Northern Ireland Assembly

CONCURRENT MEETING OF THE COMMITTEE FOR ENTERPRISE, TRADE AND INVESTMENT AND THE COMMITTEE FOR FINANCE AND PERSONNEL

OFFICIAL REPORT (Hansard)

Institute of Directors

22 September 2010

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Alban Maginness (Chairperson)
Mr Leslie Cree
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Mr Paul Givan
Mr Simon Hamilton
Ms Jennifer McCann
Mrs Claire McGill
Mr Gerry McHugh
Mr Daithi McKay
Mr Mitchel McLaughlin

Witnesses:
Mr Michael Murray) Institute of Directors
Ms Joanne Stuart)

The Chairperson (Mr A Maginness):
We now move to the next part of the session, which is a briefing from the Institute of Directors (IOD) on its business banking survey. I welcome representatives from the Institute of Directors, in particular Ms Joanne Stuart, who is chairperson of the IOD and director of Attrus Ltd. I also welcome Mr Michael Murray, chairperson of the IOD's economic strategy committee and head of business transformation at British Telecom. We received a briefing paper from your good selves,

and the Assembly's Research and Library Service provided us with an overview of your survey. That might shorten your presentation. I do not want to curtail you in any way, but that might be helpful so that we can get on with members' questions.

Ms Joanne Stuart (Institute of Directors):
Thank you for giving us the opportunity to give evidence to the Committees today.

As you have already had a briefing on the survey, I will cut that section of our contribution short. However, I should point out that that was the third IOD survey and was carried out in March 2010. The results showed no material change to conditions. Businesses were still finding conditions challenging and were still finding difficulties with the whole process of dealing with the bank. The similar themes of increases in charges and an increase in the requirement to put forward personal guarantees came across more. I want to make the Committee aware that the number of respondents to this survey was lower; there were just over 100. We have to put that into context, although the anecdotal information from businesses reflects what is in the survey.

As a result of the survey — members have seen the headlines — I will give the Committees an update on what we are doing and how we are working with the banks and other stakeholders to move this forward. In January 2010, we worked with Invest NI and the British Bankers' Association (BBA) to try to address the issue that businesses faced in understanding the process of dealing with the banks and how to make that process more streamlined. We came up with 'Financing your business — a quick guide', on which we got input from the banks on the sort of questions that businesses are now being asked and the sort of information that they need to have available. However, we used that as a way of highlighting the other options that are open to businesses. That guide has been published on the Northern Ireland Business Information website and has been provided to IOD members.

On the back of that and through the surveys, it is clear that there is still a lack of awareness of government support schemes and of what the options are, particularly on equity financing, whether through venture capital or through the Angel Investment Network. Moreover, businesses are not sure where to go for support. Depending on the type of business or the stage they are at in their growth cycle, numerous different agencies and organisations are available to businesses, and that includes what is happening at council level and all the way through to schemes such as Advantage NI and the Prince's Trust.

We are working with Invest NI to produce a list of all the methods of financing that are available to businesses. That will be very much an interactive link on the website. Depending on the sort of business and its location, the website will highlight certain information. Therefore, work is still to be done on signposting. We have picked that up from businesses. We keep publishing the matrix that the Department of Enterprise, Trade and Investment (DETI) produces on financial government schemes. Those are the sorts of measures that we are moving forward with.

Having discussed the survey, we would like to raise a couple of other points. The first is the availability of regional lending figures. That is something that the IOD has raised before. It is currently not possible to get a breakdown of lending figures for Northern Ireland. Part of our frustration is that it is hard to get a true picture of what the situation is out there. However, from what we can ascertain from the sort of figures that we have, and nothing is publicly available, there was a growth in lending, particularly asset-based lending, throughout the property boom, as we expected. That growth continued through 2009 at a much lower level, but we saw that what is called the net flow, which is loans less repayments, appeared to continue to grow and has contracted really only in this year.

That is the sort of picture that the banks have given us. However, part of the problem is that the devil is in the detail with these figures. Our problem is understanding what is included in the net lending figure and the relationship between new lending and people being not being able to repay. If interest is being added on to capital loans, does that make it look as though there is more lending? Therefore, the point is to understand the situation.

The IOD took an action from the cross-section advisory forum, which is the subgroup, to work with the BBA to produce some regional figures. We have also worked with the Department on that. The Department now has agreement from the BBA that figures will be produced. I think that there is some question as to how much of it will be in the public domain and how much will be provided in confidence to the Department. However, we should start to see something around the end of December. That is something we would push for. On the back of that, we are considering carrying out another survey towards the end of the year to see what businesses are saying. We know that we will have some figures from the banks by then. The need to get regional reporting is now a common theme, because at present, we are just at a UK level.

