



**Redefining
Digital Banking
for Small
Businesses**

Executive Summary and top-level findings

99% of the world's 125m companies are small and medium sized businesses (SMBs). They contribute 49% of global GDP. 94% of banks see SMBs as important/extremely important. And yet, according to the research, 70% have had no contact with their relationship manager at their bank.

Similarly to retail customers, SMBs are moving over to digital channels. This has been helped by banks adopting a digital model as they pursue further cost efficiency as well as adapting to changing customer preferences. In fact, digital technologies are a higher priority for global banking executives compared to regulatory issues according to The Economist Intelligence Unit.

The research reveals that as a result more SMBs now bank digitally than use the branch. Unfortunately this shift to digital has weakened the relationship between banks and SMBs.

This deterioration of the relationship has meant that SMBs are now less loyal and are increasingly viewing banks as nothing more than a utility provider. 47% are tempted to switch and when looking for more complex financial products 42% will shop around, rather than speak to their incumbent provider.

Losing SMB custom could be highly damaging for banks who can ill afford to lose market share, reputation, and ultimately revenues. The challenge for banks is demonstrating they understand and care about these businesses and can help them grow—all via digital.

The research shows that current digital services are not aligned with the needs of SMBs. As well as transaction-focused services, SMBs want specialist online tools and services that help them to grow their business. 44% would feel more engaged with their banks if they were offered these services. Guidance, insight and tools can not only save a SMB relationship but also foster long term, sustainable revenues as the bank/SMB relationship develops and grows. However, rather than banks developing these tools themselves, a more efficient way is to partner with a cloud-based engagement platform.

By delivering guidance, insight and tools to their SMB customers, forward-thinking banks can cement a highly valuable stream of revenue and move from transaction provider to business partner.

It's about redefining digital banking for SMBs.

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Top level results from the survey of 500+ businesses:

SMBs are going digital



37% use mobile/online services vs. 33% who use branch services – digital has overtaken branch banking as the preferred method of interaction

22% of UK businesses visit their branch once a week, as many have shifted to digital

42% of US businesses still visit their branch once a week, as they are less comfortable with digital

SMB customers have disengaged from their banking relationship. Lethargy, rather than loyalty, is what's stopping them leaving but that is set to change

52% have held their account for over five years but 47% are tempted to switch

70% have no contact with their relationship manager

68% are happy to look elsewhere for financial services

Access to tools and business insight would help SMBs to feel more engaged

44% say access to tools and advice would make them feel more engaged – up from 34% in 2012

38% said that advice on planning for growth and development would help

37% want advice running their business more effectively

42% would change banks given a demonstrable understanding of their business



Introduction



A recent Aite Group report revealed that 94% of banks see SMBs as either important or extremely important.

According to the International Finance Corporation, there are 125 million companies in the world of which 99% are SMBs. These SMBs contribute a staggering 49% of global GDP. The last major report into the state of the SMB market on a regional basis, a 2012 EC report, highlights that even in the aftermath of the financial crisis the total number of SMBs was steadily growing with net number of employees increasing across the continent.

This growth presents a lucrative opportunity for banks to provide advice, guidance and tools to support these businesses. Banks have recognised that they must engage with their customers in a cost-effective, digital manner and deliver value to SMBs that will protect their business from competition while also supporting delivery of their return on equity targets (ROE). In the same way that they have approached the consumer market—responding in part to changing methods of communication in society as a whole—banks have encouraged their SMB customers to use digital channels.

