



The COMPETITION AND MARKETS AUTHORITY (CMA)

**Small and Medium Enterprise Customer Research into the Retail
Banking Market**

Qualitative Research Report

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Prepared for:

The Competition and Markets Authority

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1. BACKGROUND AND RESEARCH REQUIREMENT

The **Competition and Markets Authority (CMA)** works to promote competition for the benefit of consumers, both within and outside the UK. Its aim is to make markets work well for consumers, businesses and the economy. The CMA acquired its powers on 1 April 2014 when it took over many of the functions of the Competition Commission (CC) and the Office of Fair Trading (OFT).

On 6 November 2014 the Competition and Markets Authority (CMA), having carried out an initial market study into the retail banking market, referred that market for a market investigation under the Enterprise Act 2002, to assess whether there are any features of this market which prevent, restrict or distort competition and, if so, what action might be taken to remedy them.

The retail banking market investigation covers both personal current accounts (PCAs) for individuals and business current accounts (BCAs) for small and medium sized enterprises (SMEs). It also covers a number of additional banking services for SMEs, which includes, but is not limited to overdrafts, general purpose business loans and deposit accounts, but which excludes the provision of other non-lending products such as insurance, merchant acquiring, hedging and foreign exchange.¹

The CMA commissioned Research Works Limited to conduct qualitative research amongst SMEs. The aim of the research was to build on the qualitative research conducted in the phase 1 market study,² to gain a deeper understanding of SMEs' behaviour, attitudes and experience of banking and, in particular, to understand the following:

- Price transparency and price negotiation when SMEs are seeking and applying for BCAs and finance;
- Multi-banking;
- Multi-product holding;
- Overdrafts;
- Business lending;
- Switching.

This report presents the main findings of the qualitative research conducted by Research Works Limited.

¹ For further information please refer to the [retail banking market investigation: terms of reference](#)

² Please see [Phase 1 market study](#).

The results from the phase 1 qualitative research can be found in the [Annex to the phase 1 report](#).

2. RESEARCH METHODOLOGY AND SAMPLE

In collaboration with CMA, it was decided that - given the sensitivity of this project - a qualitative deep-dive methodology was required, based primarily upon face-to-face depth interviews. This would fulfil the requirement to explore very specific aspects of SME banking and finance, as well as to explore decision-making in a forensic manner.

2.1 Methodology

The methodology adopted was a series of face-to-face depth interviews. In total, 100 depth interviews were conducted, each of one hour's duration. These interviews were conducted with 80 SMEs (segmented by size, in terms of turnover and staff numbers), and 20 advisors/intermediaries to SMEs (accountants, IFAs). Respondents were also asked to carry out a pre-task prior to interview (a copy of the pre-task is at Appendix F).

The specific research objectives focussed on the following questions and issues:

- **Searching and choosing BCA:** Do SMEs search beyond their PCA provider when choosing their BCA? What are SMEs' motivations for choosing their existing PCA bank for their BCA?
- **Transparency and comparability:** Are prices and quality sufficiently transparent and how easy is it for SMEs to compare between different banks and products? What are SMEs' views of price comparison sites and other search tools?
- **Switching:** What are SMEs' motivations to switch and what are the barriers to switching?
- **Multi-banking:** Do businesses hold multiple BCAs and what are the reasons for this?
- **Multi-product holding:** Why do businesses hold multiple financial products (e.g. loans, credit cards, savings accounts) with their main bank?
- **Negotiation:** Do SMEs typically negotiate with their bank and what types of SMEs negotiate?
- **Business loans and overdrafts:** Why do SMEs go to their main bank for finance? Do they shop around and negotiate?
- **Service quality and price:** What is SMEs' perception of service quality and price? What is their perception of relationship managers?

The research findings were analysed utilising content analysis³. Initial findings were discussed with the CMA team to allow fine tuning of the discussion guide as the research progressed. This report sets out the findings of the research.

³ The content analysis approach is described in Appendix G.

2.2 Recruitment and Sample Structure

In total, 100 face-to-face interviews were carried out. These comprised: 80 interviews with SMEs segmented by size (turnover and staff numbers); and 20 interviews with intermediaries/advisors to SMEs (typically accountants and IFAs). A more detailed breakdown of the research sample is set out below.

Sample categories	Start-ups	Zero employees	Micro	Small	Medium
Business owners/directors	16 depth interviews	16 depth interviews	16 depth interviews	16 depth interviews	16 depth interviews
Advisors/intermediaries	4 depth interviews	4 depth interviews	4 depth interviews	4 depth interviews	4 depth interviews

Other key sub-sample characteristics included:

- a range of level of annual turnover;
- experience of negotiation;
- multi-banking;
- multi-product holding;
- recent experience of renewing/extending/applying for an overdraft;
- business lending (including those who had applied for a business loan recently);
- switching within the past twelve months;
- and businesses from a range of sectors.

