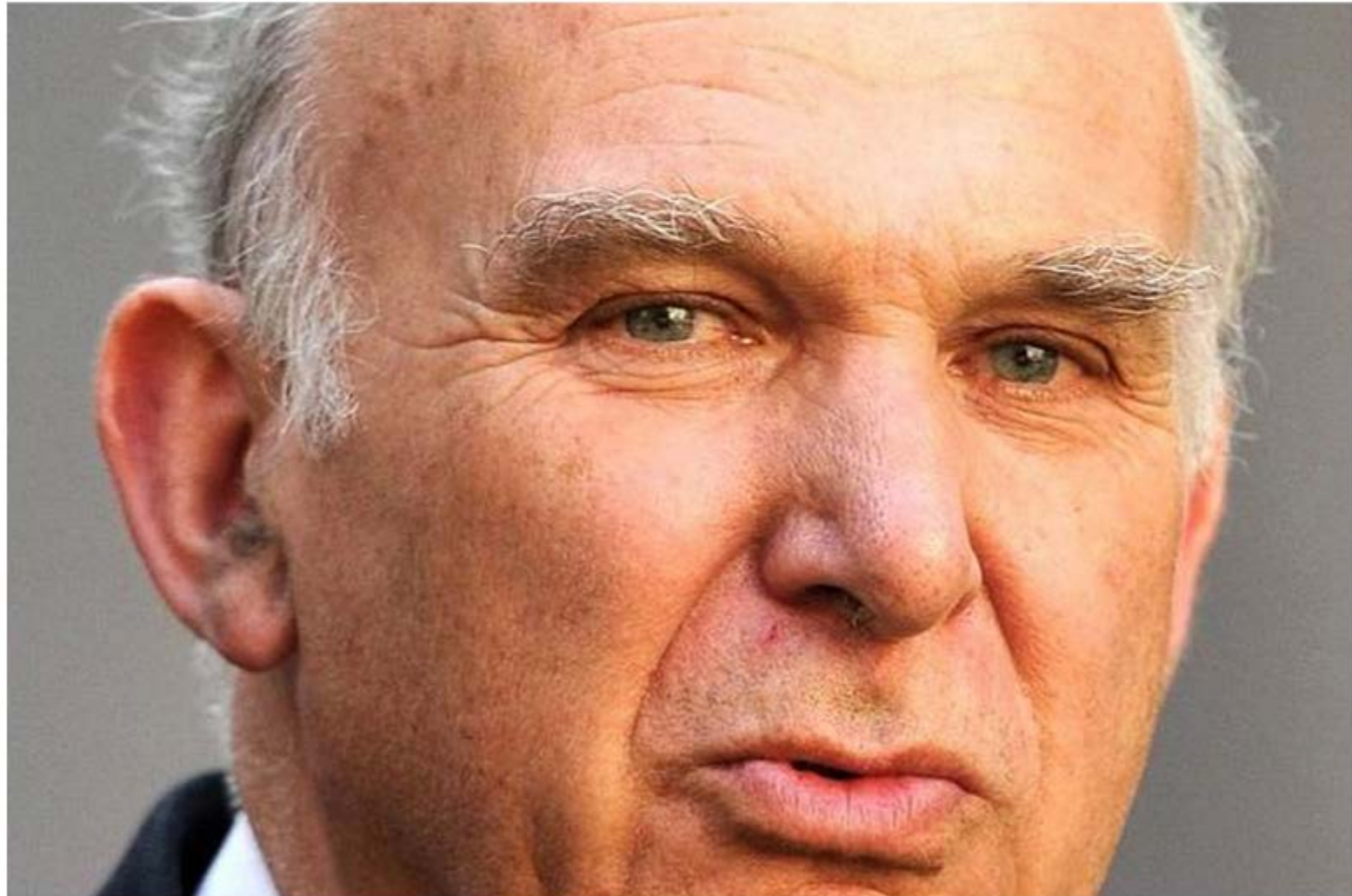


Going for Growth

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Business Bank looks to get a grip on dearth of lending to small businesses



Juliet Samuel and Kathryn Hopkins
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Vince Cable decided the idea was worth examining

The Government could use taxpayer money to guarantee loan insurance for small businesses under a plan being considered by the state-backed Business Bank.

The bank, which aims to invest state funds in growth-boosting measures, is considering a proposal submitted by a specialist merchant bank that advises tech start-ups after a meeting with Vince Cable, the Business Secretary, who decided it was worth examining.


The plan, seen by *The Times*, aims to remove the block on bank lending to small businesses by using the insurance industry. It would involve small companies buying insurance to cover the risk of them defaulting on their loans, which they could then offer to banks as a guarantee to borrow money.

The proposals suggest that the Business Bank could foster a market in such insurance policies by offering a subsidy to insurers through which it would underwrite 15 per cent of the cost of any default. It is understood that the Business Bank has consulted a big British insurer about the plan.

“The Guaranteed Repayment Insurance Policy [Grip] would be funded by a borrowing company taking out a policy which would insure up to 100 per cent of a loan in the event of default. The borrower would then offer their Grip to the bank as security rather than giving up the deeds to their home,” according to the proposal submitted by Restoration Partners. The merchant bank is run by Ken Olisa, a former director of the mining company ENRC.

The proposal would overcome one obstacle to small business lending, whereby banks demand such high levels of collateral, such as security on an entrepreneur’s house, that taking out a loan becomes prohibitive or too personally risky for the founder of a start-up.

According to Restoration Partners, many small businesses would welcome paying more for an insurance policy in addition to a bank loan because they were confident of growing quickly.

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A spokesman for the Department for Business, which runs the Business Bank, said: "We are aware of Grip and have agreed to look at their proposal, but no commitment has been made. The British Business Bank is looking at new and innovative ways to increase the flow of finance to smaller businesses."

Separately, the EY Item Club has predicted that net lending to businesses will fall by more than 4 per cent this year. It said that, despite growing economic confidence, most UK banks will remain constrained in their ability to increase net lending to companies for the foreseeable future, and that business confidence has not recovered as much as expected, prolonging the lack of demand from companies for loans.

As a result, it has downgraded forecasts for net lending for the next two years. It now expects lending to increase by 3.7 per cent next year and by 5 per cent in 2015, compared with the 7 per cent and 10 per cent growth forecast in the summer. In contrast, consumer credit, which has fallen by 23 per cent since 2008, is set to rise for the first time in four years in 2013.