



National Pawnbrokers Association (United Kingdom)

Submission to the European Banking Authority in response to:

EBA Discussion Paper and Call for Evidence on SMEs and the SME Supporting Factor

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National Pawnbrokers Association
107 – 111 Fleet Street
London
EC4A 2AB

T: + 44 207 936 9496

E: james.watkins@thenap.com

www.thenapa.com



Executive Summary

This submission concentrates upon questions 6 and 7. As a trade association representing small, medium and large enterprises our perspective is that the restraints upon access to business current accounts indicates that creditworthiness analysis as summarised in section 4.3 of the discussion paper may go beyond this terms of reference.

There are concerns that banks are demonstrating a clear bias towards critical business sectors without full consideration of each firm's financial profile.

We would therefore urge the EBA to consider not just the loan capital facilities offered by banks to SMEs but whether SMEs are able to be in a position to seek such loans due to business current accounts being restricted to a wide range of firms.

National Pawnbrokers Association (United Kingdom)

- 1.1 The National Pawnbrokers Association (NPA), established in 1892, has around 200 members across the United Kingdom which, in turn, represents nearly 2000 stores across the UK. Members are subject to the NPA's rules and code of conduct. The NPA stand for fairness and transparency, professionalism and excellence combined with expertise in pawnbroking.
- 1.2 There is no European wide federation which brings national pawnbroking trade associations as in some member states pawnbroking is a nationalised activity whilst, in the United Kingdom, pawnbroking is regulated as a consumer credit sector by the Financial Conduct Authority.

Question 6 – Do you agree with proposed measures of SME riskiness? Are some of these measures more relevant than others?

- 2.1 We believe that banks may be developing creditworthiness criteria which goes beyond the viability assessments as outlined in section 4.3.
- 2.2 Therefore the NPA supports the UK's Competition and Markets Authority (CMA) provisional decision for a market investigation reference as we are concerned that perceived changes in banking practices is leading to a deleterious impact for a range of SMEs.
- 2.3 As a consequence, access to loan capital could be seen as being restricted to a significant number of SMEs as access to business current accounts are being restricted.
- 2.4 The focus of the NPA relates to the trend of banks to withdraw current account facilities to pawnbroking businesses – thereby reducing an alternative credit option for SMEs who have spoken of their own difficulties in accessing credit from the banks.



- 2.5 This is negatively impacting upon a key sector of the financial services industry that is very well and tightly regulated. Virtually no complaints are upheld against the industry according to the UK's Financial Services Ombudsman - with thousands of customers utilising the services of pawnbrokers to manage short term cashflow issues on a regular or occasional basis.
- 2.6 The National Pawnbrokers Association has found that the withholding of current account facilities is affecting businesses with – and without – money transfer services with the implications this can have on jobs and livelihoods. We are aware that occasionally the fact that some of our members are engaged in money transfer services may be a factor in withholding current account facilities because of money laundering concerns.
- 2.7 However, we do not consider it acceptable or reasonable that those pawnbroking services who work as agents for companies, such as Western Union, should be penalised as businesses rightly have to follow rigorous money laundering procedures and a compliance fee has to be paid each month.
- 2.8 We remain concerned that firms who have been operational for many years without any fault being attached to their businesses are seeing their current accounts being withdrawn with only 90 days' notice – leaving very little time for sourcing new accounts and, thereby, threatening the viability of the businesses concerned. We also express our dissatisfaction that when current accounts are withdrawn, no reasons are offered despite the endeavours of our members to ascertain why these unexpected decisions had been made.
- 2.9 We are concerned that:
- Pawnbrokers and their staff are having their livelihoods put at risk as banks are withdrawing or withholding access to current account facilities;
 - This trend is hindering a financial services product that is trusted by thousands of customers each and every week;
 - It is causing problems in a sector where virtually no complaints have been upheld due to the open, friendly, consumer driven approach which the industry has adopted;
 - It is acting as a barrier to entry to new businesses trying to obtain a current account in order to trade;
 - The denial of current account facilities helps to engender an anti-competitive environment.

