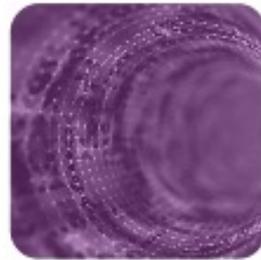


10. The impact of the application/renewal process



This chapter reports

on the experience of applying for Type 1 loan and overdraft events and the impact on the wider banking relationship.



Key findings

76% of overdraft applicants and 69% of loan applicants were 'satisfied' with the application process in the 18 months to Q4 2017 but with marked differences depending on outcome:

- Amongst those offered the facility they wanted, 91% of overdraft applicants and 96% of loan applicants were satisfied
- For those offered their facility after issues, satisfaction was lower at 45% for overdrafts and 77% for loans
- And amongst the small group declined for a facility, satisfaction was 23% for overdrafts and 12% for loans.

87% of overdrafts and 67% of loans were in place within 2 weeks:

- Almost all successful applicants agreed that the facility had been put in place in good time (92% for overdrafts and 95% for loans), with those waiting more than 2 weeks for an overdraft, or more than 4 weeks for a loan, less likely to agree
- Over time the proportion of facilities agreed within 2 weeks has increased for loans (55% in the 18 months to Q4 2014 to 67% currently) and the proportion agreeing their loan was in place in good time has also increased (86% to 95%). There was a smaller increase in 2 week facilities for overdraft applicants (83% to 87%) and a slight decline in the proportion in place in good time (96% to 92%).

Most loans were granted for 10 years or less (52% for up to 5 years and 30% for 5-10 years). 96% said that their loan was granted for the term they wanted.



73% of successful overdraft applicants and 70% of successful loan applicants described the application process as ‘low effort’:

- The proportion of overdraft applicants rating the process ‘low effort’ is stable over time and amongst those offered the facility they wanted (77%). There has been an improvement amongst those who had their facility after issues – in the 18 months to Q4 2015, 26% of such applicants rated the process as low effort compared to 43% in the 18 months to Q4 2017
- The proportion of loan applicants rating the process ‘low effort’ has increased over time from 54% in the 18 months to Q4 2015 to 70% currently. It has also increased for those offered what they wanted (59% to 72%) and those who had their facility after issues (30% to 56%).

A quarter of SMEs (28%) reported contact with a bank in 2017 regarding possible use of finance, increasing to 43% of those with 50-249 employees:

- 19% were approached by a bank expressing a willingness to lend (13% by their own bank and 10% by another bank) up from 13% in both 2012 and 2013
- 16% reported any contact with their bank about external finance in the previous year.

Two thirds of SMEs (64%) described their broader relationship with their bank as ‘fine but transactional’:

- 22% had a strong working relationship, increasing by size of SME to 64% of those with 50-249 employees
- 14% wished that they had an active working relationship with their bank. This has changed little over time and remains more common for smaller SMEs (15% of 0 employee SMEs compared to 6% of those with 50-249 employees).



This chapter reports on the impact of Type 1 loan and overdraft events on the wider banking relationship. New questions from Q1 2016 cover satisfaction with the loan and overdraft application process, the length of time the loan facility was granted for and the wider banking relationship.

Satisfaction with application process

All applicants, whether successful or not, were asked how satisfied they were with the application process they had been through. Base sizes are limited for applicants other than those offered what they wanted and so reporting of this question also remains somewhat limited.

The table below shows that overall 76% of overdraft applicants were satisfied with the

application process. However there was a marked contrast in satisfaction between those offered what they wanted and taking it, where 91% were satisfied, and those experiencing another outcome: 45% of those who had their overdraft facility after issues and 23% of the small group that had no funding were satisfied. Those taking other funding were excluded from this analysis due to low base sizes:

Satisfaction with application process

<u>Sought</u> new/renewed facility Q3 16-Q4 17	All overdraft applicants	Offered OD wanted	OD after issues	No funding
Unweighted base:	853	713	82*	46*
Very satisfied	51%	62%	30%	8%
Fairly satisfied	25%	29%	15%	15%
Satisfied (any)	76%	91%	45%	23%
Neither satisfied nor dissatisfied	12%	8%	39%	16%
Fairly dissatisfied	4%	1%	9%	10%
Very dissatisfied	8%	*	8%	51%

Q100a All SMEs applying for new/renewed facility



It was a similar story for loan applicants, where 69% were satisfied with the application process overall. Those who were offered a loan and took it were again much more likely to be satisfied (96%) than those experiencing any other outcome: 77% of those who had their loan after issues were satisfied and 12% of those that ended the process with no funding. Those taking other funding have been excluded from this analysis due to low base sizes:

Satisfaction with application process Sought new/renewed facility Q3 16-Q4 17	All loan applicants	Offered loan wanted	Loan after issues	No funding
Unweighted base:	426	306	53*	53*
Very satisfied	40%	61%	48%	*
Fairly satisfied	29%	35%	29%	12%
Satisfied (any)	69%	96%	77%	12%
Neither satisfied nor dissatisfied	7%	1%	15%	20%
Fairly dissatisfied	7%	*	4%	23%
Very dissatisfied	17%	3%	4%	45%

Q195a All SMEs applying for new/renewed facility

A follow up question, about the impact of the application on the business, was asked of all applicants *except* those who were offered, and took, the facility they wanted. 7 in 10 of remaining applicants who had been satisfied with the way their overdraft application had been handled overall said that there had been no negative effects, compared to 3 in 10 of those dissatisfied with the way the application had been handled (where half said that running the business day to day was now more of a struggle).

Amongst loan applicants, fewer said there had been no negative effects (4 in 10), irrespective of whether they had been satisfied or dissatisfied with the way the loan application was handled. There were more mentions of day to day struggles and not expanding the business while those that had been dissatisfied with the application process were more likely to mention not being able to improve the business.



Period for which new loan facility granted

From Q1 2016 those with a new loan or commercial mortgage were asked how long the loan was granted for. For loans granted Q3 2016 to Q4 2017:

- 52% of new loans/commercial mortgages were for less than 5 years. This was more likely to be the case for those with 0-9 employees (54%) than those with 10-249 employees (37%)
- 30% were for 5-10 years (more common for larger applicants)
- 5% were for 11-20 years (more common amongst larger applicants)
- 13% were for more than 20 years (slightly more common amongst smaller applicants)

Most successful applicants (96%) said that they got their loan for the time period that they had wanted. This was slightly more likely to be the case for those with 0-9 employees (97%) than those with 10-249 employees (90%):

- 3% would have liked the loan over a longer time period
- 1% would have liked a loan over a shorter time period



New facility granted in good time

Successful respondents were also asked how long it had taken from submitting their application to putting their new facility in place and whether this was in 'good time' for when they needed it. In line with analysis elsewhere in this part of the report, the table below is based on all applications made in the last 18 months, Q3 2016 to Q4 2017.

Almost 9 out of 10 overdrafts were in place within 2 weeks (87%), compared to two thirds of loans (67%):

Successful Type 1 applicants

Time taken to put facility in place

Sought new/renewed facility Q3 16-Q4 17

Overdrafts

Loans

	Overdrafts	Loans
Unweighted base:	752	343
Within 1 week	71%	48%
Within 2 weeks	16%	19%
Within 3-4 weeks	8%	14%
Within 1-2 months	4%	9%
Longer than this	*	6%
Not in place yet	1%	3%

Q101a and Q196a All SMEs that granted new/renewed facility excluding DK



Further analysis is provided in the table below.

Time taken & impact Successful Type 1 applicants Q3 2016 to Q4 2017

By size of SME	Loan facilities for smaller SMEs were more likely to be made available within a week (53% for loans where the SME had 0-9 employees, 26% where they had 10-249 employees) and there was also a difference by size for overdrafts (72% v 63% available within a week).
In place in good time?	Most applicants agreed that the facility had been put in place in good time for when it was needed (92% for overdraft and 95% for loan applicants).
In place in good time, by size of SME	Larger loan applicants were slightly less likely to say the loan was available in good time, although most did: <ul style="list-style-type: none">• Amongst applicants with 0-9 employees, 92% said their overdraft was made available in good time, while for loans it was 95%.• Amongst larger applicants 97% said their overdraft was made available in good time, while for loans it was 92%.

Analysis by the length of time taken for the facility to be put in place showed that for overdrafts the proportion saying the facility was available in 'good time' started to decline after waiting for 2 weeks, while for loans it was 4 weeks.



The table below shows the proportion granted a facility in 2 weeks and the proportion saying the facility was made available in good time, for a series of 18 month application periods.

