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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

1 in 10 SMEs reported any borrowing event in 2022:

- 11% of SMEs reported any borrowing event, with 5% reporting an application for new or renewed funding, 5% an overdraft that was automatically renewed and 2% a facility was cancelled or paid off early.
- With the exception of the largest SMEs (where 7% had a borrowing event), there was little difference by size of SMEs (11-13%). By sector there was little difference (10-12%) with the exception of those in the Property/Business Services sector (8%) and the Other Community sector (16%) and little difference by age of SME (10-13%) with the exception of Starts (6%).

At 11%, the proportion of SMS with a borrowing event in 2022 is lower than previously seen:

- In 2018-2019, 13-14% of SMEs reported a borrowing event, increasing to 16-17% during the pandemic when Government backed finance was available.
- The decline 2021 to 2022 (17% to 11%) was seen more markedly for those with 1-9 and 10-49 employees (from 22% in 2021 to 12% and 13% respectively in 2022) and those in Transport (22% to 11%).

Applications for new/renewed facilities remained most likely to be for a bank loan, while over half of those with an overdraft said that it had been automatically renewed:

- 63% of those applying for a new or renewed facility said that it involved a bank loan, while 24% involved a bank overdraft.
- 56% of all SMEs with an overdraft said that it had been automatically renewed and this was more likely to be the case for smaller SMEs with an overdraft and those in Health or the Other Community sector. This is the equivalent of 5% of all SMEs having an overdraft automatically renewed.

This is the second of three 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 each of these events. This analysis is also by interview date.
- Chapter 9 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 primarily based on all applications made between Q3 2021 and Q4 2022 and reported in interviews conducted in the same period (application data for Q2 2022 onwards is interim at this stage).

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

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.

Note that applications for a Government backed loan were not prompted for specifically at this stage, but were included by some SMEs (but not all who took Government backed funding). Analysis of Government backed funding specifically is provided in the opening chapter of this report and also in the first of the finance chapters (Chapter 5) in terms of its impact on overall use of external finance. As these applications are increasingly less likely to have taken place within the 12 months prior to interview, no other adjustments have been made to this section of the report.

BORROWING EVENTS IN 12 MONTHS PRIOR TO INTERVIEW

These events are summarised below for YEQ4 2022 and show 11% of SMEs reporting any borrowing event (down from 17% in 2020 and 2021, and slightly lower than the 13% in 2019). Over the course of 2022 as use of, and need for, external finance declined somewhat, so too did the proportion reporting any borrowing event (from 14% in Q1 to 9% in Q3 and Q4):

Borrowing events in the previous 12 months		0	1-9	10-49	50-249
YEQ4 22 all SMEs	Total	emp	emps	emps	emps
Unweighted base:	17,002	3279	5802	5668	2253
Type 1 event:	5%	4%	5%	5%	3%
1a: New application re need for funding	3%	3%	4%	4%	3%
1b: New/renewed application for specific finance	1%	1%	1%	1%	*
1c: Any other new/renewed application	*	*	*	*	*
Type 2/3: Cancel/pay off by bank or SME	2%	2%	2%	2%	1%
Automatic renewal of an overdraft	5%	5%	6%	7%	3%
Any borrowing event	11%	11%	12%	13%	7%

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

SMEs with 1-9 or 10-49 employees remained slightly more likely than their peers to report a borrowing event, with higher proportions reporting a Type 1 event for new/renewed finance and/or the automatic renewal of an overdraft facility.

BORROWING EVENTS BY KEY DEMOGRAPHICS

Analysis by risk rating showed limited variation. Those with a minimal risk rating were slightly less likely to report a borrowing event of some kind:

Borrowing events in the previous 12 months

YEQ4 22 all SMEs with risk rating	Total	Min	Low	Avg	Worse /Avg
Unweighted base:	17,002	3390	4804	4454	3143
Type 1 event	5%	3%	5%	5%	5%
1a: New application re need for funding	3%	1%	4%	4%	4%
1b: New/renewed application for specific finance	1%	2%	1%	1%	2%
1c: Any other new/renewed application	*	*	*	*	*
Type 2/3: Cancel/pay off by bank or SME	2%	1%	2%	2%	2%
Automatic renewal of an overdraft	5%	4%	7%	5%	5%
Any borrowing event	11%	8%	13%	10%	12%

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

Those in the Other Community sector were more likely to have had any borrowing event (16%), and specifically a Type 1 event:

