

Title: The Small and Medium Sized Business (Credit Information) Regulations 2015 PIR No: N/A Original IA/RPC No: RPC14-HMT-2060 Lead department or agency: HM Treasury Other departments or agencies: N/A Contact for enquiries: Samuel.Betley@hmtreasury.gov.uk	Post-implementation review
	Date: 14/10/2020
	Type of regulation: Domestic
	Type of review: Statutory
	Date measure came into force: 01/01/2016
	Recommendation: Keep
	RPC Opinion: Green

1. What were the policy objectives of the measure?

The policy objective of the Commercial Credit Data Sharing (CCDS) scheme is to increase competition in the SME credit market by lowering the barriers to entry for alternative credit providers. This is achieved by improving the availability of SME credit data amongst alternative credit providers to reduce information asymmetries and thereby enabling those alternative credit providers to appropriately price risk when offering credit facilities. This supports their willingness to offer finance and, as such, provides a wider choice for SMEs beyond their existing credit provider, leading to greater availability of credit for SMEs.

Such access to SME credit data was highlighted in the consultation undertaken before the Regulations came into force as a considerable barrier to entry into the SME credit market. Improving access to credit data improves SME credit scoring, and therefore the availability and price of credit to SMEs. This is particularly the case for smaller and newer businesses which have no or little credit history and may struggle to access credit as a result.

The Regulations require nine designated banks¹ to share all their credit data on SME customers with four designated Credit Reference Agencies² (CRA): these banks and CRAs represented the majority of their respective markets at the time of designation. The British Business Bank conducted a competitive designation process on behalf of the Treasury. The designated CRAs must provide access to that data for alternative credit providers upon request, provided they commit to sharing their own data with the designed CRA within 12 months. In each case, the obligation is dependent on the SME customer having agreed to the provision of data – lack of SME consent was identified as a key reason by stakeholders for only c.25% of business current accounts with the designated banks currently being held within the CCDS database; also the diversification of the SME lending market in recent years means that a significant proportion of business bank accounts are now not with the nine designated banks, limiting CCDS' coverage.

The review clause contained within the Small and Medium Sized Business (Credit Information) Regulations 2015 requires this post-implementation review (PIR) to reiterate the original policy objectives, assess the extent to which they have been achieved, discuss the extent to which those objectives remain appropriate and assess whether a system that imposes less regulation could achieve the same result.

2. What evidence has informed the PIR?

¹ Lloyds, HSBC, Barclays, NatWest, Santander, Virgin Money, Allied Irish Bank, Bank of Ireland, Danske.

² Experian, Equifax and CreditSafe were designated at first, with Dun & Bradstreet coming on board later.

HMT engaged with UK Finance to source detailed feedback on the implementation of the Commercial Credit Data Sharing (CCDS) scheme - that is, the vehicle set up based on the Regulation - from their broad membership of lenders, including the designated banks and a representative sample of the alternative credit sector (i.e. the key beneficiaries under CCDS). We also engaged with the four designated CRAs, a credit reporting professional who supports the CCDS Governance Group and a finance platform closely involved with SMEs benefitting under CCDS. The evidence collected therefore represents the vast majority of key CCDS stakeholders.

3. To what extent have the policy objectives been achieved?

It is too early to fully assess whether the original objective, of increasing competition by lowering barriers to entry in the SME credit market, has been met. It is also important to note that as there is no published data on CCDS, this assessment looks primarily to qualitative feedback and data covering the entire SME finance universe to inform its conclusions. After the Regulations came into force on 1 January 2016, it took longer than expected for CCDS to become fully operational. This was due to unforeseen complexity in operationalising the exchange of data between designated banks, alternative credit providers and CRAs. Therefore, stakeholders still see the scheme as being in its infancy, and yet to realise its true potential. However, there are indications that the policy objective is starting to be met despite the challenges operationalising the scheme (which is now fully operational): in 2014-15 the five largest banks were responsible for 80% of SMEs' main banking relationships, whereas in early 2020, alternative credit providers distributed 50% of SME lending. Furthermore, it has increased competition among CRAs by increasing the number with access to the data from two to four. The CRAs already see CCDS as a vital component in the commercial credit data landscape, supporting a range of commercial credit decisions, and in some cases (e.g. trade credit) acting as a defining factor in those decisions. Alternative credit providers are positive about the value of CCDS data on their place in the SME credit market, reporting that they have leveraged it both to improve their understanding of existing customers and to engage new ones. Alternative credit providers report that CCDS data has proved valuable in closing the gap with designated banks. Designated banks are equally positive about CCDS data, which helps them to build a more complete picture of their customers, as some alternative credit providers hold information which they themselves do not hold, and therefore the designated CRAs cannot access unless it is provided to them.

