The bank that Vince built finally opens its doors

Whitehall needed to step in to fill the demand for loans that was not being met by the big institutions, the secretary of state tells **Kiki Loizou**

As Vince Cable took to the stage, the rumours were of an announcement that would change the face of British banking. The business secretary did not mince his words. "Our leading banks are often anti-business, especially anti-small business. They threw traditional relationship banking over the side and sold useless insurance and dodgy derivatives instead," he told the Liberal Democrat conference in Brighton two years ago.

"We need a new British business bank with a clean balance sheet and an ability to expand lending rapidly to the manufacturers, exporters and high-growth companies that power our economy . . . and we will have one."

Now, the vision is a reality. Brussels has given the green light for the new bank — until now only a team of people within Cable's Department for Business, Innovation and Skills — to become an independent lender with a chief executive and board managing about £4bn of state cash.

"We've never had a friendly face of British banking for small businesses, the doors have always been semi-closed," said Cable in an exclusive interview with The Sunday Times. "We have had negative lending ever since the banking crisis . . . we needed a game-changer."

To change the game, Cable started a bank that is not a traditional bank at all. The British Business Bank does not hold deposits or lend directly to companies. Instead it houses existing state funding schemes for small and medium-sized enterprises, while pumping millions of pounds of taxpayers' money into alternative financiers and debt and venture funds with strong track records.

The move has been a long time coming. Of all the G8 members, Britain has so far been the only country without an institution that deals with funding for small and medium-sized companies. President Eisenhower created America's Small Business Administration in 1953, while Germany's KfW has been piling government funds into small and medium-sized ventures for more than 60 years. France, Italy, Japan, Canada and Russia all have their own versions.

So far more than 10 lenders, including equity and asset financiers, have received about £400m from the Business Bank. The Enterprise Finance Guarantee (EFG) scheme, which guarantees up to 75% of a bank loan for small companies, has been brought under its wing.

"We will run the EFG more efficiently and get much more through the door," Cable said.

The EFG claims to have helped to lend £2.2bn to more than 25,000 small and medium-sized ventures to date since 2009.

The new bank has taken on the StartUp Loans scheme, a £150m programme that lends cheap cash to budding entrepreneurs for fledgling ventures. The scheme expects a default rate of between 30% - 40%.

"The Business Bank will run the old stuff in a more cohesive way and do innovative stuff as well," said Cable. Moreover, a budget of £600m is set to be used for a "wholesale guarantee" scheme, which hopes to encourage risk-taking by covering some losses incurred by lenders.

Talks are under way to bring about £100m of the Regional Growth Fund under the control of the Business Bank, which is headquartered in Sheffield. It currently has a board of 11 members, with 100 staff (half in London), and expects to take on another 20.

Keith Morgan, who spent almost five years managing taxpayers' interests in Northern Rock and Bradford & Bingley, is the chief executive. The chairman, Ron Emerson, is a veteran of international banking at Bank of America, Nomura and Standard Chartered.

"It's frustrating because we still don't have positive net flows, but I'd rather we built a reputation for competence and the Business Bank becomes a permanent feature of the landscape," said Cable.

For many, the new bank is a long-awaited response to the consistent stream of disappointing lending figures. Lending to small companies was down yet again in the last quarter, this time by £400m, with only Lloyds and Santander showing signs of growth.

"I used to be highly critical in general of the banks, of the culture, of the interest rate mis-selling, of the past," said Cable. "There are some positive things happening. What's inhibiting the banks is not bloody-mindedness, but the fact that they have risk ratios inherited as a result of the Basel regulation."

For the first time in generations, he said, Britain is showing signs of a competitive lending sector. The rise of challenger banks such as Handelsbanken, Aldermore, Shawbrook and newcomer Atom, is creating waves, and alternative financiers are also making waves in the business-lending market.

A report from the innovation charity Nesta last year said that the alternative finance market grew from £492m in 2012 to £939m in 2013, and predicted it would hit £1.6bn this year. As a result, Cable has thrown his weight behind some of the brightest stars in financial technology and alternative finance. The likes of Zopa, Funding Circle, Ratesetter and Market Invoice have won millions to lend through their peer-to-peer platforms.

The move is set to prove a smart one. The £5m given to Market Invoice, for example, has already earned a 14.2% return. As the money is being used for short-term finance, it is recycled every 45 days or so. The initial funds have so far translated into £30m of finance for small companies.