You are aware of the Green Paper from the Department for Business, Innovation and Skills (BIS). The IOD, facilitated by the Department of Finance and Personnel (DFP), organised for a representative from the BIS and HM Treasury to meet with key stakeholders to discuss that paper. Indeed, Paul Butler of the Committee for Enterprise, Trade and Investment also attended the meeting. That meeting gave BIS and HM Treasury a chance to explain more about the consultation, because this matter is all about financing the private sector recovery. It also gave us an opportunity to give them some feedback. The stakeholders who were represented included DFP, DETI, Invest NI, IOD, Confederation of British Industry, the Belfast Chamber of Commerce, the equity financing sector, University of Ulster, and, as I said, Paul Butler was also there. Therefore, a good range of people was in the room.

The main feedback was about the omission of regional variations in the evidence base that they presented and an understanding of what is required at a regional level. From a Northern Ireland perspective, that included the structure of the economy, our reliance on the public sector and what is happening with the impending cuts. Our economy is SME dominated, and in the Green Paper the definition of an SME is a company with a turnover of less than £25 million. However, in Northern Ireland, 98% of companies have a turnover of less than £5 million. Therefore, we suggested that the definition of an SME is looked at, because we believe that more targeted support is required for a different size of SME.

The Committees discussed the structure of the banking sector this morning, and that includes discussing the understanding of the two Irish banks that are owned by the Irish Government, as well as the Northern Bank and the Ulster Bank. There is potential that there will be a lack of other players in the market. Also, from a Northern Ireland perspective, the implications of the National Asset Management Agency (NAMA) must be taken into consideration with the Green Paper. The Committees received a paper from the IOD as a part of the Business Alliance about NAMA and our position on it.

The enterprise finance guarantee scheme was another area of conversation, and there has been a low take-up of that in Northern Ireland. BIS has already received many of those messages from other regions, but on the enterprise finance guarantee scheme, it was the first time that the portfolio approach to risk had been raised. It was believed that that was perhaps one of the reasons why not all the banks were as involved in the enterprise finance guarantee scheme.

Traditionally, Northern Ireland has depended on banking finance, and, therefore, we have a fledgling equity finance market, so we will have to look at how that can be supported.

Certainly, there is a lack of education and knowledge about equity financing throughout business.

There are issues relating to tax and regulation because of our land border with the Republic of Ireland. Therefore, we need to be cognisant of what is happening in the UK and how that may impact on our dealings with the Republic of Ireland. Looking at the area of angel investments, there is a move in Ireland towards more all-island syndicates. However, when one does that, there are complications when it comes to tax incentives for angel investment. Those are the types of things that need to be looked at to make it easier to move forward.

There was very good discussion, and I am currently writing up the output from the meeting. I will submit that to the Department for Business, Innovation and Skills and to the Committee. DFP and DETI have responded to the Green Paper, and it was very important that Westminster got a Northern Ireland perspective on that.

Moving forward, there are a couple of areas of focus for us. As I said, regional reporting is a big area for us and is necessary to give businesses confidence around banks lending.

As previous witnesses said, another thing that came up at Friday's meeting was that the Department for Business, Innovation and Skills is looking into a credit adjudicator service. This was a proposal put forward by the Labour Government but was dropped when the coalition took over. However, it is being looked at now. The service would be a way of providing an independent appeals process for businesses that feel that they have not been treated fairly by the banks or have a query concerning that. The Committee may be aware that the Republic of Ireland has introduced a credit review office, which as well as providing an independent review process for businesses has reviewed the banking policies of the Irish banks and will monitor progress against published lending plans. There is nothing similar to that in Northern Ireland.

Something that is perhaps less visible is the role of the Financial Ombudsman's Service in Northern Ireland. I got some information from the banks on that service. The Financial Ombudsman's Service's website publishes the number of complaints that are being raised by the local banks and the percentage of those that are being upheld. We have that information for all four of our banks. However, there is an awareness issue among businesses, and we want to make sure that they are aware of that facility. Twice yearly, banks are now publishing on their own websites the breakdown of the complaints that are being made, how those complaints are being resolved and whether they are being handled internally or moved to the Financial Ombudsman's Service. That can help businesses, and members will have heard the other ways in which we can help businesses from this morning's witnesses.

Another issue, certainly from the Committee's perspective, is the speed with which the structure and ownership of First Trust is finalised. How that will be resolved is causing a lack of confidence and some instability in the market.