Borrowing events in last 12 months

YEQ4 22 – all SMES	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
Type 1 event	3%	4%	4%	4%	6%	6%	4%	2%	8%
1a: re need for funding	2%	3%	3%	3%	4%	4%	3%	1%	6%
1b: re specific finance	1%	1%	1%	1%	2%	2%	1%	1%	2%
1c: Any other	-	*	*	-	*	-	*	-	*
Type 2/3	2%	2%	2%	2%	2%	2%	1%	1%	2%
Auto renewal	8%	7%	6%	6%	3%	4%	4%	8%	6%
Any borrowing event	12%	12%	11%	11%	11%	11%	8%	10%	16%

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

Analysis by age of business showed limited differences with the exception of Starts (6% reporting a borrowing event v 10-13% of other age groups):

Borrowing events in the previous 12 months		2-5	6-9	10-15	15
YEQ4 22 all SMEs	Starts	yrs	yrs	yrs	yrs+
Unweighted base:	743	1297	1584	3323	10,055
Type 1 event	4%	5%	3%	7%	4%
1a: New application re need for funding	3%	4%	3%	6%	3%
1b: New/renewed application for specific finance	1%	2%	1%	1%	2%
1c: Any other new/renewed application	-	-	*	*	*
Type 2/3: Cancel/pay off by bank or SME	1%	2%	3%	2%	2%
Automatic renewal of an overdraft	2%	4%	6%	5%	7%
Any borrowing event	6%	10%	12%	13%	12%

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

Those using finance were much more likely to report a borrowing event (25%) than those not using finance (3%). Excluding the PNBs from the analysis increased the proportion of remaining SMEs with a borrowing event to 21%, with 9% having a Type 1 event:

Borrowing events in the previous 12 months		Use	No	All excl
YEQ4 22 all SMEs	Total	finance	finance	PNB
Unweighted base:	17,002	7816	9186	10,034
Type 1 event	5%	9%	2%	9%
1a: New application re need for funding	3%	7%	2%	7%
1b: New/renewed application for specific finance	1%	3%	*	3%
1c: Any other new/renewed application	*	*	*	*
Type 2/3: Cancel/pay off by bank or SME	2%	3%	1%	3%
Automatic renewal of an overdraft	5%	15%	-	10%
Any borrowing event	11%	25%	3%	21%

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 over time by key demographics, with a slight increase overall from 14% in 2018 to 17% in 2021, followed by a decline to 11% in 2022. All sizes of SMEs were less likely to report a borrowing event in 2022, notably those with 1-9 or 10-49 employees, and the proportion of those with a minimal risk rating reporting an event was the lowest seen during this period (8%). There were also some marked declines by sector:

Had any borrowing event					
By date of interview					
Over time – row percentages	2018	2019	2020	2021	2022
All SMEs	14%	13%	16%	17%	11%
0 employee	13%	12%	15%	15%	11%
1-9 employees	17%	17%	21%	22%	12%
10-49 employees	21%	21%	24%	22%	13%
50-249 employees	32%	21%	17%	11%	7%
Minimal external risk rating	17%	13%	16%	15%	8%
Low external risk rating	16%	15%	18%	19%	13%
Average external risk rating	15%	13%	16%	16%	10%
Worse than average external risk rating	12%	13%	16%	16%	12%
Agriculture	19%	20%	22%	21%	12%
Manufacturing	14%	14%	16%	19%	12%
Construction	13%	11%	15%	16%	11%
Wholesale/Retail	18%	19%	18%	19%	11%
Hotels & Restaurants	14%	14%	20%	20%	11%
Transport	15%	14%	20%	22%	11%
Property/Business Services etc.	12%	11%	15%	15%	8%
Health	15%	11%	12%	12%	10%
Other Community	15%	14%	17%	16%	16%
All SMEs excluding Permanent non-borrowers	27%	22%	28%	28%	21%
Current using external finance	34%	26%	37%	34%	25%
Not currently using external finance	3%	3%	5%	4%	3%

BORROWING EVENTS IN PAST 12 MONTHS – BY EVENT TYPE

11% of SMEs reported any form of borrowing event in the previous 12 months, with the most common a Type 1 event (a new facility or renewal, reported by 5% of all SMEs).

In previous reports, Type 1a and 1b events have been shown separately at this stage. However, with limited base sizes, and success rates being reported across all Type 1a/b events in the next chapter, these two events have been combined for the analysis shown below.