The National Pawnbrokers Association is willing to enter into constructive dialogue with the EBA and other partners in order for a positive way forward to be found for all concerned. Critically, it is vital to find a way forward so that the



services provided can continue for thousands of consumers across the country and the viability of financially sound SMEs can continue.

Question 7- Are other aspects relevant in your assessment of the creditworthiness/riskiness of potential SME borrowers? If yes, please provide a list of those aspects and explain how you measure SME riskiness?

- 3.1 As the survey data from NPA members as referenced to in Annex A of this submission highlights, there is evidence to suggest SMEs with a range of different profiles and who have been established in business for many years are now experiencing difficulties in accessing current accounts.
- 3.2 Therefore the NPA supports the interim findings of the UK's Competition and Markets Authority (CMA) that there are supply side issues that is limiting access to business current accounts (BCAs). Whilst we recognise there will always be a case by case analysis to be considered as to how decisions by banks are reached to ascertain whether a business should gain a BCA, we have discerned a trend that seems to echo a general position being adopted by a number of banks towards pawnbroking and money service businesses.
- 3.3 Our concern is that such a trend may be counter intuitive in terms of developing and maintaining a diverse and regulated consumer credit marketplace. It is in the interests of consumers to be able to shop around and make informed choices as to the best consumer credit options available for them. Restricting that choice to banks by limiting access to BCAs for money service businesses and pawnbroking firms would, we suggest, raise potential competition concerns which is worthy of further investigation.
- 3.4 This trend, upon an initial analysis, does not seem predicated upon the characteristics of individual firms or how well or not they are operating. The regulatory framework which the pawnbroking sector rightly has to operate within also does not seem to have been fully considered when business current account decisions are being made.
- 3.5 Therefore, if a blanket approach has been adopted amongst a core group of banks which is sending market signals regarding the sector to other banking participants, then this may indicate an unintentional restriction of consumer credit competition. We do believe the CMA's provisional analysis confirms trends as evidenced by survey work undertaken by the National Pawnbrokers Association, amongst other evidence presented by other SME groups.
- 3.6 This would lead us to conclude that there does seem to be a prima facie case for the EBA to undertake a wider analysis and consideration of the issues facing SMEs and the forms of risk assessments currently being undertaken by banks.



Conclusion

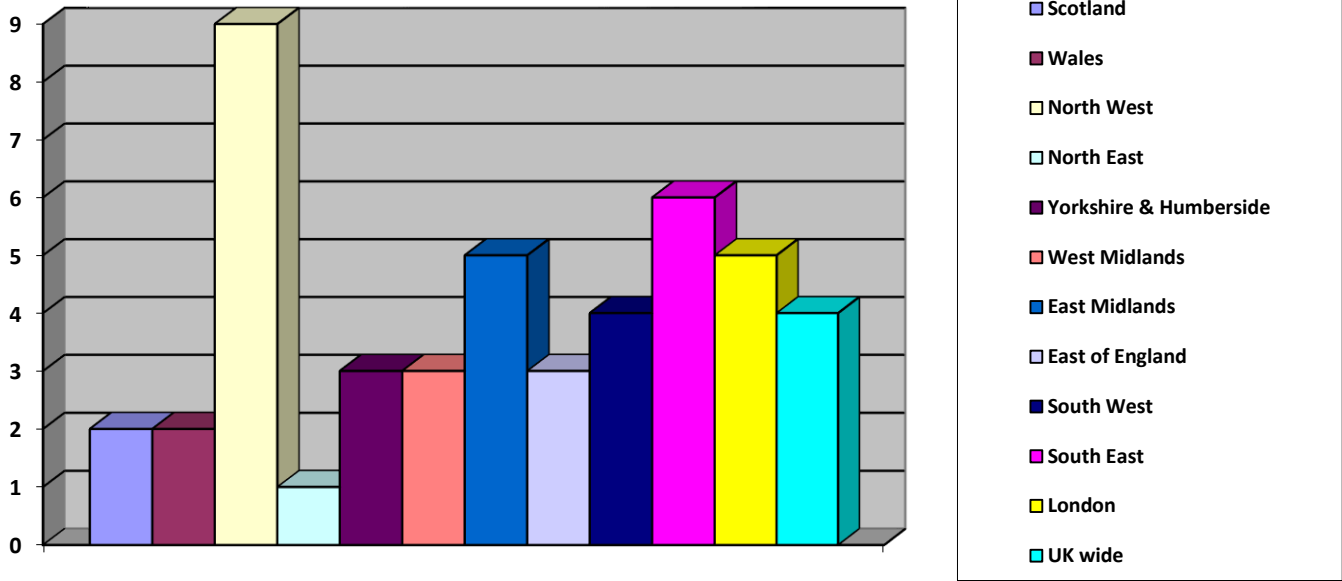
- 4.1 We recognise that the focus of the EBA's discussion paper pertains to the strategic approach adopted by banks in terms of loan facilities towards SMEs. We would contend that the EBA's analysis necessitates a requirement to look beyond the immediate issue of risk profiles to ascertain whether broader practices are taking place amongst banks which could be leading to a more generic risk profile analysis being adopted – with clear detriment towards the development of a diverse and dynamic SME base.
- 4.2 In the case of pawnbrokers and money service businesses (MSBs), we accept that international regulation and, in particular, regulation from the United States may act as a deterrent for some banks to engage with MSBs.
- 4.3 However, we would urge the EBA to consider whether generic risk profiles of specific key business sectors is also acting as a deterrent for businesses to gain current accounts and therefore facing additional difficulties in accessing loan capital.
- 4.4 The NPA would be happy to work positively with the EBA as part of this investigatory work.