Equity finance is another area of concern for the Institute of Directors, and we want to help move discussion forward in that area. We appreciate that businesses are facing challenges from the banks. However, it must be realised that we cannot go back to the levels of lending that we had in Northern Ireland or to rely on the banks for finance. Therefore, the equity finance market needs to be addressed, which involves skills development for small and medium-sized companies. They need to be educated in what is meant by equity financing. As we have a culture of not going down that route, we will need to decide how we can work with businesses to see it as a viable option. Also, we need to get companies investor-ready.

Skills development is also necessary in all government agencies and in organisations that work with businesses, so that they understand what equity finance means and how they can help businesses to look at it as an option.

The Angel Investment Network is being developed and is making huge progress. It is managed by the Halo Business Angel Network in the Northern Ireland Science Park. However, we still have a way to go. The issue is about continuing to look at how we support the network moving forward. I mentioned some of the tax implications of Halo working on an all-island basis, and that is something that we need to look at.

We continue to support the development of the co-investment fund in Invest NI, which helps sub-£2 million investment deals, which the majority of deals in Northern Ireland will be. There is a real market failure in that area. Invest NI is moving forward with a model similar to the one used in Scotland, which has a co-investment fund. However, progress is slow and the money involved is very small in comparison with Scotland, where there is upwards of £70 million. In

Northern Ireland, we are setting up a co-investment fund with around £3 million. It is taking time to set that up, so our focus is going to be on anything that we are able to do to support that initiative moving forward.

The Chairperson:

Thank you very much for that race through your presentation. The survey makes disturbing reading in so far as 43% of respondents indicated that conditions for them had worsened over the past six months. In addition, there has been an increase in business requests for finance being declined by the banks. That is also very disturbing. Extensions to existing facilities and requests for new facilities are showing the highest rates of declines, with more than 50% of requests turned down. That makes for very bleak reading at a time when businesses are trying to stabilise their operations.

Ms Stuart:

When one looks at the type of companies that responded to the survey, the number with 10 or fewer employees doubled in percentage terms. We also looked specifically at start-up companies, which may also be reflected in those figures. However, the anecdotal evidence from companies of that size supports that.

The Chairperson:

I was also very disturbed by the reasons given for requests being declined. Thirty-eight percent said that the bank had no appetite to provide additional funding. I find it quite remarkable that a bank would simply say that it was not bothering to fund. What are banks doing with their capital? They exist to lend and, in dealing with investments that are not high risk, I would have thought that the banks would have that appetite and be willing to lend. Is that something that the institute is coming across widely? How would you describe it?

Ms Stuart:

The people who are speaking to us have had challenges with the banks. The perception of some of the businesses that provide feedback to us is that the banks do not have the capacity to lend. We know that banks are having to shore up their balance sheets and are being pushed, from a regulatory perspective, to achieve that balance.

We do not have all of the figures, but the perception is that the Northern Ireland banking sector is more leveraged than that in the rest of the UK. There was a significant growth in asset-based lending, and we know what has happened to asset prices. The issue is about being able to understand what is going on. We worked with the banks to put forward what was going on, so the survey was compiled in conjunction with the banks to get that information.

The Chairperson:
Are the banks aware of your conclusions?

Ms Stuart:
Absolutely.

Mr Michael Murray (Institute of Directors):
The banks agreed the wording of the reasons that we would use and send out. It is worth saying that the survey reflects the perceptions of the people whose loan requests were turned down. There may well be other reasons, from the banks' perspective, but this is people's perception of why they were refused finance. At this stage, they feel that banks simply do not have an appetite to lend.

The Chairperson:
I will end shortly, but the Churches raised issues surrounding the way with which requests were dealt. They referred to what they called a culture of the slow no, which was a reference to the length of time banks were taking to deal with requests. They were also concerned that local banks did not have authority to make decisions in-house.

They were also concerned about the increase in the type of information that is required to make a decision on their behalf. Your report shows that the areas that are causing most frustration are: the length of time to get a decision; the increased level of bureaucracy; the lack of local decision-making; and the increase in the amount of information required, which adds to the cost of the process. That is identical to what the Churches said to us this morning.

Ms Stuart:
That is consistent in the surveys. In fact, in the more detailed briefing, the Committee should have a breakdown of some comments that we received as part of that survey. However, we have to work with business. The banking environment has changed, and although relationships with

banks and bank managers were closer in the past, we have moved into a much more controlled environment in which more information is required and where the banks need evidence for what is being said by businesses. That is why we produced the guide. There needs to be more communication with businesses on how to prepare and to deal better with the banks.

