

## **Banks look at a firm's risk, not its size**

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Various reports claim that banks don't serve the small business market in Canada, that banks don't lend to small businesses to help them grow, that banks are closing branches everywhere; that banking is dominated by a few big banks that stifle competition. The result of research with small- and medium-sized enterprise (SME) owners shows that this is not the case at all.

First, let's look at lending, where banks are a significant source of funding for SMEs. Total credit authorized to small businesses by banks has grown in the past 15 years. The amount of credit outstanding -- that is, the amount that small businesses have chosen to borrow through things like lines of credit--has decreased slightly, but that is more a result of these businesses borrowing cautiously than banks not lending.

The bank loan approval rate for small businesses is 80%, which is consistent with the rate 10 years ago and also the same as for larger firms with a similar level of lending risk. Approval rates, as they should be, are determined by the risk involved to the lender rather than the size of the business requesting the loan. SMEs have as much access to credit as do larger firms with the same risk profile.

What do small businesses think about their relationship with their bank? In August 2009, The Strategic Counsel found that 77% of SME owners in Canada have a credit relationship with a bank, and among this group, 90% reported their credit relationship to be positive.

Throughout the recession, Canadian banks continued to provide financing solutions for their small business clients. The vast majority of SME owners reported that their bank worked with them to help them weather the downturn-- of those SMEs who approached their bank, almost 90% reported that their bank was willing to help. Banks continue to lend to small businesses and maintain positive relationships with these customers.

Canada's strong banking system provides financing to SMEs across Canada, regardless of whether they operate in Cranbrook, Calgary, Collingwood or Corner Brook. As a business grows, banks in Canada are able to continue to meet their client's expanding needs. And with new branches opening across the country -- the number of bank branches in Canada has grown by 280 since 2005 -- bank support for SMEs continues to grow.

Access to credit is only one part of the relationship small businesses have with their banks. More than half of the SMEs we surveyed reported that the selection of their main financial institution was driven by non-credit services rather than credit. Banks offer a broad range of personalized services --everything from deposit services, payments facilitation and foreign exchange to records

management and succession planning --that are designed by local bankers who understand the unique demands facing businesses in their communities.

Our research indicates that small business owners value the direct interaction and breadth of services that banks provide. When asked what they valued in their relationship with their bank, 92% of SME owners identified the importance of having a face-to-face relationship and 82% highlighted the availability of a wide selection of products and services.

That said, competition for SME business remains fierce. According to the most recent numbers from Statistics Canada, banks provided more than half, 59%, of total business financing for SMEs in Canada. To attract and retain customers, banks continue to find ways to increase the value they provide for their SME customers, through innovations such as extended operating hours and mobile account managers who travel to meet clients at their place of business.

Banks in Canada have a long history of lending to small businesses and helping them through good times and bad. As Canada emerges from the global recession, the contribution small businesses make to the Canadian economy is more important than ever.

- Nancy Hughes Anthony is chief executive of the Canadian Bankers Association