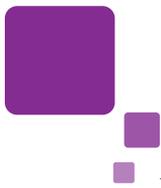
The proportion of overdrafts made available within two weeks increased somewhat in recent periods to almost 9 in 10. Over 90% said

that their facility was available in good time for when they needed it. The proportion of loans made available in two weeks was lower but had also increased somewhat in recent periods to around 7 in 10 applications. The proportion saying their loan was available ‘in good time’ had also increased (to 95%), narrowing the gap to overdrafts:

Successful Type 1 applicants

Time taken to put facility in place <u>Over time</u>	Q3 13 Q4 14	Q3 14 Q4 15	Q1 15 Q2 16	Q3 15 Q4 16	Q1 16 Q2 17*	Q3 16 Q4 17*
Overdraft						
• Agreed within 2 weeks	83%	82%	82%	83%	86%	87%
• Agreed in good time	96%	96%	96%	96%	95%	92%
Loan						
• Agreed within 2 weeks	55%	54%	54%	57%	68%	67%
• Agreed in good time	86%	86%	89%	93%	95%	95%

Q101a/b and Q196a/b All SMEs that granted new/renewed facility excluding DK



'Effort' required to obtain a new facility

Successful Type 1 loan and overdraft applicants were asked how much 'effort' they had to expend to get their new facility. This question is derived from various academic studies from Harvard Business School which claim that the more 'effort' a situation requires, the less satisfied the customer and the less likely they are to remain loyal in future. A score is given between 1 and 5 (where 5 is high effort) and

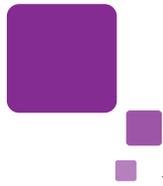
the net score of low-high effort calculated. The higher the net score the better, but negative net scores are not uncommon in other banking studies undertaken.

Overall, the loan application process was as likely as the overdraft application process to be rated a low effort experience:

Customer effort

Successful Type 1 applicants Q3 2016 to Q4 2017

Overdraft applicants	73% of successful Type 1 overdraft applicants described the process as 'low effort'. 13% described it as 'high effort', a net score of +60.
Loan applicants	70% of successful Type 1 loan applicants described the process as 'low effort'. 17% described it as 'high effort', a net score of +53.
Effort if offered what wanted	77% of successful overdraft applicants who were 'offered what they wanted and took it' rated this as a low effort experience. 72% of successful loan applicants who were 'offered what they wanted and took it' rated this as a low effort experience.
Effort if have facility after issues	43% of those who had their overdraft facility 'after issues' rated it a low effort experience (compared to 77% offered what they wanted). 56% of those who had their loan facility 'after issues' rated it a low effort experience (compared to 72% of those offered what they wanted).



This question has been included on the SME Finance Monitor since the start of 2014. Analysis over time, where available, shows a stable picture for the proportion who rated their overdraft application as ‘low effort’ with a slight improvement in the most recent period amongst those who had their facility after issues (from 30% to 43%). Amongst loan applicants, the proportion rating the experience ‘low effort’ increased over time from 54% to 70%, closing the gap on overdraft applicants:

Successful Type 1 applicants

Low effort to put facility in place <u>Over time</u>	Q3 14 Q4 15	Q3 15 Q4 16	Q3 16 Q4 17*
Overdraft			
• All successful	72%	74%	73%
• All offered what wanted	78%	79%	77%
• All with facility after issues	26%	30%	43%
Loan			
• All successful	54%	64%	70%
• All offered what wanted	59%	65%	72%
• All with facility after issues	30%	58%	56%

Q101c and Q196c All SMEs that granted new/renewed facility excluding DK



Overall bank relationship

In previous reports analysis has been provided on overall satisfaction with the main bank. On an annual basis from 2011, overall satisfaction improved very slightly (80-84%) and was consistently higher for larger SMEs.

From Q1 2016 this question was replaced by one that sought to understand the banking

relationship in more detail, with SMEs asked which of three phrases best described their relationship with their main bank. As the table below shows the most frequent answer YEQ4 2017, especially for smaller SMEs, was that the relationship was fine, but transactional:

Nature of relationship with main bank YEQ4 17 all SMEs	Total	0 emps	1-9 emps	10-49 emps	50-249 emps
Unweighted base	18,102	3607	5804	5801	2800
We have a strong working relationship with our bank and feel we can approach them whenever we need to	22%	19%	26%	46%	64%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	64%	66%	60%	46%	30%
We don't have an active working relationship with our bank and wish that we had one	14%	15%	13%	8%	6%

Q24a All SMEs

Analysis over time showed that the proportion wishing that they had a more active relationship with their bank had changed very little, from 12% in 2016 to 14% in 2017, with this slight increase seen across all size bands.