Mr Murray:

Businesses also say that providing that information for banks is very expensive, particularly for micro-businesses. If they end up being refused, that is a double hit because they have also incurred the cost of making the application. There is a lot of information on nibusinessinfo.co.uk to help businesses create business cases, cash flow projections, and so on. That is one reason why we worked with Invest NI and the British Bankers' Association to come up with a guide to help businesses understand how to approach banks, the sort of information that they will need, and the best way to present it.

Ms J McCann:

Thank you very much for your presentation. I will be very quick. You mentioned in your presentation, and it is included in some previous reports, that 98% of companies here have a turnover of less than £5 million. Therefore, the economy in the North depends on small and medium-sized businesses. We have heard today, and I have heard from other people, that those businesses seem to have most difficulties with the banks' lending practices.

It was raised at the previous session that regulation of the banks, the insurance industry and financial services rests elsewhere. As that is a reserved matter and, therefore, not an excepted matter, it could be devolved in future. However, we are where we are today. Within the gift of the Assembly and the Executive, what is our best option when we speak to the banks? We can say that they have a moral responsibility and a duty of care; but what are the best options for Assembly and the Executive within the current remit, notwithstanding that that remit could be changed later?

Ms Stuart:

There are a couple of possibilities. With that size of business, the problem is working capital and having enough cash in the business. The enterprise finance guarantee scheme was seen as a good government scheme because businesses did not need to provide that collateral. What we have seen is an increase in requests for personal guarantees; so, how does that fit with the low take-up of the enterprise finance guarantee scheme? There needs to be a conversation with the banks about how to move things forward, understand the issues in Northern Ireland, and discover why take-up is lower. I know that this is a reserved matter, but we can put pressure on Westminster from that perspective.

As regards what the banks need to see; we keep hearing the term “viable business”. What exactly does that mean? We have talked to people who believe that they have viable businesses, whereas the banks do not. More communication and clarity could be provided to businesses. We could also push for regional lending figures. The banks say — and I agree — that demand for lending has fallen. The issue is whether businesses have the confidence to move forward?

We are in a recession, and many businesses may not want to take the step of investing in growth, which comes back to the comment you made at the start with regard to how to move the economy forward. For business, it will depend on how the Executive handle the impending cuts and show that there is still a focus on supporting businesses growing. The banks have a role to play in that, but they are only a part of the overall solution. It also comes back to what we discussed: how do we support the likes of angel investment? How do we skill up our businesses to look at that?

There is also a question of skills in the banks too. They have been very used to asset-based lending. Have banks got the right skills set to work with companies? Some very complex financing is required. There could be much more openness and transparency about how businesses should be approaching the matter. If we can push to get that from the banks too, it would be very helpful.

Mr Murray:
I have a couple of specific points. We need the local information in order to understand what is happening. All the Irish banks produced SME lending plans for the Republic of Ireland. It would be interesting to see their lending plans for Northern Ireland. We could only see that at an aggregated level because the documents are commercially sensitive. However, even at that level, it would be interesting and helpful to see the lending plans.

Also, the formal review procedures in the banks need to be more widely publicised so that if an application is rejected at local or branch level a business can get a formal review at a higher level. There should also be the opportunity for an independent review.

Ms J McCann:

Did you say that the banks' SME lending plans were produced in the South but not here?

Mr Murray:

I understand that they were not produced for here. I have to say that a two-page version was made public. One could never ask an organisation to make a detailed plan public, but more detailed plans were provided to the Department of Finance.

Ms Stuart:

Those more detailed lending plans were reviewed by the credit review office, which also reviewed the policies of the banks. It submitted its findings. I do not know whether the Committee has seen those, but I will forward a report from the credit review office on the findings. To say to businesses that there is another option provides then with a level of confidence.

Dr Farry:

Welcome, Michael and Joanne.

Jennifer McCann touched on the issue of the enterprise finance guarantee scheme, so I do not want to dwell on that too much. However, we are getting some figures coming through on the number of loans offered per region. Northern Ireland is by far the lowest of the 12 UK regions per head of population. To what extent can the Institute of Directors help us to drill down further in that respect? We can talk about the number of people who have applied for loans, but can you give us figures for the numbers who have been accepted or have not been accepted for loans in Northern Ireland? Beyond that, are comparable figures available from your counterparts elsewhere so that we can take this to the next level?

Ms Stuart:

With respect to the enterprise finance guarantee scheme, we have the results from the survey. However, it is more likely that people who have had a bad experience will respond to that. It is difficult for us to give you an evidence base with regard to that.

Some of the information we are getting back is that the enterprise finance guarantee scheme is not necessarily bridging a gap. If a bank does not lend on the basis of viability, the enterprise finance guarantee scheme is not necessarily going to fit that circumstance. Therefore, there must be more clarity about the circumstances in which the enterprise finance guarantee scheme is the right option.