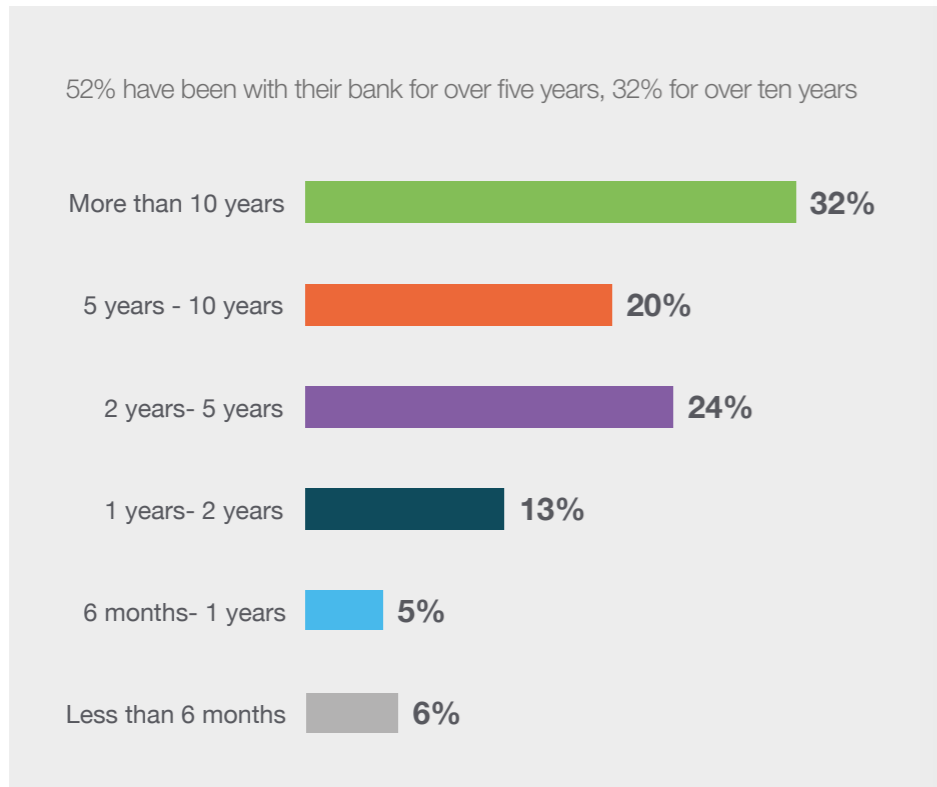
Top-level methodology was to focus on the UK/U.S. markets:

The survey was conducted by an independent research organisation throughout June 2015. A total of 501 company managers or directors were surveyed—250 in the UK and 251 in the U.S. Companies had fewer than 250 employees and respondents had overall responsibility for the company's banking services.

The research focuses on sole traders, micro businesses and small businesses with 250 employees or fewer. It found that use of mobile/online banking (37% use per week) has overtaken branches (33% use per week) as the service channel of choice for SMBs.

Whilst the shift to digital has helped to reduce costs and ensure banks are responding to customer communication preferences, it has had some unintended consequences regarding SMB engagement and loyalty that may put ROE targets in jeopardy. Banks now have the opportunity to redefine what digital banking is for SMBs.

Q1—How long have you held your business account?



Banks have a captive audience and the opportunity to deepen their relationship.

Banks are in the enviable position of having, effectively, a captive client base. Over half of survey respondents have been with their bank for over five years.

The longevity of SMBs' relationships with their bank appears to show a reticence to change bank accounts, whether through loyalty created by service standards or the perceived pain of switching. Either way, banks can expect to come under increased pressure to retain customers due to legislation designed to make switching easier. Thus far, the legislation has focused mainly on the consumer market but it is equally applicable to SMBs. Account switching in the UK has been made easier by recent legislation forcing banks to switch accounts in seven days, including all direct debits and standing orders; several European countries are also looking at adopting similar initiatives.