"Using peer-to-peer platforms is indicative of a forward-thinking strategy at the British Business Bank," said Anil Stocker, co-founder of Market Invoice. His company has raised more than £280m for small companies since its launch in 2010. "Traditional finance providers have grown apart from our small businesses. More than half of new business credit applications are rejected by banks."

The Business Bank's £60m investment in the peer-to-peer lender Funding Circle is earning it a return of 6.3%. So far, about £35m has been lent to more than 2,000 companies. "The average business that borrows through us is 10 years old and the average director is a 55-year-old male. He's used to going to the bank first," said James Meekings, who co-founded Funding Circle four years ago.

To date, the platform has lent more than £400m to businesses. "Our challenge is to let them know there are alternatives. The Business Bank instils more credibility in what we do. The government goes through strict due diligence with us, it gives people confidence," said Meekings.

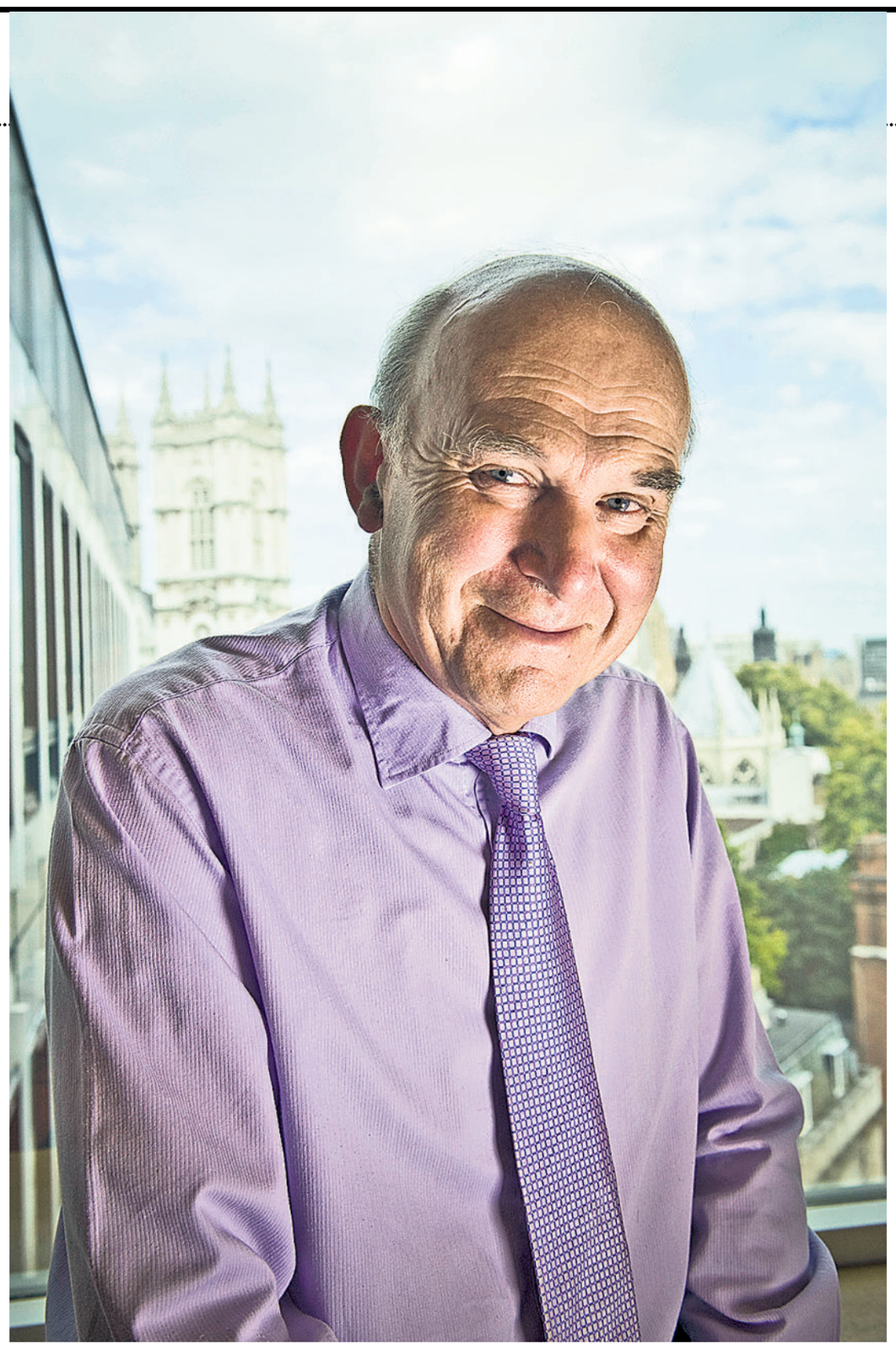
The competition from alternative players is welcomed even by high street banks. "More competition means better deals for customers," said Stephen Pegge from the small business banking division at Lloyds.

