SME Finance: What the Government's Review Reveals, and What Still Needs to Change

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The government's recent response to its *Access to Finance* call-for-evidence has highlighted what many in the industry have known for some time: the SME lending landscape has changed significantly since 2020, and the systems surrounding it have not kept pace.

The withdrawal of mainstream banks from large segments of SME risk has created a vacuum that short-term lenders and digital providers have filled. For many small businesses, this has been essential in moments of acute pressure. Yet the report also acknowledges that SMEs often struggle to navigate the finance market with confidence, with many unable to compare products, understand costs, or identify trustworthy support.

Importantly, the review reflects rising concerns around personal guarantees, inconsistent broker conduct, and the opacity of some short-term products. These are not issues of "bad actors", but challenges arising from a system where incentives, information and regulatory perimeters do not always align.

In particular, the review highlights something the industry must take seriously: SMEs are being funnelled into high-cost borrowing not because they want to, but because the structure of the market makes low-cost options harder to access, understand and compare. For businesses already under strain, that lack of clarity can turn short-term solutions into long-term burdens.

The review's commitments to improving financial literacy, expanding access to responsible lending, and exploring best practices in broker transparency are welcome steps. But there is more to do. Three issues stand out:

1. Cost comparability.
Factor-rate pricing, daily repayments and non-standardised fee structures make it difficult for SMEs to understand the true cost of borrowing. A more consistent approach to presenting total cost, including APR-equivalent metrics, would improve decision-making across the market.

2. Commission transparency.
Broker remuneration can significantly influence which products an SME sees. Clear disclosure of commission structures would build trust, reinforce professionalism and reduce the risk of misalignment between advice and outcomes.

3. Personal guarantees.
When business owners are personally exposed, it is reasonable to expect clearer guidance, more consistent standards, and a framework that reflects the reality of borrower vulnerability.

The direction of travel signalled by the government is positive. But lasting progress will depend on the industry working together to build a lending ecosystem rooted in transparency, aligned incentives and long-term resilience for SMEs.

Fair finance is not about constraining choice; it is about enabling better choices. And that is a goal the entire sector can stand behind.