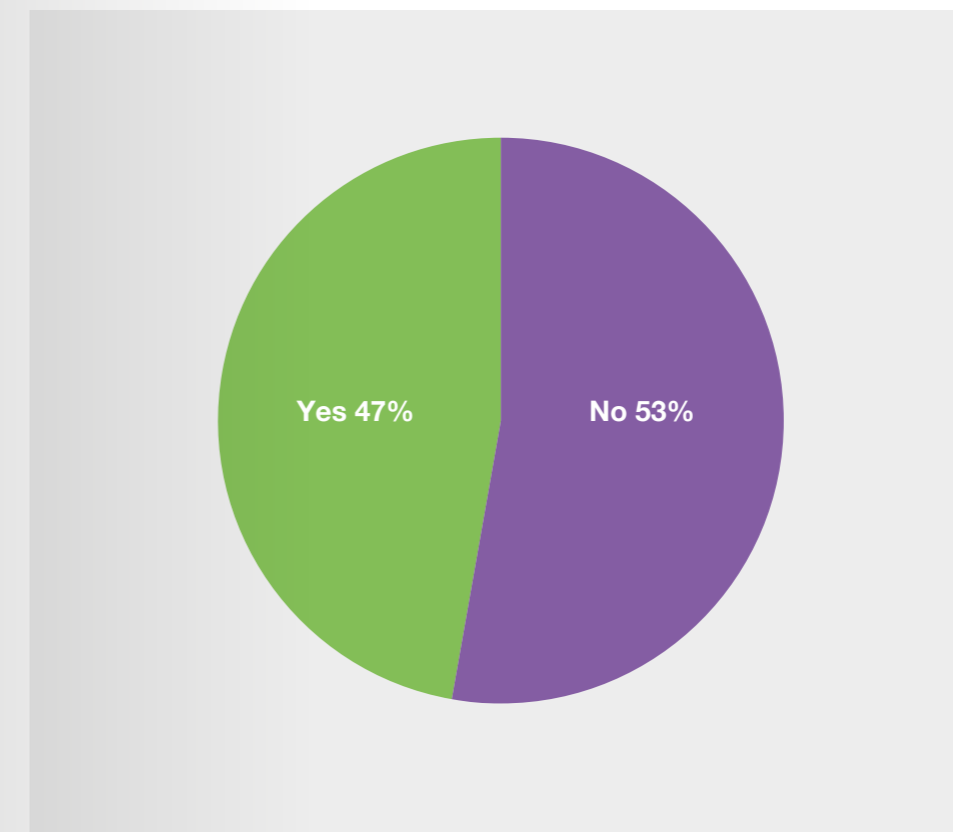
This presents both an opportunity and a threat. An opportunity to attract new SMB customers and the threat of lost accounts due to customer dissatisfaction.

Q2—Have you ever been tempted to switch banks?

Despite long term relationships, the temptation to switch is real. Banks that deliver what SMBs are looking for stand to gain a considerable competitive advantage.

Although over half of SMBs have been with their bank for over five years, 47% are tempted to change provider. This suggests that loyalty is not the reason that SMBs stay with their bank and also suggests that SMBs are not getting what they want from their current banking relationship. As a result, there is an opportunity to combat this risk of churn and turn lethargy into loyalty.

The data shows that UK SMBs are more likely to switch bank accounts than their U.S. counterparts (52% of UK SMBs vs. 42% of U.S. SMBs). The changing regulatory landscape is playing a part in SMBs' desire to switch, with the promise of better services, closer relationships and more understanding luring potential customers away from their long-held accounts. If banks can fulfil this promise they are likely to win new SMB customers and deepen their relationship with existing customers.



Q3—How does your bank engage with you and how often?

