



BANK OF ENGLAND

Future
of
Finance



An open platform for SME finance

20 June 2019

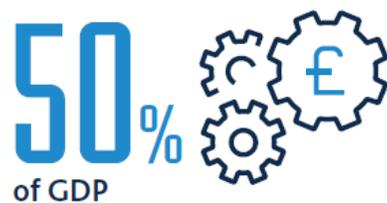
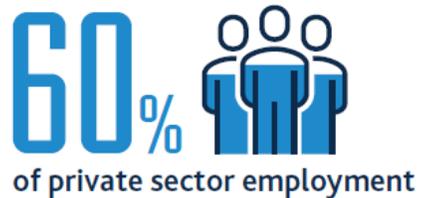
Published alongside the Governor's Mansion House Speech and the Bank of England's response to the Van Steenis review on the Future of Finance



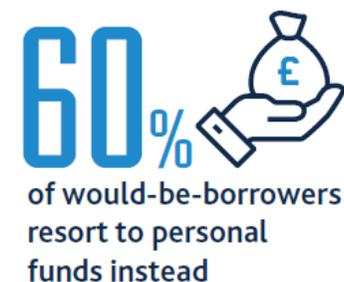
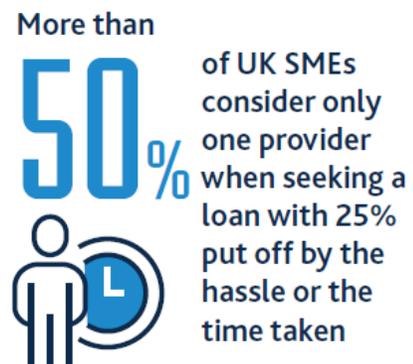
How an open data platform could deliver a portable credit file for SMEs



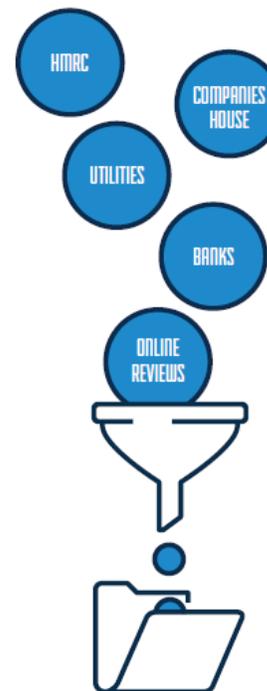
SMEs are an engine of growth in the economy



SMEs struggle to access the finance they need to grow



SMEs would benefit from being able to bring all their data together into a 'portable credit file'



This file could be shared more easily with banks and other credit providers, allowing better access to more diverse and competitive sources of finance



The SME financing problem in the UK



Surveys suggest that:

- 25% of small firms that apply to banks have their loan applications rejected and 6 in 10 would-be-borrowers choose to inject personal funds instead. (BVA BDRC SME Finance Monitor 2018 Q4)
- More than 50% of UK SMEs considered only one provider when seeking a loan and 25% of UK SMEs did not consider other providers because of the 'hassle' or time associated with applying for finance, particularly when finance is needed at short notice. (CMA Retail Banking Market Investigation 2016)
- 70% of SMEs would rather grow more slowly than borrow to grow faster. (BVA BDRC SME Finance Monitor 2018 Q4)

The result is that:

- There is an estimated £22bn funding gap for SMEs in the UK (NAO Improving access to finance for SMES, 2013)
- The informational advantages an SME's existing bank holds over other potential lenders is a barrier to searching for credit (CMA Retail Banking Market Investigation 2016)

SMEs want greater access to a more diverse set of financing options and some new firms are trying to harness novel data sources to provide it.



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An open platform could improve SME access to finance



Building on the UK's Open Banking initiative, it would be based on three principles:

- Digital identity verification
- Data standards enabling portability and robust credit scoring
- A platform and API with permissioned sharing, governed by a clear framework

It could:

- Enable SMEs to gather their data from different sources to build up a richer credit file
- Allow novel data sources to be used in credit scoring decisions
- Reduce the information gap and lower the barrier to entry in the market for SME lending
- Give SMEs access to more diverse and competitive finance options



The components of an open platform for SME finance



Legal Entity Identifiers (LEI) and digital identification could:

Make it easier for lenders to accurately identify borrowers to a trade and speed up invoice and trade finance.

Richer, portable, credit files could:

Increase the information available, reduce credit risk and unlock working capital, invoice and trade finance for SMEs building a strong financial track record.

Together, they could speed up the on-boarding process and enable SMEs to shop around, encouraging competition between bank and non-bank lenders.



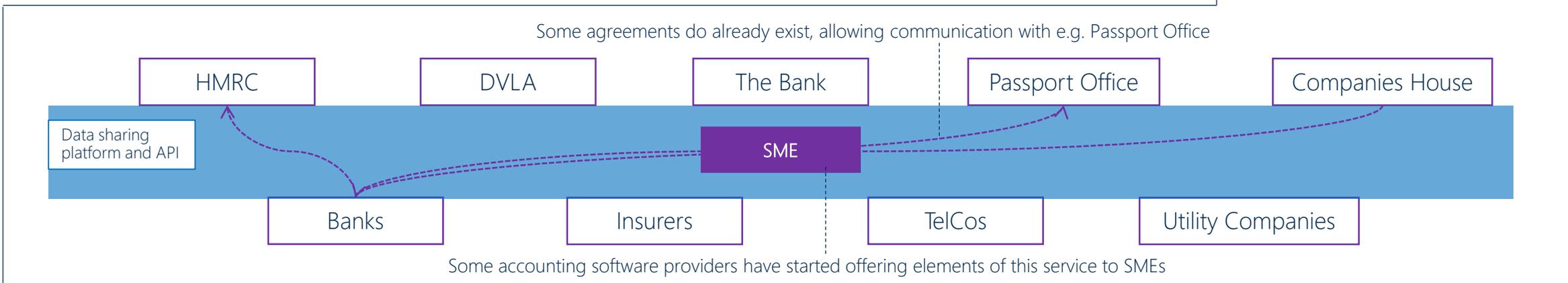
How the open platform model could work



- i. A **unique** identifier (LEI)
- ii. Secure **authentication**
- iii. Potential to support a **digital ID** in the long-run

- i. **Globally recognised** identification standard (LEI)
- ii. Messaging standards for fast and effective **data sharing**
- iii. Minimum harmonised core data fields for **credit scoring**
(Aim is to standardise the essential data to make it easier for SMEs to shop around. But not to specify all the data sources, which could inhibit innovation and concentrate credit decisions.)

- i. **Permission** from the SME
- ii. Clear **legal framework** and protocols
- iii. Links to **public and private** sector data sources



To help close the SME funding gap, the Bank will:

- Help small businesses harness the power of their data by developing the concept of a portable credit file, to give greater access to more diverse and competitive financing options, including for global trade.
- Respond to the Government's Smart Data Review with recommendations for how data standards and technology can promote an open platform for finance and deliver greater choice and keener pricing for businesses and individuals.
- Champion the Legal Entity Identifier (LEI) as a globally recognised and unique identifier for all businesses in the UK, including integrating the LEI in the Bank's new RTGS service and mandating its use in payment messages.

Our outreach and engagement on the portable credit file will commence in H2 2019

