Opening Statement

Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach

Tuesday, 27th March 2018

Opening Remarks by Nick Ashmore, Chief Executive, Strategic Banking Corporation of Ireland (SBCI)

Chairman, Members of the Committee,

Thank you for inviting me to update the Committee once again on the operations of SBCI and its very substantial and encouraging progress in making it easier and cheaper for Ireland's smaller businesses to borrow.

Joining me today is my colleague Suzanne Sweeney, Head of Lending.

Let me start by addressing the reason we have been invited to appear before this Committee, as we want to provide you with clarity and assurance on how the SBCI is conducting its work, in line with the legislation underpinning its establishment and in a transparent manner in accordance with its mandate.

The SBCI's primary goal is to deliver financial instruments to the SME market in Ireland, either using its own balance sheet or as a service provider, to facilitate the availability of credit in the State to benefit the economy and the economic well-being of the State. This allows the SBCI to address market failures and to make it easier and cheaper for SMEs to borrow money to support their business and to enhance competition in the market for Irish SME financing.

The SBCI deploys its resources in three ways.

- Firstly, it offers long term low cost liquidity facilities to financial institutions that extend finance to SMEs;
- Secondly, it provides guarantee and risk sharing facilities to enhance SMEs ability to access finance;
- And thirdly, it serves as a service provider to the Minister for Business Enterprise and Innovation in operating the Credit Guarantee Scheme.

We focus heavily on ensuring that the maximum benefit reaches Irish SMEs and that taxpayer money and European funding are used appropriately and in accordance with State Aid rules. To ensure this, the SBCI requires its on-lenders to account for all of the finance provided by reporting every single loan or facility provided to SMEs and farmers. Any unused funds are required to be returned if they are not utilised in this way within a reasonable period.

The SBCI also applies a common impartial approach and rigorous scrutiny to every applicant institution for its facilities. It undertakes a thorough due diligence process in each case to mitigate risks to Irish taxpayers, European funders and to SME borrowers. It aims to ensure that all lending partners have the necessary financial strength and capability to provide the required level of service to SMEs alongside sufficient protections for the taxpayer.

In offering its liquidity facilities to SME finance providers, the SBCI charges a common interest rate while seeking to take a common level of risk. In order to ensure this commonality of risk, the structure used will naturally vary from institution to institution. State Aid rules require us to maintain robust controls to ensure that banks and other on-lenders pass on the full benefits of SBCI support to SMEs.

To manage the risk, the SBCI's requirements may or may not include an equity contribution from an institution (or a similar form of risk mitigation), appropriate legal and corporate structures, and due diligence by an auditing firm on an SBCI-approved panel.

The SBCI is a custodian of Irish State and European funds and must ensure that these funds are deployed on commercially acceptable terms and have sufficient protection from the risk of deterioration in each lending partner's financial condition. These requirements are applied to all prospective lenders.

Adopting these robust and transparent processes over the last three years has enabled the SBCI to support over 22,000 Irish SMEs that have borrowed a total of €920m using SBCI finance.

This has included large and small SMEs; our average loan size is €40,000 but we have supported loans for as little as €1,500 and as large as €4.3 million.

The SMEs we have supported employ over 119,000 people.

We have been very successful in ensuring that the benefits the SBCI offers have been well spread throughout Ireland – with 85% of loans outside Dublin and a generally broad spread throughout all regions of the State. The agri/food sector has been one of the biggest beneficiaries of SBCI funding – it is often overlooked that farmers are SMEs.

The finance provided has been delivered in the form of a strong mix of term loans for working capital and investment purposes, leasing, hire purchase, contract hire and invoice discounting. The SBCI has also supported loans where an SME's existing finance provider will no longer support them and they need to refinance.

I am pleased to say that 2017 was a transformative year for the SBCI. We built on the very strong progress of 2015 and 2016, when we were primarily a conduit for channelling low-cost funding from the EIB, German promotional bank KfW and ISIF, through 8 institutions (3 banks and 5 non-bank lenders).

What made 2017 transformative was our evolution and development into a provider of risk-sharing products on foot of a new arrangement with the EIF and its European Commission backed COSME support scheme for SMEs.

This meant that, for the first time, we were empowered to take on risk-sharing with our lending partners, hugely extending our potential impact among the SME community and increasing our scope to improve access to credit.

Risk-sharing was the key driver of the Agri Cashflow Support Loan Scheme in cooperation with the Minister for Agriculture, Food and the Marine, which was hugely successful in delivering €145m in low-cost working capital loans, with an interest rate of 2.95pc, to primary agriculture businesses.

This scheme was so attractive to borrowers that it was heavily oversubscribed and all of the capacity was fully accounted for within weeks of launch – far ahead of our expectations. We comprehensively demonstrated our ability to deliver this scheme quickly and we expect to be equally effective in the delivery of similar schemes in future.

This experience demonstrates that our risk sharing model works and that the Agri Cashflow Support Scheme offers a real template for additional programmes of this nature. The latest of these is the Brexit Loan Scheme, which was announced in the Budget. We expect that this will be a highly effective support for SMEs by providing up to €300 million in low-cost funding, with the support of the European Investment Fund, to businesses that are innovating in response to their exposure to the challenges that Brexit poses. The scheme will cover loans ranging from €25,000 to €1.5m with loans of up to €500,000 being unsecured. The maximum rate for this scheme will be 4% which is a material reduction on the matrix rates being charged to SMEs on loans less than €250,000.

The SBCI will engage directly with Brexit-impacted SMEs to assist them with the eligibility process and applying for these loans. This direct engagement will be hugely beneficial as it will allow the SBCI to gather crucial process information on the challenges that SMEs face in accessing finance, which we can use to identify SMEs' needs well into the future and design the right kind of products to meet these needs.

2017 was also transformative because it saw the SBCI bring together the state's risk sharing activities under one roof when it took over the operation of the Government's Credit Guarantee Scheme.

Now that the revamp of this scheme is complete, we expect to drive greater awareness and accessibility of this scheme in conjunction with our range of other supports for SMEs – many SMEs do not realise that they can use as many of our supports as they wish, subject to eligibility, and we are working hard to make sure that SMEs are fully aware of all the supports that we offer.

I will conclude by saying that we are continuing to engage with potential partners and seeking to add new partnership deals during 2018, further extending our range of on-lending partners and making it easier than ever before for SMEs to access SBCI funding.

Our partnerships with on-lenders to date have been very beneficial in providing low-cost finance but, importantly, in generating increased competition in the SME lending market by facilitating the entry of new non-bank lenders to the market – both domestic and international.

These non-bank lenders, such as Bibby Financial Services, Fexco, Finance Ireland and First Citizen Finance, have succeeded in bringing greater choice and innovation to the market, which is ultimately good news for all SMEs.

We plan on continuing the strong progress we have made and are confident we can bring more and better forms of low-cost funding to the market, in line with our mandate of making the funding environment better for Ireland's SMEs. By adapting to the changing market conditions and by developing innovative new supports to drive competition and address market gaps, the SBCI will continue to make a positive impact on SMEs ability to finance their operations.

I would also like to note that we have included some slides on the activities of the SBCI for the committee's reference. That concludes my opening remarks. I hope you have found them helpful and we will be happy to take any questions the Committee may have.