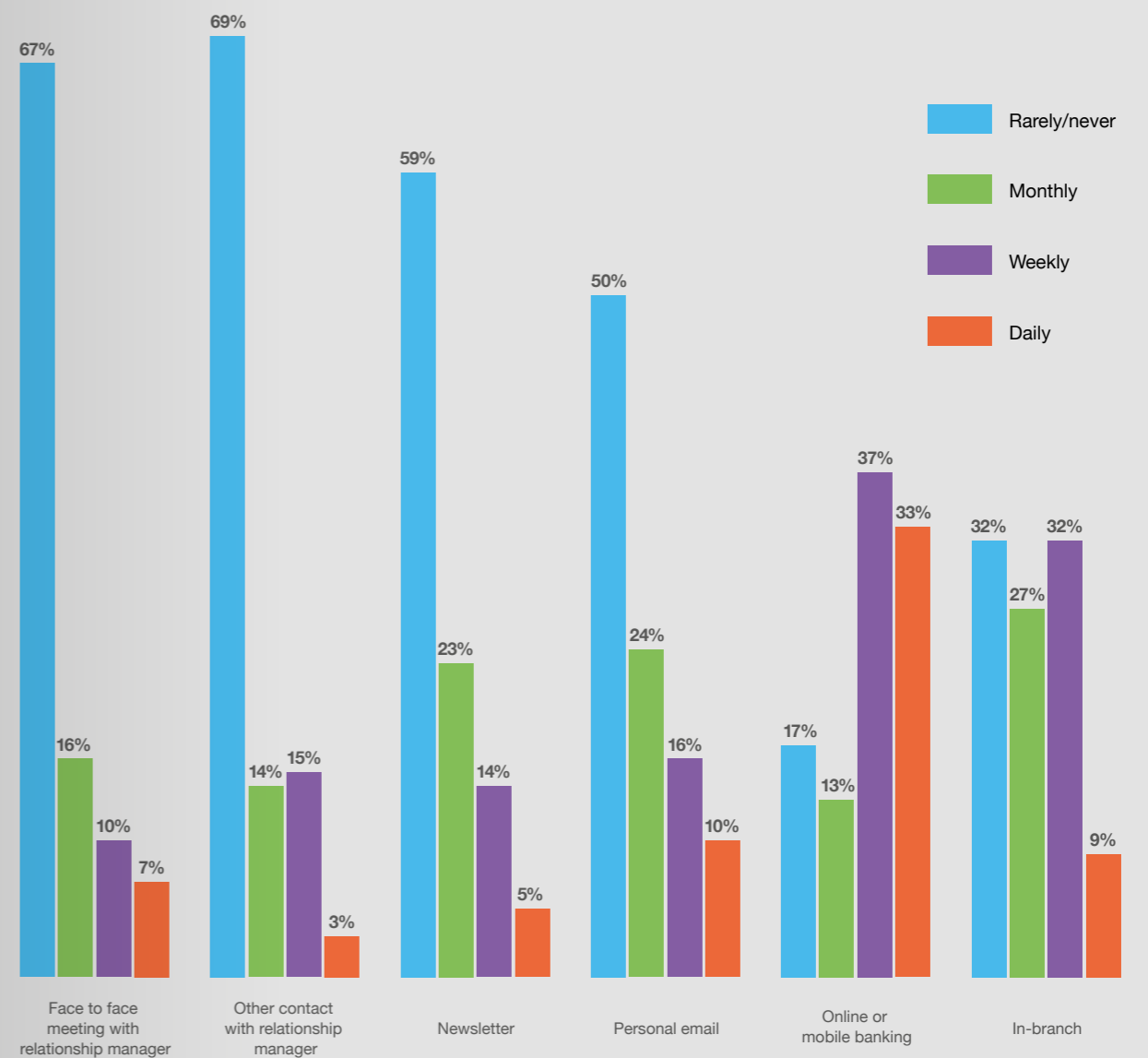


70% of SMBs have never had any contact with their relationship manager. More SMBs interact digitally than physically.

The results of banks' efforts to engage with SMBs digitally is apparent here. Digital interaction has overtaken physical interaction as the dominant method of engagement and 70% of SMBs have had no contact with their relationship manager. Whilst this move to digital is in line with bank strategy, it has had the unintended consequence of SMBs disengaging with their banks.

This disengagement means that SMBs now interact with their banks in a reactive way, either through digital channels (apps or the website), with mainly transactional functionality or through calling in to the branch when they need more specific help. Banks are now acting as reactive customer service outlets, providing basic services when asked, rather than providing the advice and services for which they are highly valued.

Clearly the current drive to digital is having an effect on banks' relationships with their SMB customers. **So what can banks do to tackle this emerging issue?**



