

BARCLAYS PLC RESPONSE TO THE BERR SELECT COMMITTEE HEARING ON FINANCIAL SUPPORT FOR SMALL AND MEDIUM SIZED ENTERPRISES

1.0 INTRODUCTION TO BARCLAYS BUSINESS BANKING OPERATIONS

Barclays welcomes the opportunity to participate in the BERR Select Committee's hearing into financial support for Small and Medium Sized Enterprises (SMEs). Banking support in these sectors is a central part of Barclays banking operations, reflecting Barclays origins in the 1670s as a source of entrepreneurial finance. The BERR Select Committee hearing represents another important opportunity to focus on the needs of SMEs in the current economic downturn, in addition to the recently established BERR Small Business Finance Forum, of which we are a member.

In the UK, Barclays broadly categorises its SME customers as follows:

- SMEs with a turnover up to £1 million are typically within the Local Business banking division of Barclays; and
- Larger SMEs with a turnover over £1 million and up to approximately £20 million are typically within the Medium Business and Agriculture unit (MB&A) of Barclays Commercial Banking division.

For the purposes of this submission, references to SMEs means customers of Local Business and of MB&A, whilst references to "small businesses" and "larger SMEs" are references to Local Business and MB&A customers respectively.

As the majority (approximately 85%) of SME customers are in Barclays Local Business division the Managing Director of Local Business (Steve Cooper) is the most appropriate representative to assist the Committee by giving oral evidence on financial support for SMEs. Although this response focuses mainly on businesses within our Local Business division, Mr Cooper is able to respond to any question on the overall SME market and Barclays positioning within it.

2.0 MARKET OVERVIEW FOR SMALL AND MEDIUM SIZED ENTERPRISES - BARCLAYS OBSERVATIONS

2.1 Trends and data

Many small businesses in particular are experiencing significant trading difficulties in the economic downturn and testing market conditions. Around one fifth of small businesses borrow at any one time and they may currently be experiencing difficulty in gaining access to finance, partly due to increased risk – and for larger SMEs, a shortage of supply.

2.2 Focus on Small & Medium Sized Enterprises (SMEs)

Barclays provides business banking services to nearly one-in-four SMEs in England & Wales, as well as an increasing involvement in Scotland and Northern Ireland. Barclays SME customer base totals around 700,000 firms and covers all areas of economic activity.

Current characteristics of the SME market include:

- **The value of sales receipts credited** to Barclays SME current account base has fallen steadily during the course of 2008. The figures for November 2008 were circa 6% lower than in the same period in 2007, the sharpest decline for over a decade.
- **For much of the period 2005 to early 2007, the profitability** of the SME sector was buoyant. However over the last 12-18 months, many customers have seen cash flow reduced with spending often running ahead of sales receipts leading to a cut in cash reserves (and as a consequence reducing the ability to meet repayments of new and existing debt).

- **Even so, most SMEs are still in a strong net liquid position**, and some by a significant margin. In the case of Barclays, only about one-in-six of our small business customers have either a loan or overdraft and the number of firms in credit outnumbers those borrowing by a ratio of 3 to 1.
- **At the time of the last major recession** (early 1990s) SME borrowing from the banking sector exceeded deposits by a significant margin (£20 billion) whereas today, savings and borrowing across the SME market are broadly aligned.
- **Another impact of recent economic conditions has been a reduction in the number of business start-ups and an increase in business closures.** In the SME sector, business closures now exceed start-ups, leading to a fall in business stock of about 30,000 during 2008, a drop of approximately 1%. However this should be set against the experience of a substantial net increase in the stock over the last ten years (about 18% from 1997 to 2008).

3.0 INDUSTRY RESPONSE TO CURRENT MARKET CONDITIONS

- As evidenced by data published by the British Bankers' Association¹, the main high street banks have continued to increase the level of support to the small business sector during 2008. At the end of the quarter to 30 September 2008, total borrowing by the small business sector was £54.2bn, some 10% higher than a year before; an increase was reported in both loan and overdraft availability.
- Loan balances for small firms have continued to increase, particularly for short maturity loans (under 3 years) and loans for over 10 years. This indicates a continuing willingness of the main banks to commit both flexible short term funding and long term development capital to the small firms sector. Medium term loan balances have also increased.

4.0 BARCLAYS RESPONSE TO CURRENT MARKET CONDITIONS

4.1 Barclays commitment to the UK SME sector

- Barclays is very much committed to SME business – in the year to September 2008, more SME customers switched their relationship to Barclays than left us, leading to a growth in our SME customer base despite a general contraction in the marketplace. We are also seen as one of the top banks for start-ups.
- In line with this account growth we have seen increases in our share of engagement with small business customers. Our SME customer stock has increased by over 10,000 during the last year. Our lending origination to small business customers has increased by more than 20% year to date (end October 2008) and even after refinancing/repayments made, our stock of SME loans was still 8% higher than a year before.
- Indeed, Barclays has written more new loans to small businesses in the first 10 months of 2008 than we did in the whole of 2007. In addition, through a range of market leading, managed rate products we have also attracted substantial new credit balances to Barclays in the last year. Consequently, deposit funds under our stewardship at the end of October were 10% higher than a year earlier.
- Through its relationship teams, Barclays is committed to taking fast and decisive action to help SMEs through the current economic downturn.
- Our relationship managers are in constant discussion with customers as to the best way we can help their businesses. For example, on average every working day in September 2008 our staff had nearly 1,800 face to face meetings with customers. Also, we sanctioned a new small business loan every 70 seconds.