"It's very competitive at the moment. Businesses aren't investing as fast as we want them to, so everyone is fighting over every bit of lending they can do."

Pegge said the Business Bank should consider offering advisory services. "It could signpost to advice and guidance to help people prepare for investment. Independence from government gives it the edge to work to broad objectives." He added: "There is a responsibility for all of us in the finance sector to ensure firms know the full range of finance that is available."

The peer-to-peer lender Ratesetter received £10m from the Business Bank. "Banks are choosing the cautious route and they aren't lending to perfectly lendable propositions," said Rhydian Lewis, the company's co-founder.

Zopa, Britain's first peer-to-peer lender, also received £10m from the Business Bank. "I'm not sure how much capacity the Business Bank will have," said Giles Andrews, who founded Zopa in 2005. "Will it single-handedly fix lending to small companies? No, probably not. But it's part of a narrative that everyone has to continue."



Vince Cable promised to change the face of British banking. Two years on, his vision is being turned into hard cash
FRANCESCO GUIDICINI

Follow the money

About £400m of taxpayers' money for small business loans will be directed not through the high street banks, but through the new wave of alternative lenders and financiers that have sprung up in the wake of the credit crisis.

About £300m has already been allocated. The peer-to-peer lender Funding Circle has received £60m, while the rival platforms Zopa and Ratesetter have each taken £10m.

Money has also gone to debt funds. European Capital has received £50m, Beechbrook Mezzanine and Praesidian have each landed £30m, and BMS £15m.

Boost & Co, another debt fund, has received £20m, Shire, which provides asset finance, has taken £40m, and £10m has gone to Urica, a supply chain finance provider.

The invoice finance provider Market Invoice has been given £5m, as has Credit Asset Management, which specialises in asset finance.

Business doctor

IS DEMANDING A FIT NOTE A BREACH OF PRIVACY?

TP writes: I have an employee who is increasingly absent from work. It started with him taking a Monday off, and now he calls in sick for two or three days at a time.

I have asked for a fit note, but he says it is private and he does not wish to disclose the problem. How should I proceed, and am I in breach of privacy rules by asking for a fit note or a medical report from the doctor?

Fit notes are not normally issued for periods of sicknes of fewer than seven calendar days, so it is unlikely your employee's doctor would provide one unless he paid for it, *writes Peter Done, managing director of Peninsula.*

For periods of sicknes shorter than seven days, self-certification is usually required by employers. This means that the worker completes a form on their return to work, filling in the details of the absence and also the reason. This can make up part of the employer's documentary evidence of the absence, which should be kept on the worker's personnel file.

Asking for a fit note or a medical report, when appropriate, is not a breach of privacy on your part because you may not be able to fulfil your responsibilities to an employee with an illness or a health condition if you are not aware of the details.

However, there is legislation in place that means an employee must give consent for their medical records or a specific medical report to be made available to their employer.

You should explain that it may be in your worker's best interests for him to tell you about the reasons for his absence because there may be things you can do in relation to his job that could help.

On the other hand, persistent absence is sufficient cause for disciplinary action to be taken against the employee, and it may be that you choose to address the situation in this way. This would mean sticking to your contractual disciplinary procedures, which is likely to include inviting him to a hearing so he can explain his behaviour. It may be that potential disciplinary action is enough to make the employee co-operate with you.

PRE-EMPTION RIGHTS HURDLE FOR FUNDING

HC writes: I am a shareholder in a company that is looking to raise funds by issuing new share capital. The company cannot take on further loans because of existing debt, and I am probably the only shareholder with funds to invest. We need to raise the finance relatively quickly, but I have been told there may be pre-emption rights. What will this mean, and can we avoid having to apply pre-emption rights?

Pre-emption rights are common in companies that have a number of independent investors, *writes Jon Dawson, partner at Kingston Smith LLP.* The existing shareholders effectively have the first opportunity to invest further to protect their interests from being diluted.

Statutory pre-emption rights exist under the Companies Act 2006. However, these can be disapplied by including provisions in the company's articles of association or the shareholders' agreement. You should check whether this is the case, but it is not a standard clause in the model articles of association that many businesses adopt. Also, a company is not required to have a shareholders' agreement, although it is advisable to do so, particularly where there are multiple investors.

