

# FAIR BANKING FOR ALL

## The Fair Banking Act: A bold yet practical proposal to drive regional growth and enable Britain's businesses to flourish.

**The Fair Banking Act: a groundbreaking piece of legislation which would drive capital to small businesses, remove the obstacles which prevent businesses from starting up and scaling up, and unlock regional growth.**

Inspired by the success of the US Community Reinvestment Act, the Fair Banking Act would create a stepchange for the purpose-driven banking sector in the UK. This sector includes credit unions, and institutions specialised in SME lending, such as Community Development Finance Institutions (CDFIs). It would do this by:

- Requiring mainstream banking institutions to disclose their performance on financial exclusion, in a transparent, publicly available, data disclosure framework.
- Creating a system for clear ratings, that show which banks are doing well and which need to improve, with the FCA having regulatory tools and incentives to drive change.

Mainstream banking institutions could improve their rating by:

- Creating partnerships with co-operative or other purpose-driven banking institutions, enabling these specialised organisations to expand services and support for financially excluded people and businesses.
- Expanding their own provision of affordable and ethical lending to underserved communities and businesses, giving fair access to credit regardless of people's backgrounds or where they live.

Once the Fair Banking Act is established, at an appropriate point, the criteria could be expanded so that mainstream banking institutions could also improve their rating by:

- Providing fair services to those who are underserved and excluded, either directly or via a partnership.

### Financial exclusion and UK business

SMEs are vital to the UK economy. Data from the FSB shows they account for 99.9% of the business population (5.6 million businesses), 60% of private sector employment, and around half of all UK private sector turnover.

However, financial exclusion is a major problem, with thousands of businesses struggling to access the financial services, support and investment they need to thrive. Various estimates have suggested this funding gap is in the tens of billions.

99% of businesses supported by CDFIs in 2022 had already been declined by another lender, yet they went on to create and safeguard 8,280 jobs. 94% of CDFI lending was made outside London and the South East. CDFIs are much more likely than mainstream banks to lend to ethnic minority-led businesses, women-led businesses, and businesses in the UK's most deprived areas.

While small businesses overall are more likely to be excluded than their larger counterparts, financial exclusion isn't experienced equally by all small firms. For instance, British Business Bank research shows that, in 2019, 43% of SMEs in highly deprived areas applying for finance were rejected, compared with a 25% rejection rate for SMEs from less deprived areas. Businesses from highly deprived areas are also more likely to be deterred from applying for finance in the first place.

These regional disparities are compounded by gender and ethnic inequities. For instance:

- Women-led businesses are more likely than male-led businesses to make an application for a core bank product (like a loan or overdraft), but 25% of these are declined – compared with a 16% decline rate for male-led businesses.
- Ethnic minority-led SMEs are less likely to

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obtain the finance they applied for. 48% are made an offer by lenders compared with 78% for SMEs overall. Ethnic minority-led businesses are also more likely to be discouraged from applying for external finance.

Analysis by SME finance specialist Praetura suggests that SMEs' ability to access financing has become harder in recent years. Bold action is needed now to empower SMEs so that they can deliver the fair economic growth the UK needs.

## The US precedent: The Community Reinvestment Act

Similar legislation in the US, the Community Reinvestment Act (CRA), has been in place since 1977. Introduced in response to mainstream banks' refusal to serve specific communities based on race, it has been described as "one of the seminal pieces of legislation to address systemic inequities in access to credit".

Through the CRA, banks are incentivised to work with purpose-driven finance organisations. This has led to a significant improvement in the provision of services to businesses and marginalised communities through major growth in providers such as CDFIs and credit unions.

Analysis suggests that in the US, in the period 1990–2009, these purpose-driven banking providers lent \$20 billion through CRA mechanisms. This created or preserved nearly 200,000 jobs, and lent to around 43,000 microenterprises and SMEs. More recently, in partnership with the Opportunity Finance Network (an umbrella body for CDFIs and credit unions), one major US bank has delivered more than 322,000 hours of technical assistance and \$781 million in financing to minority-owned small businesses, enabling more than 103,000 jobs across the country.

Like the CRA, a Fair Banking Act would

- create a level, consistent level playing field to foster partnership approaches between mainstream banks, regulators, and purpose-driven financial institutions
- unlock investment for SMEs, ensuring every business receives accessible and fair service
- tackle the financial exclusion that is currently holding so many SMEs back.

## Making Britain the best place in the world to start and grow a business

Exclusion of the UK's many small businesses from financial services is holding back local economic development and contributes to regional economic inequalities. Evidence shows that promoting financial inclusion is a proven pro-growth strategy.

Purpose-driven finance institutions are often best placed to understand and respond to the needs of SMEs in different parts of the country, and to back business owners when bigger institutions will not. Boosting this sector would therefore ensure businesses can access the financial services and products they need to grow and thrive.

“ Purple Shoots [CDFI] understood that with a little humanity I could turn things around for me and my daughter, and I did. It saved my life. Within 18 months of Purple Shoots helping me with only £3000 I'd paid them back early, I was free of benefits, and I was running a successful business. ”

Julie Hawkins, UK business owner

**A Fair Banking Act would** close the funding gap currently facing SMEs, build economic stability and tackle inequality, increasing access to essential financial services and support for both businesses and individuals who are excluded by mainstream finance.

**A Fair Banking Act will** help the millions of SMEs that make up the backbone of our economy to reach their full potential, creating jobs and driving prosperity across the UK.

SMEs are key to building a fairer and more prosperous economy. To give them the support they need to flourish, political parties should commit their backing to a Fair Banking Act.

The Fair Banking for All Campaign is an alliance of 25 organisations, including purpose-driven banking institutions, financial inclusion organisations, anti-poverty groups, and academics.

Visit [www.fairbankingforall.org](http://www.fairbankingforall.org) for more information and a full policy paper.

We would very much welcome a meeting with you to discuss the Fair Banking Act - please email [sam-kay@financeinnovationlab.org](mailto:sam-kay@financeinnovationlab.org).