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Time for a new model of bank for small businesses

By Ana Botin

High-growth companies require certain services but lenders need to be kept safe, says Ana Botin

Who will create the millions of jobs needed to make the UK economic recovery sustainable? The answer: Britain's small and medium-sized companies. But to do that, banks in the UK need to innovate in the way they support small businesses, particularly those with the potential to grow.

Small and medium-sized enterprises employ almost two-thirds of people in the private sector and generate half of its turnover. But just a fraction of small companies – about 10 per cent – create two-thirds of the new jobs created by SMEs. These high-growth companies are found in every sector of the economy and across the UK.

Many are joining a technological revolution that is fast changing the way we live and work. Only six years after the launch of the iPhone, more than half of British adults own a smartphone. Will banks be able to keep up with this pace?

In today's economy, high-growth companies can have complex business models. Their value is in people, not physical assets against which banks can lend. Often, they have limited records and a lot of debt. Meanwhile, competition and technology have driven all businesses – including banks – to seek ever greater economies of scale, which can make it harder to ensure a profound understanding of these innovative small companies. Relationship managers must spend a long time getting to know them before they can guide their loan applications through the typical credit committee in London.

So banks should explore new ways of understanding and financing high-growth companies. At Santander, we have launched the Breakthrough programme, a £200m growth capital fund dedicated to helping these businesses fulfil their growth potential. It offers an innovative kind of mezzanine finance that allows entrepreneurs to keep ownership of their business while still receiving the investment they need.

At the same time, banks need to revive the best of relationship banking: local relationship managers who understand small companies. Recruiting new managers and maintaining a presence in local communities – as we are doing – helps. But for this model to work cost-effectively, banks' operations and IT need to be more efficient.

Thinking about how banks serve small companies raises questions about how we weigh the contribution banks make to the UK economy. At times, we seem to measure a bank's social utility only in terms of the amount it lends to SMEs. Obviously, this measure is critical: if we want the UK economy to grow and create private sector jobs, we need to increase lending to small companies.

But we should also distinguish between the necessity of providing all SMEs with an excellent service and the challenge of helping high-growth small businesses. Are banks offering these companies all the financial and non-financial support they need? Is policy helping? What more can government do to assist?

For example, we are debating the kind of basic derivative that ringfenced banks – in other words, high-street banks – should be allowed to offer SMEs. Current proposals would stop them selling products that allow small exporters to manage foreign exchange risk. If these proposals became law, small exporters would have to go to a non-ringfenced bank – in other words, an investment bank – for help.

Some people have said this should not matter because the proportion of SMEs affected would be tiny. But companies in this tiny proportion are disproportionately likely to be among the 10 per cent with the greatest potential to grow. The world's middle class will expand rapidly in the next decade: British SMEs – not just FTSE 100 giants – need our help to make the most of those new markets. So we need to find a compromise that both allows high-growth small companies to obtain the services they need and keeps the banks safe and stable.

All British SMEs deserve the best from their bank. But a special kind of small company, one that can become a real global leader, needs a new kind of British bank. It needs a bank that is big enough to be efficient and sustainable but small enough to be local and entrepreneurial.

The writer is chief executive of Santander UK

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