If pre-emption rights do exist at your company, an offer should first be made to the existing shareholders, with the minimum period allowed for it to be accepted. This is 14 days for statutory pre-emption rights, but the articles may specify a different period.

As it will be in the best interests of the shareholders for the company to receive funds quickly so it can continue to operate, you may choose to override pre-emption rights. This can be done by a written resolution, which requires the agreement of 75% of the shareholders, or a deed of waiver, which requires unanimous agreement.

You may wish to consider amending the articles, again by written resolution, to avoid this happening in future, if the company is likely to require further capital.

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Naming our ad agency after the patron saint of business said it all

HOW I MADE IT

Fran Brosan
Co-founder of Omobono

'Fran Brosan made her name in the 1980s, when BMW gave her a new car every six months. 'It was a blast, a different world to now'

FRAN BROSAN had stepped into the lift with her ad agency colleagues Ben Dansie and Chris Butterworth when someone said: "Brosan Butterworth Dansie — that's a good name for an agency."

By the time the trio had emerged from the lift, they had agreed to start their own business, called — less of a mouthful — Omobono. They started the digital marketing agency in 2001, winning clients such as BP, Coca-Cola and Shell. "In the end we decided to name it after the patron saint of business [St Homobonus] as it's memorable and more pertinent to what we do," said Brosan.

Omobono, which employs 56 in Cambridge and Bristol, posted sales of £4.6m for the year to last December and profits in excess of £1m.

"Technology connects everything today and communication connects everyone," said Brosan, who chairs the agency. "Our job is to combine the two."

Omobono helps clients to manage their digital presence — whether it's through engaging staff or retaining customers. "We advise how digital platforms can be used to strengthen those relationships," she said. "Technology is fantastic but it can be a nightmare to use if people aren't engaged."

Brosan, 55, grew up in Godalming, Surrey, and attended Guildford High, an all-girls school, before moving to the sixth-form at Charterhouse. "There were 700 boys and only 30 girls so it was quite an eye-opener," she said. "I learnt to keep my nerve."

Her mother had been a medical social worker and her father was an engineer and a pioneer in the development of polytechnics in the 1970s. Brosan has two older sisters who work in accounting and psychiatry. "I think our parents wanted us to be an accountant, a lawyer and a doctor," she said. "In Britain we're very bad at talking to women about careers in business. We never suggest they start their own — it's all about professions."

Brosan studied English language and literature at Durham University and joined Charles Barker, then the world's oldest PR firm, in London as a graduate trainee in 1981. In 1983 she joined the advertising agency WCRS, rising to board director and running accounts such as BMW and Laura Ashley. "It was a blast, a different world to now," said Brosan, who was given a new BMW every six months. "The clients were fantastic, the board inspirational, and we built the most successful brands today through print."

With the birth of her first daughter, Brosan decided to slow down. In 1991 she worked part-time as a programme editor for BMW Business Television. Brosan, who now works four days a week, said: "As a mother you have to balance work and home life, or one part can go off the rails."

In 1993 she moved to Cambridge to join Warman & Bannister as a business development manager. She was appointed managing director the following year and soon after met Dansie and Butterworth. "Whenever we worked on a project together we really enjoyed it and so did our clients," said Brosan. "That seemed like a good foundation for our own company."

The three partners own all of Omobono: Brosan is chairwoman, Dansie, 45, is chief executive, and Butterworth, 48, is creative director. "We still work incredibly well together, though it happens less now we're growing," she said.

In 2001 the trio began brainstorming in Brosan's basement in the village of Great Gransden to save on rent. They lived off savings, deciding not to pay themselves in the first three months of business. In 2002 Omobono moved to its first office in Cambridge. "It wasn't actually very inspiring looking out at a field full of sheep," said Brosan. "We moved as soon as we could to somewhere commutable."

After a steady start, the agency took a dramatic turn during the recession. By 2008 public sector clients were becoming scarce and Omobono began specialising in communications technology for multinationals. "We realised staff, and the service they provide, are driven by their experience of digital, so we embraced the opportunity," she said.

Brosan plans to open an office in Chicago next year. "We weren't successful overnight," she said. "It took 13 years but now our pace and acceleration is greater than it's ever been."

She and her husband Sebastian Brunt, who owns a software company, have four daughters, aged 12 to 24. Her advice to young entrepreneurs is: "Stay at it and embrace change. Your business will develop and may morph into something you hadn't anticipated."

YOUNG ENTREPRENEURS SHOULD STAY AT IT AND EMBRACE CHANGE

Hattie Williams