We also want to know about the administration of that from a banking perspective. One bank, and I am sure its figures are publicly available, seems to be way ahead of the others with regard to the small number of loans being provided in Northern Ireland, but it is part of a large UK bank. The question is whether there is some advantage in its administration that allows the bank to set up much more quickly? Does it target loans differently? I think that there is an issue in the other banks with respect to understanding. I have heard that the scheme is not simple enough and needs to be simplified, both for customers and banks.

Finally, if there are defaults, the portfolio risk approach can be detrimental to the banks.

Mr Murray:

We should take a step back and consider the problem that the scheme was meant to solve. It was supposed to help loan applicants who did not having enough surety by providing a Government guarantee for part of the loan. Considering the large number of people who have been asked for personal guarantees, the scheme is clearly not working and is not solving the problem that it originally set out to solve. We must understand whether there is a better system that could be used from the banks' perspective.

The Chairperson:

You said that one of the banks in Northern Ireland has the lion's share of successful applicants for scheme. If the scheme is acceptable to that bank, why is it not acceptable to the other three? That seems to be a contradiction. I would also have thought that a guarantee from the Government is better than a personal guarantee on an individual's property.

Mr Murray:

There are some issues for the smaller banks, in UK terms, with the way that the portfolio works and the total percentage that is guaranteed for all the loans. There are also administration issues when the UK banks use their systems at a UK-level.

Dr Farry:

Reference has been made to the Green Paper that was developed by the Department for Business, Innovation and Skills. That work was obviously done at a very general level for the UK as a whole and does not reflect our particular circumstances, and it is clear that there are some acute differences here compared with what is happening elsewhere. Although the powers covered by the report are not devolved here, are there things that we, as an Assembly, should say to the Department for Business, Innovation and Skills in order to put across our local points?

Ms Stuart:

When I first saw the Green Paper, I spoke to the Department and made officials aware of the importance of submitting a Northern Ireland response. Minister Wilson has submitted a response to the report, DETI has also submitted a detailed response and the Institute of Directors, with all the stakeholders we represent, will also be submitting details. There has been a Northern Ireland response, but it would be a good idea for the Committee to review the information that has been submitted, and, although the official closing date was Monday, the Department for Business, Innovation and Skills has said that it is willing to take information at any time. It would be worth the Committee feeding through its view on the report.

Dr Farry:

Perhaps we should first scrutinise what the respective Departments have sent through to the Department for Business, Innovation and Skills.

Ms Stuart:

Yes, and as I said I will also forward our response to the Committee.

Mr Murray:

The biggest issue we should highlight is that businesses in the Green Paper are split into SMEs, medium-sized businesses and large corporates, with SMEs being worth under £25 million, a medium-sized business worth up to £250 million and large corporates above that. We have many micro-businesses in Northern Ireland and another category must be created to deal with that type of business.

Mr Cree:

That is right. One of the biggest things that stuck out for me was that the Green Paper was quite different to our experience here, because of the scale of the businesses here. I found the report from the Institute of Directors interesting, although, if you do not mind me saying so, it does have a slight bias, with half of the respondents being new start ups or sole traders, and I am cautious about such a focus. There are two things that I want to ask you about. First, the banks do not seem to be using other sources of finance. Perhaps I am oversimplifying things, but is that the case? Secondly, do you believe that there is competition in the Northern Ireland banking industry?

Ms Stuart:

On the first point, one of the things I did position was the need to be cognisant of the respondents. I also said that a large number of small-scale start-up businesses responded to us.

With regard to alternative financing options, there needs to be more signposting for businesses on education and development of skills. When businesses are dealing with banks that are not in a position to lend, they should be pointed elsewhere, because there are other options. More work needs to be done to raise awareness and raise the skills level of people who will be working with businesses to ensure that those people are aware of that.

With regard to competition in the banking sector, we are certainly not seeing a lot of new entrants to the banking market in Northern Ireland. There are not many banks for businesses to go to, and, anecdotally, the feeling is that if a business is turned down by one of the four banks, there is not much likelihood of one of the others taking it on, so there is a lack of choice. The following question also must be asked: if the perception that Northern Ireland banking is over-leveraged is right, what is that doing to the capacity of capital available to lend? We get different information from the banks on that, and it comes down to trying to get an understanding of some of our regional figures.

Mr Cree:

The issue you raised about the survey being weighted towards start-up business and very small enterprises is largely why we keep saying that we need the local figures, so that we are not dependent on surveys of a couple of hundred people, but have factual information to deal with.

The Chairperson:

Thank you for coming.