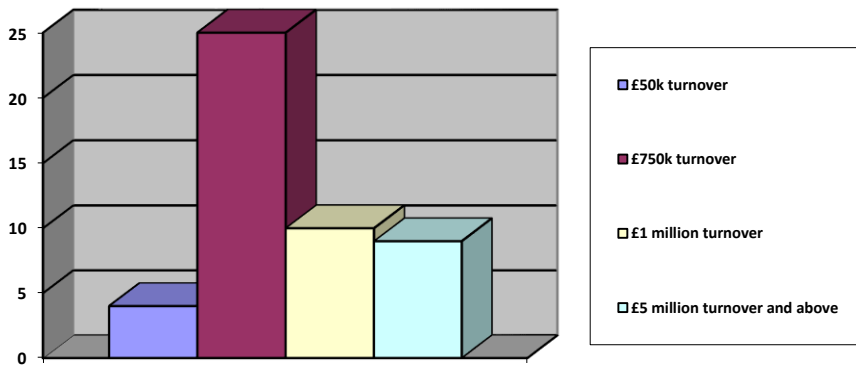
Annex A - Pawnbrokers survey

In April 2014, the National Pawnbrokers Association surveyed its members and over 20% of its members responded – representing 80% of the industry as a whole.

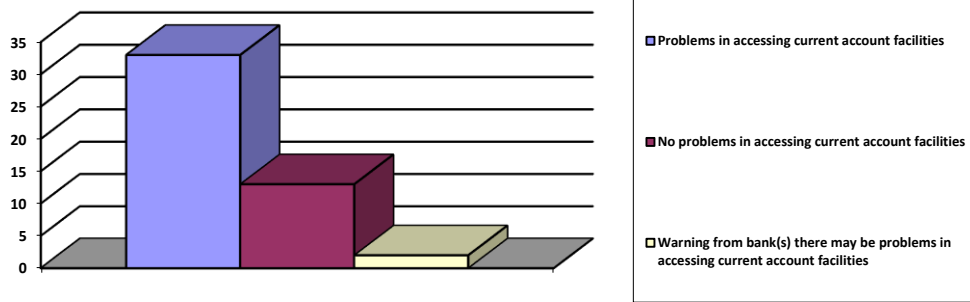
The response we received represented pawnbrokers across the UK who are or have been experiencing difficulties in accessing current account facilities:



Pawnbrokers of all commercial sizes also responded to the survey:



The majority of respondents reported problems in accessing current account facilities:



Money Transfer Services and Pawnbroking

The majority of the businesses affected were responsible for pawnbroking and money transfer services. However, what was striking was that a significant proportion of respondents did not carry out money transfer services and accounts were still being withheld:

Money transfer services, such as acting as agents for Western Union, provide a key role in the global economy. As the then Treasury Minister, Sajid Javid MP, said:

A healthy, functioning remittance sector is crucial for the thousands of our constituents up and down the country who use such services to send money abroad.¹

The sector also plays a key role in supporting the underlying operations for a number of pawnbroking firms. It enables a range of transactions to take place at pawnbroking stores and helps ensure that pawnbrokers meet the needs of today's consumer market place by providing retail, pawnbroking and money transfer services in a friendly one stop shop environment.

We welcome the fact that HM Treasury, Her Majesty's Revenue and Customs, the British Bankers Association and other organisations are working together to address the issue of current accounts being denied or closed down for firms engaged in the money transfer sector.

We are concerned that **around 10% of all respondents to the survey who happen not to provide money transfer services are also being affected by the banks not offering or withdrawing current account facilities**. We are also aware of at least one example where the bank informed the company it was concerned with its pawnbroking operation but was seemingly content with the money transfer service that this company operated.

It is difficult to ascertain a rationale for this development as the pawnbroking industry provides loans based upon secured assets. A pawnbroking loan is provided via a pledge on an item and if the item is not redeemed then, the customer is advised 14 days before the end of the loan contract that the item could be sold if it is not

¹ Westminster Hall debate, Hansard, 17 July 2013



redeemed. Any surplus on the sale of an item is refunded to the customer after the loan costs are recovered.

Therefore, the loan is asset based and does not involve undue risk or a continuing series of interest payments that may last for a considerable period of time, as would be witnessed with other forms of consumer credit products. Concerns regarding credit risks or money laundering would not apply to regulated pawnbrokers.

New Market Entrants

The survey undertaken in April 2014 was able to assess the impact of the banks' approach towards the sector – but as the National Pawnbrokers Association consists of existing businesses, it does not measure how the approach of the banks is impacting upon new market entrants to the industry.

However, on the basis of the enquiries received, we are confident that the approach of the banks is leading to additional hurdles for new market entrants.

We have found that in many cases reasons are not offered for the refusal to provide current account facilities. However, in one case a business planning pawnbroking services in the Midlands – with no money transfer services on offer – was told that that the company had to provide evidence that it would not be at risk to “Politically Exposed Persons”.

This showed a misunderstanding of how the pawnbroking sector works – as it is based on loans based upon assets which are thoroughly checked to avoid stolen items being pawned.

Competition

The National Pawnbrokers Association is concerned that this negative trend in respect of current account facilities is hindering the growth and development of the sector. Specifically, we are concerned that if this trend continues, it would be difficult for a regulated, responsible and popular form of consumer credit product to remain as freely available as it is today. This raises important competition issues and whether this trend is restricting open competition in the financial services consumer market place.

We therefore encourage the **Government and the regulatory authorities to address this issue to avoid an anti-competitive stance becoming embedded in the financial services consumer marketplace. We would welcome the opportunity to meet with Ministers and officials to discuss this matter further.**

Annex A – Case Studies

- Pawnbroker A - Southern England



“We have been with our bank for the last three years ... surprisingly we received a letter stating our account will close. Now we don't have any other account for our business”.

- Pawnbroker B – Northern England

Bank informs business account may close. Business contacts the bank –

“They hummed and haared a bit ... it has been sometime now and we have not even had the decency of any communication confirming that the account will remain open”.

- Pawnbroker C – London area

“Bank closed my account. I am in the process of seeking advice from my solicitor”.

- Pawnbroker D – Northern England

“Bank is closing our accounts. I emailed the bank – I am yet to hear back from them”.

- Pawnbroker E – Southern England

“We asked the bank for working capital to help finance our move into pawnbroking and they refused on the grounds that we would be in competition with them. We are not a money service business”.

- Pawnbroker D – Scotland

“We have lost a lot of money due to the bank closing down our business account ... What is VERY distressing is the fact they will not give me a reason for their action”.

Further case studies are available upon request.

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