There were clear differences by size of SME and other demographics:

- Those with 0 employees were much more likely to describe their relationship as ‘transactional’ (66%) than to say they had a ‘strong working relationship’ (19%) and were almost as likely to wish for a more active relationship (15%).
- As the size of SME increases, so does the proportion with a ‘strong working relationship’ and amongst those with 50-249 employees this was the most common answer (64% v 30% who have a transactional relationship).
- Excluding the Permanent non-borrowers increased the proportion with a ‘strong relationship’ slightly (to 25% overall).
- Analysis by age of business showed that Starts (24%) and those trading for more than 15 years (25%) were the most likely to have a ‘strong relationship’ compared to 17-20% of those trading for 2 to 15 years.
- Analysis by risk rating showed that the proportion describing the relationship as ‘strong’ declined from 33% of those with a minimal risk rating to 19% of those with a worse than average risk rating.
- 31% of SMEs in Agriculture and 28% in the Hotel & Restaurant sector had a strong working relationship compared to 20-25% in other sectors. There was relatively little variation by sector in the proportion wanting a more active relationship (11-15%).

Analysis by previous borrowing behaviour showed that those who had reported a borrowing event (typically the larger SMEs) were more likely to have a ‘strong working relationship’ than those who had been Would-be seekers of finance. The relatively small group of WBS was twice as likely as the other groups to wish that they had a more active relationship with their bank (36%):

Nature of relationship with main bank		Had an event	WBS	HNS
YEQ4 17 all SMEs	Total			
<i>Unweighted base</i>	18,102	3752	285	13,975
We have a strong working relationship with our bank and feel we can approach them whenever we need to	22%	35%	10%	20%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	64%	50%	54%	67%
We don't have an active working relationship with our bank and wish that we had one	14%	14%	36%	13%

Q24a All SMEs



Bank communication about lending

SMEs were asked whether, in the 3 months prior to interview, they had been contacted by either their main bank, or another bank, expressing a willingness to lend.

In Q4 2017, 20% of all SMEs said that they had received such a contact in the previous 3 months (13% of SMEs had heard from their main bank, while 11% had heard from another bank). Levels of contact in 2017 were somewhat higher than in the latter half of 2016:

Approached by any bank in last 3 mths

	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Over time – all SMEs									
All SMEs	17%	17%	18%	13%	14%	17%	19%	19%	20%
0 emps	16%	16%	17%	11%	13%	17%	18%	18%	19%
1-9 emps	19%	17%	20%	17%	16%	18%	20%	21%	22%
10-49 emps	21%	22%	19%	17%	19%	17%	21%	21%	21%
50-249 emps	17%	17%	18%	21%	14%	18%	34%	25%	17%
All SMEs excluding PNBs	20%	20%	20%	15%	15%	18%	23%	25%	24%

Q221 All SMEs

SMEs with employees remained somewhat more likely to have been contacted. 22% reported in Q4 2017 that they had been approached by a bank (13% by their main bank and 12% by another bank).



Analysis over time showed that levels of contact in 2017 were somewhat higher than in previous years:

Approached by banks in last 3 months						
All SMEs over time	2012	2013	2014	2015	2016	2017
Unweighted base:	20,055	20,036	20,055	20,046	18,000	18,012
Approached by main bank	8%	9%	10%	11%	10%	13%
Approached by other bank	6%	5%	5%	6%	7%	10%
Any approach	13%	13%	14%	15%	15%	19%

Q221 All SMEs

A new question from Q1 2017 asked more generally whether the SME had had any conversation or contact, however informal, with their bank about external finance in the previous 12 months. As the table below shows, 16% had, increasing to 32% of the largest SMEs:

Had any contact with bank re finance		0	1-9	10-49	50-249
YEQ4 17 all SMEs	Total	emps	emps	emps	emps
Unweighted base	17,427	3542	5631	5487	2587
Yes	16%	15%	18%	25%	32%
No	84%	85%	82%	75%	68%

Q24b All SMEs excl DK

Initial analysis of this new question showed that

- Level of contact varied by risk rating from 21% of those with a minimal risk rating to 15% of those with a worse than average risk rating.
- Those currently using external finance were twice as likely to have had contact (26%) as those not using external finance (11%).
- With the exception of Starts (21%), there was little difference in contact by age of business (13-16% across older SMEs). By sector, contact ranged from 22% in Agriculture (who were also more likely to have a strong relationship with their bank) to 13% in Construction (15-19% across other sectors).



Analysis of these two questions in combination shows that 28% of all SMEs had had some form of contact with a bank (ie expressing a willingness to lend and/or a more general or informal contact about finance). Larger SMEs were more likely to have had contact:

- 27% of those with 0 employees had had contact
- 32% of those with 1-9 employees
- 36% of those with 10-49 employees
- 43% of those with 50-249 employees

Levels of contact were higher once the Permanent non-borrowers were excluded (35%) and amongst those already using external finance (39%). They were also higher amongst those planning to apply for finance (42%) and those who had a strong working relationship with their bank (43%).