



Competition in the banking sector

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Problem

There are growing concerns from the business community that due to government bailouts, takeovers, capitalisations and recapitalisations, the choice of banking services for small businesses has diminished. FSB research in October 2009 showed that 27 per cent of SMEs have seen an increase in existing finance – choice and competition will put a downward pressure on price.

The Cruickshank report found that the four main banks – Barclays, HSBC, Lloyds TSB and the Royal Bank of Scotland (including National Westminster) – had an 83 per cent share of the SME banking market. This will have grown since the report was published due to Lloyds acquiring HBOS.

Solutions

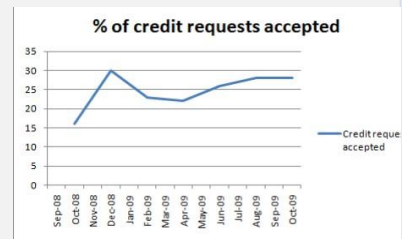
The FSB supported the merger of Lloyds TSB and HBOS, which created Lloyds Banking Group. The market failure of either of the banks would have had a catastrophic impact on the UK economy and on the SME community. However, the government must now look towards the future of SME banking and consider radical ways to change the behaviour of the SME credit market. We cannot return to *'business as usual'*. The government must:

- Not sell its shareholdings in nationalised and capitalised banks to other banks;
- Use Regional Development Agencies to disseminate Enterprise Finance Guarantee and European Investment Bank loans to SMEs;
- Financial Intermediaries, recently created by the Government, should be actively promoted to viable small businesses unable to access finance;
- The Post Office should be turned into Post Bank offering support for small firms by utilising the Post Office Network and operating either as a solely state owned bank or as mutual or trustee bank.

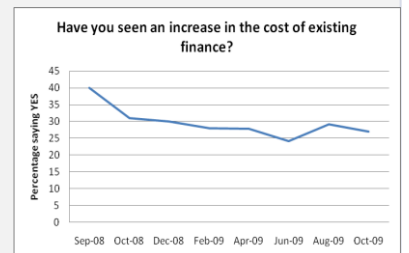
The FSB considers that such radical moves will not only help SMEs in accessing credit for start-up needs and growth requirements, but it will help provide stability in the event of future limitations of credit through the banks.

FSB RESEARCH

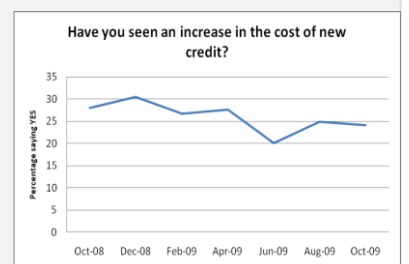
Finance requests from small businesses:



Cost of existing and held finance:



Cost of new finance:



For further information

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