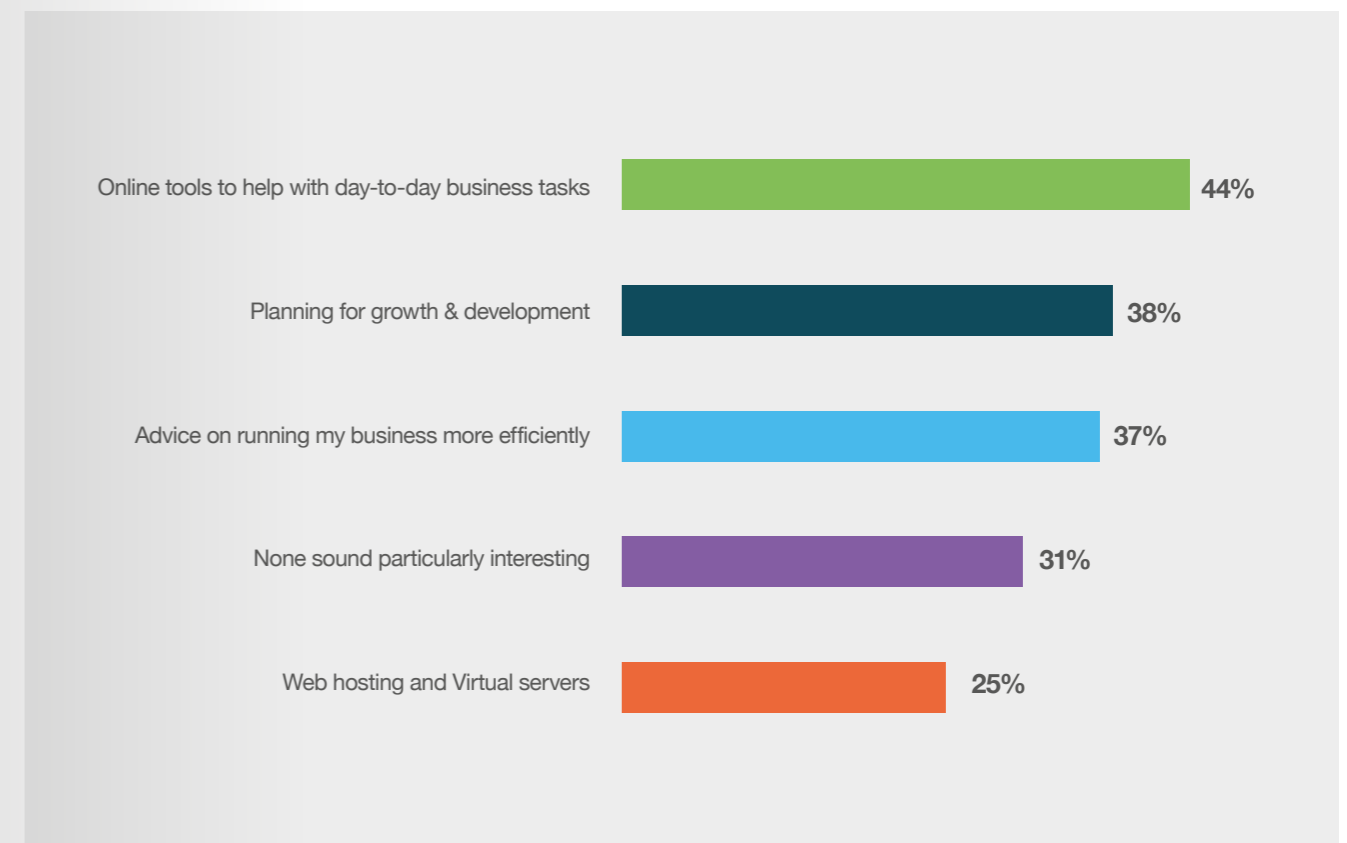


Q4—If your bank offered the following services, which ones would make you feel more engaged?

