance and 6% gave it as their main reason. If added to the net code for 'Discouragement', this would increase the percentage giving it as their main reason for not applying to 36% in H2 2022, 2022, bringing it more in line with the process of borrowing.

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 2022 analysed by recent borrowing behaviour, to provide additional insight into those who had, or had not, applied for finance.

The table below shows:

- Uncertainty about the future decreased from 72% of those that reported a borrowing event to 61% of Happy non-seekers. Happy non-seekers were also less likely to be happy to use finance to grow or to say an increase in the cost of credit would discourage an application and more likely to say that they never think about using (more) finance.
- Would-be seekers were more likely than their peers to agree that they were prepared to take risks to be successful (68%) and/or that they had a long term ambition to be significantly bigger (61%). As a result they were more likely to meet the definition of an 'Ambitious risk taker' (50%), compared to 35% of those that reported a borrowing event and 26% of Happy non-seekers.
- Would-be seekers were also the most likely to say they felt it would be difficult for a business like theirs to get finance (67%).

Attitudes to finance YEQ4 22 – all SMEs	Had an event	Would-be seeker	Happy non-seeker
Unweighted base:	2052	226	14,724
Plans based on what can afford ourselves	80%	84%	86%
Accept slower growth rather than borrow	78%	77%	79%
Because the future feels uncertain, we are being very cautious with our plans for the business	72%	67%	61%
Never think about using (more) external finance	46%	51%	54%
Increase in cost of credit would discourage application	66%	65%	48%
As a business we are prepared to take risks to become more successful	54%	68%	44%
We have a long term ambition to be a significantly bigger business	49%	61%	38%
My impression is that it is quite difficult for businesses like ours to get external finance	50%	67%	28%
Happy to use finance to help business grow	50%	52%	28%
We are very worried about the amount of debt the business has	22%	24%	7%

Q96 (238a5) All SMEs

In Q3 2021, a new attitude statement was added “We are very worried about the amount of debt the business has”. For 2022, 9% of all SMEs agreed with this statement and analysis by recent events showed that those who had reported a borrowing event remained more likely to agree with this statement (22%), now joined by Would-be seekers (24%) while Happy non-seekers were un-changed on 7%.

THE EFFECT OF THE PERMANENT NON-BORROWER

In 2022, 48% of all SMEs met the definition of a Permanent non-borrower. 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 3 million from just under 6 million.

21% of this group of SMEs excluding PNBs reported a borrowing event, compared to 11% of SMEs overall:

Any events		All SMEs	All SMEs excl. PNB
YEQ4 22 – all SMES			
Unweighted base:		17,002	10,034
Have had an event		11%	21%
Would-be seekers		3%	5%
Happy non-seekers		87%	74%

Pastfin All SMEs

The proportion of Happy non-seekers reduced from 87% to 74% of non-PNBs but remained the largest group and 5% met the definition of a Would-be seeker, compared to 3% of all SMEs.

The table below shows the pattern over recent quarters, once the PNBs had been excluded. During 2022 there was a decline in the proportion reporting a borrowing event from 26% in Q1 to 17% in Q4, one of the lowest seen on the SME Finance Monitor to date:

Any events										
All SMES, excluding PNBs – over time	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
By date of interview	20	21	21	21	21	22	22	22	22	
Unweighted base:	3089	2951	2832	2501	2490	2561	2494	2425	2554	
Have had an event	29%	31%	31%	24%	24%	26%	23%	18%	17%	
Would-be seekers	5%	6%	5%	8%	8%	5%	4%	4%	6%	
Happy non-seekers	66%	62%	64%	68%	68%	69%	73%	78%	76%	

Pastfin All SMEs excluding PNBs

On an annual basis, the proportion of SMEs (excluding the PNBs) reporting a borrowing event has been fairly stable. The exceptions have been 2015 (32%) and the lower proportions seen more recently in 2019 (22%) and 2022 (21%).

The proportion of Would-be seekers declined significantly 2012-16 (15% to 4%) and has remained fairly stable since (5% in 2022). As a result, the proportion of Happy non-seekers, which has been around 7 in 10 since 2016, was back in line with 2019 at 74%.

Any events								
Over time –								
excl PNBs	2015	2016	2017	2018	2019	2020	2021	2022
<i>Unweighted base:</i>	13,011	11,634	11,940	11,294	12,147	12,010	10,774	10,034
Have had an event	32%	25%	28%	27%	22%	28%	28%	21%
Would-be seekers	6%	4%	4%	3%	2%	3%	7%	5%
Happy non-seekers	62%	70%	67%	68%	74%	69%	66%	74%

Pastfin All SMEs excl PNBs

THE LONGER TERM IMPACT OF PREVIOUS DECLINES

Previous 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 several years before. In order to understand the impact of such declines on the wider SME population, a question was added to the SME Finance Monitor from Q1 2014, which has remained unchanged.

This question was asked in Q1 2021 and Q3 2022 but rested for the remainder of those years to make space for pandemic related questions. This limits the analysis it is possible to report here, compared to previous years when the questions were asked in every quarter.

- In 2020, 4% of SMEs had reported a declined banking facility at some time in the past and this has changed very little since. In Q1 2021 6% reported such a decline and in Q3 2022 it was 4%.
- There remained little difference by size or risk rating. In Q3 2022, 4% of 0 employee and 1-9 employee SMEs reported such a decline, compared to 2% of those with 10-49 employees and less than 1% of those with 50-249 employees, Meanwhile those with a minimal risk rating were less likely to have had a decline (2%) than other risk ratings (4-6%).
- Amongst SMEs who had experienced a previous decline, 69% in Q3 2022 said that this had made them more reluctant to apply for bank finance subsequently (the equivalent of 1% of all SMEs).