TYPE 1A/B APPLICATIONS FOR NEW/RENEWED FUNDING

5% of all SMEs reported making an application for new/renewed funding whether as a result of a need for funding (3%) or some other new/renewed application (2%). 8 in 10 applicants only applied for one product and, as the table below shows, most of these applications were for a loan:

Main types of finance applied for YEQ4 22 – all SMEs with Type 1a/b event	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
Unweighted base:	769	127	279	288	75*
Bank Loan	63%	64%	58%	58%	88%
Bank Overdraft	24%	26%	20%	13%	9%
Grants	19%	19%	21%	16%	3%
Leasing/hire purchase	6%	4%	10%	15%	1%
Other loan	5%	5%	6%	4%	-
Credit cards	4%	4%	7%	4%	1%
Other overdraft	2%	2%	2%	1%	-
Commercial mortgage	1%	*	5%	4%	*
Invoice finance (any)	1%	*	2%	3%	1%

Q33/52s NEW All SMEs with a Type1a/b application

The next chapter provides more detail on these applications, at an application rather than applicant level.

TYPE 2 AND TYPE 3 EVENTS

All SMEs were asked whether either of the following had happened to them:

- A bank sought to cancel or renegotiate a facility before it was due to be repaid.
- The SME decided to cancel or renegotiate a facility before it was due to be repaid.

In previous SME Finance Monitor reports, 1-2% of SMEs reported such an event.

As the table below shows, 2% of SMEs reported any of these events YEQ4 2022, with little variation by size of SME:

Type 2/3 events in the previous 12 months		0	1-9	10-49	50-249
YEQ4 22 all SMEs	Total	emp	emps	emps	emps
Unweighted base:	17,002	3279	5802	5668	2253
Type 2/3: Cancel/pay off by bank or SME	2%	2%	2%	2%	1%
• Bank sought to cancel/renegotiate	1%	1%	1%	1%	*
• SME sought to cancel/renegotiate	1%	1%	1%	1%	1%
No Type 2/3 event	98%	98%	98%	98%	99%

Q75 (25/26) All SMEs – new definition from Q1 2018

There was no variation by risk rating (1-2%) or sector (1-2%). Excluding the PNBs increased the proportion of Type 2/3 events to 3% of remaining SMEs, 1% where the bank looked to make a change and 2% where the SME did so.

AUTOMATIC RENEWAL OF OVERDRAFTS

Overdrafts are usually granted for a period of 12 months or less, but it was apparent in early Monitor reports that not all those with an overdraft facility went on to report having had an overdraft ‘event’ in the 12 months prior to interview.

To explore this further, such SMEs were asked whether, in the previous 12 months, their bank had automatically renewed their overdraft facility at the same level, for a further period, without their having to do anything. This question was not changed in the Q1 2018 re-design and data over time is available.

In earlier reports, about half of SMEs with an overdraft reported that it had been automatically renewed. From Q3 2018, there was then a decline to 32% for Q4 2019, but from 2020 over half of SMEs with an overdraft said it had been automatically renewed (54% in Q4 2022). With fewer SMEs having an overdraft, this was the equivalent of 4-6% of all SMEs, in line with earlier waves:

Experienced an automatic renewal in previous 12 mths

By date of interview

- over time	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Row percentages									
SMEs with overdraft	61%	54%	63%	57%	57%	55%	63%	51%	54%
‘All SMEs’ equivalent	7%	5%	6%	6%	6%	6%	6%	4%	5%

Q71/15 (15/ 26/26a) All SMEs who now have an overdraft excl DK/all SMEs

The summary table below for YEQ4 2022 shows that amongst SMEs with an overdraft, 56% reported an automatic renewal and these were slightly more common amongst those with 0 or 1-9 employees, or with a low external risk rating or those in the Health sector. The equivalent of 5% of all SMEs reported an automatic renewal (10% once the PNBs were excluded):

Automatic renewals YEQ4 2022

By date of interview – row percentages	All with Overdraft	All SMEs equivalent
All SMEs	56%	5%
0 employee	57%	5%
1-9 employees	57%	7%
10-49 employees	48%	7%
50-249 employees	53%	4%
Minimal external risk rating	48%	4%
Low external risk rating	64%	7%
Average external risk rating	54%	5%
Worse than average external risk rating	56%	5%
Agriculture	51%	7%
Manufacturing	60%	7%
Construction	56%	6%
Wholesale/Retail	56%	6%
Hotels & Restaurants	54%	3%
Transport	51%	4%
Property/Business Services etc.	48%	4%
Health	77%	8%
Other Community	64%	6%
All SMEs excluding Permanent non-borrowers	56%	10%
Current using external finance	56%	15%

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