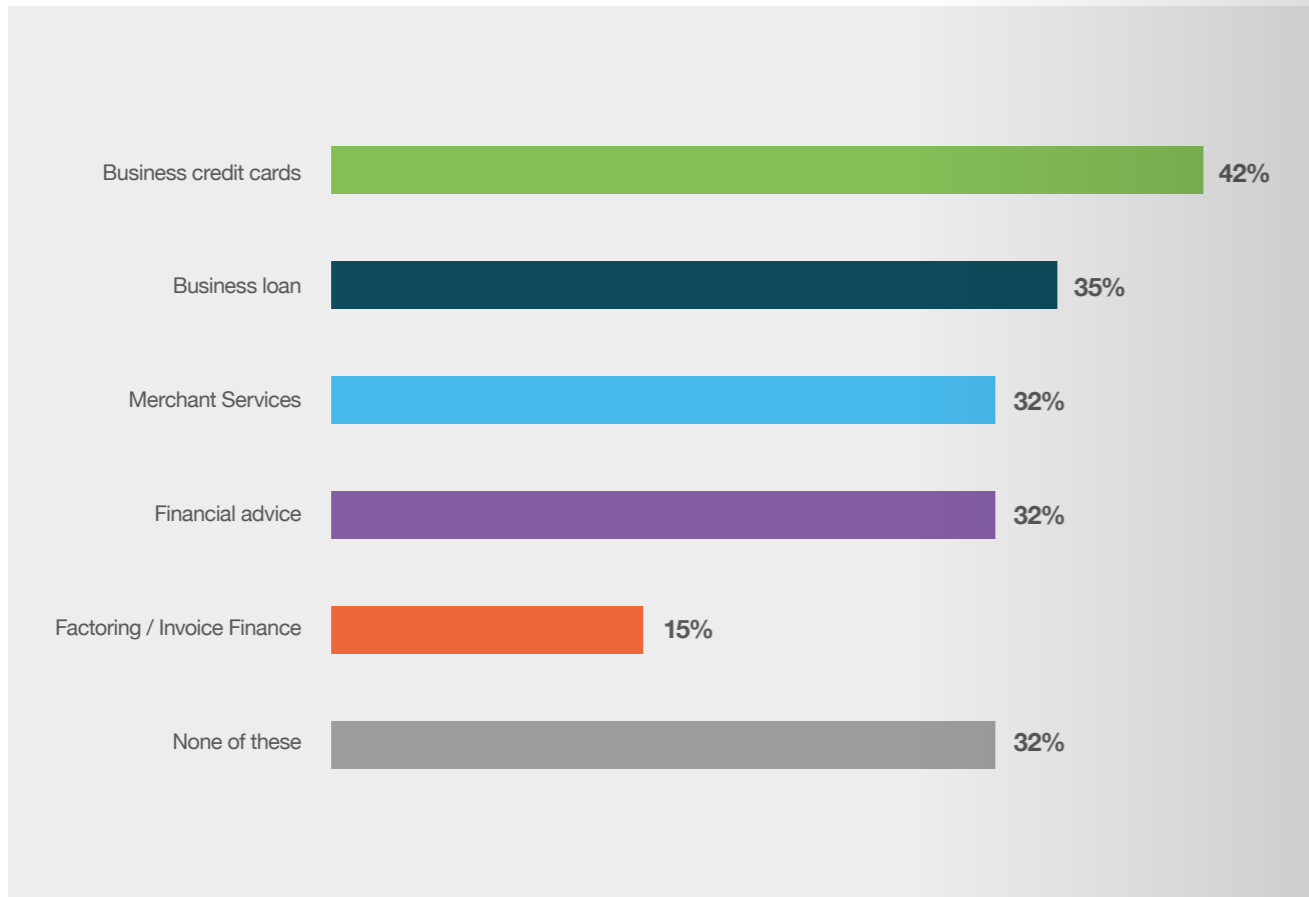
Banks are in a strong position to offer SMBs what they want: guidance, tools and advice to help with their business.

In many ways this is contrary to established thinking when it comes to SMBs and banking which assumes that businesses simply need financing—increasing access to credit will keep SMBs happy. The responses overwhelmingly refute this assumption with almost half (44%) saying that they would prefer online tools to help with business tasks. Over a third (37%) want advice on growing their business and 38% want help planning for that growth.

Clearly these “soft” services are more important to SMBs than the funding which is being prescribed to them. According to the British Bankers Association, SMB cash holdings now exceed borrowing by more than £54 billion. All of the services mentioned, according to the respondents, would make them feel more engaged with their bank. By providing the online tools and services that SMBs require, banks can increase the engagement levels of at least 44% of their SMB customer base.



Q5—Would you consider going to a bank other than your own for any of the following?



Incumbent banks face increasing competition to deliver financial services to SMBs. Shopping around is the norm.

Perhaps due to the lack of engagement, or symptomatic of a wider, societal trend, SMBs display a desire to explore other options. Increasingly banks are being treated like utilities where customers compare offerings for the best deal, rather than trust their bank to provide them with the best advice, products and services. The services listed in the above chart tend to be the more valuable ones for banks with intense competition for SMB business. If banks increase the engagement they have with their SMB customers their relationships will strengthen, helping them fight off the competition.