In terms of how CCDS can continue to achieve its policy objectives going forward, it is worth noting that the scheme was designed for a market where the dominance of the major banks was entrenched. As noted above, the largest four banks accounted for over 80% of SMEs' main banking relationships at launch - the balance had tipped more towards alternative credit providers by early 2020. Recognising this evolving environment, some changes to CCDS in the future may be helpful to better tailor it to the future business lending landscape. In particular, feedback from stakeholders on suggestions which HMT may want to consider in future included: levelling the playing field in terms of data provision, by reducing the time allowed to alternative credit providers to share their SME data with CCDS from 12 months to 6 months; designating more lenders to reflect the more diverse SME lending market; and requiring alternative credit providers to share their SME data with all designated CRAs, rather than their preferred CRA to avoid one CRA becoming dominant. But to be clear, recent engagement with stakeholders has confirmed that all such changes can be done without amending the Regulations.

Noting that CCDS remains in its infancy, we will continue to monitor the scheme, and engage with stakeholders. Any changes – noting again that none being considered would require an amendment to the Regulations - would involve wide consultation to ensure that any proportionate measures to improve the scheme are taken. We note that currently, on balance, stakeholders are positive about the effectiveness of the scheme so far and are confident that it could become an increasingly important part of alternative credit providers' SME data pool. That

said, given the view that the scheme is still in its infancy and the challenges for SMEs due to Covid-19, the Treasury may if appropriate consider a further review sooner than the statutory five-year point, in line with the recommendation of the Regulatory Policy Committee regarding the SME (Finance Platforms) Regulations 2015.

SCS of Banking and Credit

Signed: **David Raw**

Date: **14/10/2020**

Sign-off for Post-implementation review: Minister

I have read the PIR and I am satisfied that it represents a fair and proportionate assessment of the impact of the measure.

Signed: **John Glen**

Date: **15/10/2020**

Further information sheet

Please provide additional evidence in subsequent sheets, as required.

4. What were the original assumptions?

The assumption underpinning these Regulations was that, without intervention, the significant information asymmetries that prevented alternative credit providers from serving SMEs would be perpetuated. These asymmetries raised the cost of credit for SMEs as the lack of competition made it difficult for SMEs to access credit at the right price, because alternative providers either weren't in a position to offer finance, or they were forced to offer finance at a higher price due to the lack of credit information. CRAs are ideally placed to reduce information asymmetries by making risk assessments more efficient and fostering greater competition. Delivering this objective through the CRAs required Government intervention. As stated above, there are no published data sources with which to assess the actual impact, but the extensive non-monetised benefits are clearly stated in section 3.

The central estimate of costs – calculated in 2013/14 - was set at £14 million in the original Impact Assessment, linked to changes to IT systems that designated banks and CRAs were required to make. This estimate included a £10.5 million one-off cost for designated banks, and a £3.5 million one-off cost for CRAs. Moreover, the impact assessment estimated a direct impact annual equivalent of £1.63 million, which is in scope of One-In, One-Out and qualifies as a zero net cost. This was founded on a 10-year time period with an assumed discounted rate of 3.5%. Monetised benefits were not possible to quantify.

5. Were there any unintended consequences?

There are some unintended consequences of the Regulation. Firstly, stakeholders have highlighted the inconsistent quality of data shared through CCDS. The Regulation does not specify how data should be presented, therefore initially reporting was inconsistent. But templates have been agreed as part of implementation and ongoing governance procedures, and we are working closely with credit providers and CRAs to drive further improvements.

In addition, the Regulation only requires alternative credit providers to provide their SME data to one CRA, with the consequence being that one CRA has become dominant. Feedback has been clear that in order to level the playing field between designated banks and alternative credit providers, and to prevent the entrenching of one dominant CRA (and therefore harming competition among CRAs), we should take steps to ensure that all designated CRAs receive the same data. With consistent reporting across CRAs, this would not materially increase the burden on lenders.

To be clear, neither these changes, nor any others discussed in recent engagement with stakeholders, would require any amendments to be made to the Regulations.

6. Has the evidence identified any opportunities for reducing the burden on business?

The evidence collected by HMT from UK Finance, credit providers, CRAs and finance platforms has not identified any opportunities to reduce the burden on businesses, as there is no direct burden on businesses. The original impact assessment for the implementation of CCDS set out our expectation that the scheme would have a positive, indirect impact on SMEs seeking finance. The burden of sharing data falls exclusively on the credit providers, not the businesses themselves. This assessment has not changed.

7. For EU measures, how does the UK's implementation compare with that in other EU member states in terms of costs to business? N/A

Recommended Next Steps (Keep, Amend, Repeal or Replace)

This review proposes to keep the legislation.

Despite the Regulation coming into force on 1 January 2016, CCDS remains at a very early stage. But the policy objective has been met to some degree already, and continues to be met, with both designated banks and alternative credit providers reflecting positively on the value of CCDS data for their credit decisions and customer relationships. Whilst stakeholders have proposed some changes to the scheme, these can all be taken forward without amending the Regulations.