¹ BBA press release *Support for Small Firms*, 21st November 2008

4.2 We offer high quality products and advice

Barclays overall approach to SMEs is to provide a blend of financial products and invaluable business advice to construct solutions that meet the needs of customers:

- A **choice of small business accounts** that they can tailor to their needs and the provision of up to **two years free banking to start-ups**, subject to remaining in credit.
- Day to day small business banking support through an award winning **team of Business Managers** who are available over the telephone for everyday and urgent banking needs during the daytime, evenings and weekends.
- **Free consultation for small businesses with a local accountant, marketing expert and solicitor** to advise on topics such as the best legal status, how to advertise or draft supply contracts.
- Barclays offers a free nationwide **small business seminar and workshop programme**. This is designed to help small business owners network and gain practical help on relevant challenges such as marketing, trading online or how to generate more business profits.
- **Business management software** has also been developed to help small business customers complete their account work quickly and efficiently; support their hiring efforts; help back up their business data securely; and avoid late payment and bad debts.
- **Creditfocus** is an innovative web based service provided to small business customers to help them reduce the risk of late payments and bad debt, with elements of the service provided to customers for free. Businesses regularly fail due to late payment of invoices and bad debt, and this is a tangible example of how Barclays is reflecting a strong understanding of its customers needs in our product development. Creditfocus won the Institute of Financial Services (IFS) Award for Innovation Excellence.
- Barclays customer satisfaction levels for relationship managers remain high; in Q3 2008, over two thirds of customers were either very or extremely satisfied with the service they received from their manager.
- For our larger SMEs we provide a more sophisticated offering in terms of product set and services. For example, our teams are increasingly industry focussed, with staff undergoing training to become specialists on a particular sector. This enables relationship managers to be customers' trusted business partners, helping them identify opportunities and manage risks more effectively. Furthermore, this year we have launched the Barclays Latitude business club which offers products and advice to support business development and growth, domestically and internationally.

4.3 Key features of Barclays lending strategy to SMEs

There has been considerable focus in press commentary about lending to small businesses in particular. Over a typical business lifespan, about 60% of small businesses will need to borrow money for one reason or another (even though only a minority are borrowing at any one point in time). In some industry sectors, access to working capital is an almost perpetual requirement. In other sectors, debt finance is more associated with business development opportunities.

It is important that we clarify our lending strategy:-

- As outlined above, in spite of difficult market conditions **Barclays has already lent more money to SMEs this year than last and new lending to small businesses is up by more than 20% year-on-year.**
- **Across our SME customer base as a whole, Barclays lending increased by 8% in the year to September 2008.**
- **Barclays has a continued appetite to provide finance to SMEs at our current levels as a minimum (these levels already being higher than in 2007).**
- Barclays charges for debt on a risk adjusted basis: higher rates for higher risk customers, lower rates for lower risk customers. This year we increased rates for a small number of businesses and reduced rates for a similar number whilst the vast

majority remained unchanged. As a result of our policy, customers representing lower/improved risk do not subsidise others.

- Base rate movements are passed on in full to all base rate linked borrowing customers (approximately 80%).
- Barclays ensures that up front lending fees are communicated clearly and in advance. Any other fees are clearly articulated in our tariff charges and we actively explain to our customers how to save money.
- Barclays maintains a consistent approach to risk – lending responsibly. Risk decisions are made jointly by centrally based credit experts and locally based relationship teams, with local knowledge.
- We treat each business on an individual basis with no “blanket” policies for industry sectors.
- We are leading users of European Investment Bank (EIB) funding passing the full benefit on to SMEs.
- We are fully involved with BERR in shaping the new Small Firms Loan Fund and will actively market this in January 2009.

4.4 Focus on our decision making process and the role of branch-based relationship managers.

Barclays has a network of almost 2,000 locally based relationship managers who work with our business customers on a day to day basis. These trained staff operate in the local community, either in a branch or a specialised corporate banking centre.

- Each local team works with a regional business support structure and has access to a national network of product specialists.
- There is face to face access to a trained relationship manager. This is an important customer need and is central to our offering. For larger SMEs our staff are trained as industry specialists to offer an enhanced level of support and advice.
- Credit risk decisions for borrowing up to £25,000 are largely automated through sophisticated bank account behavioural models, with some discretion of the local relationship manager.
- Credit risk decisions over £25,000 are supplemented with much more personalised assessment and discretion. This process involves a centrally based credit risk expert (who views industry data across the UK) and a locally based relationship manager who assesses how the individual business is performing locally.
- Credit risk decisions are always based on the ability to repay and not just the level of security. Decisions are communicated locally. Our current credit sanction rate is in the region of 80%.
- Before a lending request is declined it goes through two separate appeal processes where the local relationship manager can provide additional information.
- We provide a range of services and support structures for SMEs experiencing financial difficulty. For larger SMEs, this includes our Business Support Team. 80% of SMEs which use Business Support, trade out of difficulty and this team has just won the award for Private SME Company Turnaround by the IFT (Institute for Turnaround).

5.0 CONCLUSION

Barclays SME customers are suffering the sharpest contraction in business conditions for a generation - and many business owners have never experienced such difficult circumstances before.

Barclays is working hard to support as many of these customers as possible through difficult times including, where appropriate, providing additional loan and overdraft finance. We have already increased lending above our 2007 levels (despite a reduction in the number of customers seeking finance).

Barclays has a continued appetite to provide finance to SMEs at our current levels in 2009 (and 2010), subject to demand and credit quality. This is already significantly above 2007 levels.

Our branch based network relationship staff are working very hard on a day-to-day basis to help customers, treating every customer as an individual and always doing as much as we can to deliver a finance solution for them that is both responsible and in line with our credit policy.

Where customers cannot meet our credit risk requirements, we will actively market the new Small Business Loan Fund on terms agreed with the Government as soon as the details are settled.

As economic activity improves in 2009/2010, our commitment to the sector will also be a key component to support business growth and expansion over the medium term.

Barclays PLC
8th December 2008