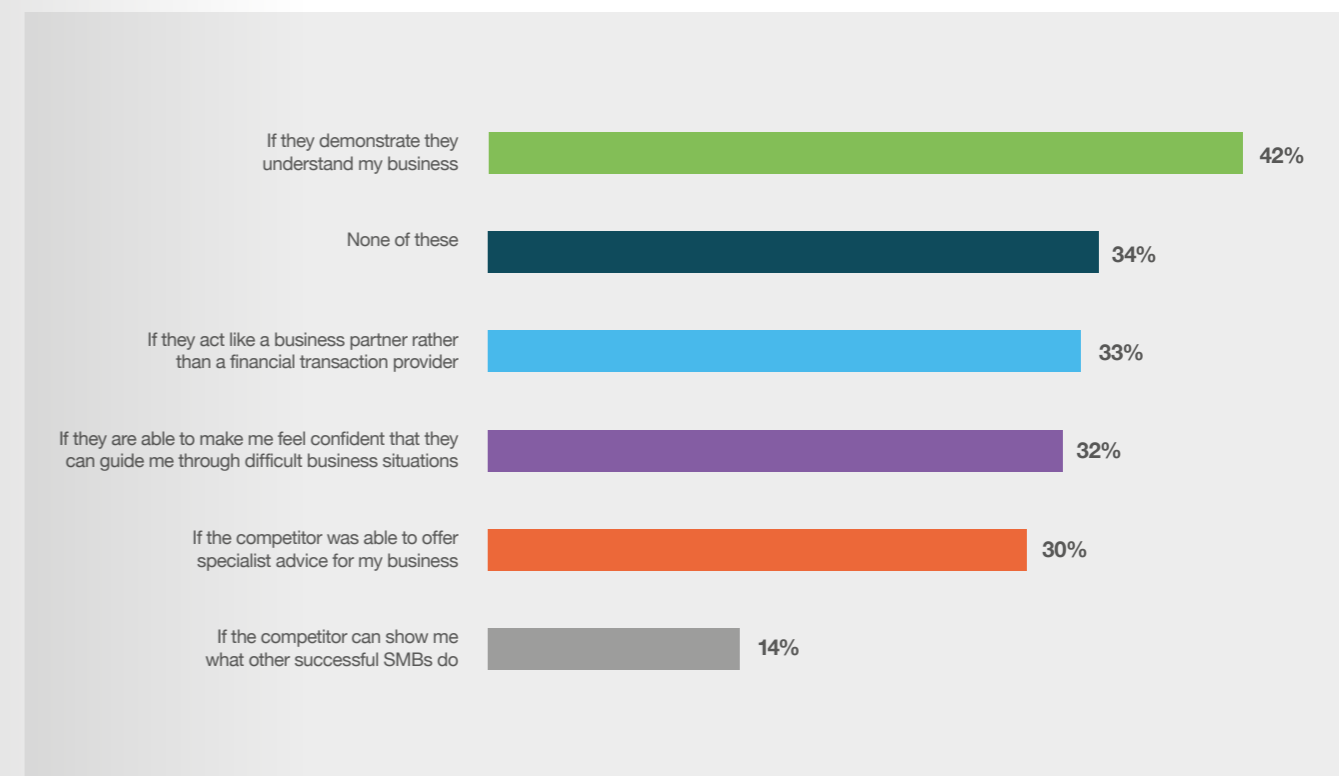
SMBs would be more likely to purchase additional services from a trusted business adviser than go out into the market to evaluate alternative services from unfamiliar competitors.

Q6—What would convince you to move from your current bank?

SMBs show a strong desire to be given advice and planning help by their banks, so much so that they would switch banks to access these services.

Again, this reinforces the potential opportunity for banks. One of the things SMBs are most interested in is receiving advice and insights about their business from a banking partner that would help them make better decisions.

Despite the perceived difficulty of switching bank accounts, nearly half of SMBs would do so if the bank demonstrated it understood their business. A third would swap if the bank offered 'business support' services rather than simply transactional ones.



Conclusions

There is a huge opportunity for banks to both increase the levels of SMB engagement and their bottom line. SMBs currently feel disengaged from their bank but have given clear feedback on what they are looking for. Stated simply, SMBs want banks to act like a trusted business partner.

SMBs care less about traditional bank services which they are already receiving and instead want tailored, business-specific help and support.

However, providing these services in branch or via telephone banking is not going to work given 33% of SMBs use online or mobile banking daily, compared with 9% that visit the branch. Instead these services and tools must be delivered cost effectively and in the manner that SMBs want to interact with their bank. 44% are interested in receiving tools and services online, a 10% increase from 2012.

Offering these services on a web or mobile-based platform is the key to ensuring that bank SMB customers become engaged.

It's about redefining digital banking so that banks understand their customers better, thereby creating a deeper relationship with them. By moving towards a model that is digitally engaged, banks can defend against SMB churn. The research shows that SMBs are looking for advice and tools rather than simply access to the funding. These tools can create a platform for engagement by providing insight into individual SMBs that the bank can base its advice upon. As the relationship deepens, insights into the SMB are more pertinent and thus a virtuous circle is born.

Offering these services on a web or mobile-based platform is the key to ensuring that bank SMB customers become engaged.



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