Interviews were conducted across the UK in April 2015. These interviews were conducted in:

England	St.Albans	w/c 6 th – w/c 27 th April 2015
	London	w/c 13 th April
	Bristol	w/c 27 th April
	Nottingham	w/c 13 th April
	Leeds	w/c 13 th April
Wales	Bridgend	w/c 27 th April
Scotland	Glasgow	w/c 20 th April
Northern Ireland	Lisburn	w/c 27 th April

2.3 Limitations of the Sample

It should be emphasised that qualitative research samples are purposive and quota-driven in nature; they have no statistical validity or reliability. The purpose of qualitative research is to give generalisable indications of the drivers underlying behaviour and attitudes, by exploring responses in greater detail and depth.

Use over decades has shown that qualitative research does have genuine predictive power, however it has no quantitative accuracy in terms of identifying proportions of populations holding stated views.

3. EXECUTIVE SUMMARY

Searching and choosing BCAs

For our SME sample, the starting point for a BCA provider was their own PCA provider due to familiarity and experience. For some, the move from PCA to BCA was seen as an opportunity to switch and those moving from PCA to BCA were more likely to look around for alternative providers than they had been when looking for their original PCA. Equally, some stayed with their PCA provider when opening a BCA, once again due to familiarity and experience.

The end of the free banking period was identified as potential time for switching. At this point there was a group who become more inclined to switch (if charges were perceived to have become unacceptable or unaffordable; if their current experience of customer service was felt to be poor; or if they became aware of offers from other banks). Equally, there was a group who remained less inclined to switch (if they had a key product holding which they did not want to jeopardise by switching - e.g. loan, overdraft - or if their current experience of customer service was felt to be good).

Multi-product holding

Many of our SME sample preferred to have all their product holding with a single provider: partly for convenience and partly because some believed that multi-product holding would be an advantage if applying for other products in future, particularly in terms of having applications accepted. The most typical multi-product holding scenario was those with a BCA, overdraft, credit card and sometimes loans, all with the same bank; less common were respondents with more than one BCA account at the same bank. Where SMEs had more than one BCA at a bank, these were either for entirely different businesses; or BCAs for different purposes, such as payments in and out, or accounts in dollars and sterling.

Barriers to switching for established businesses

Once respondents had chosen their BCA provider, there was little evidence of an appetite to switch. There were three key reasons why businesses resisted the idea of switching provider: a perception of simplicity, convenience and familiarity; a perception of difficulty in applying for, or switching to, a different provider; and a perception that existing banking arrangements were 'working well' (particularly if relationships with Relationship Managers were positive).

For some, a perception - based on an assumption rather than a factual appraisal or understanding of the range of BCA banking offers - that banks were 'all the same' contributed to a preference for remaining with the same provider. There was perceived to be a general lack of specific BCA advertising (particularly in comparison with PCA advertising).

Respondents were asked if they had heard of the Current Account Switching Service. Only those with experience of switching had heard of it and were therefore aware that it is applicable to SMEs. Across the sample, there was some resistance to the idea of a 7-day switching *guarantee* since there was a general belief that there was little (or no) scope for

reimbursement or compensation for damages (beyond a possible retraction of bank charges).

Switching points

Points at which established businesses might consider switching BCA provider or accessing a wider range of providers emerged:

- At critical growth points, driven by size or type of transactions, or requirement for new facilities (e.g. international payments, merchant services);
- When banking service quality declines significantly (often linked to the disappearance or perceived poor performance of a Relationship Manager).

Analysis of examples of switching revealed that if banks were not perceived to be supporting businesses, either by: not providing products to support growth or not being perceived to understand business' needs; or because relationships with Relationship Managers were perceived to be failing, the propensity for respondents to look around for alternative BCA banking providers or specific products increased. Both 'push' and 'pull' factors were required to instigate a switch.

Multi-banking

The norm across the sample was for businesses to operate a single BCA. A very small group had multiple BCAs with different banks which had been obtained either by those with cash-flow difficulties to extend existing overdraft facilities; or by medium sized businesses to spread large cash holdings around different banks.

Negotiation

There was evidence of negotiation across the SME sample (largely driven by personality); however, most evidence of successful negotiation was found amongst high turnover medium sized organisations.

Overdrafts

For our SME sample, overdrafts were typically seen as a way of contending with cash-flow issues. Overall, awareness of how overdrafts worked was low amongst those who had little cause to use their overdrafts, but higher amongst those with poor experiences of overdrafts (e.g. being charged for going into an unauthorised overdraft).

There were a number of businesses who had been denied access to an overdraft, or an extension to their existing overdraft. In these circumstances, some felt that loans were more readily available from their banks, which caused frustration (due to a perception of loan arrangements as being more restrictive). The charges associated with an overdraft were felt to be less clear than those associated with a loan.

Loans

Loans were more typically used to invest in business developments e.g. renovations. Initially, loans were typically obtained from the SME's existing bank. A selection had challenged their existing providers with loan rates offered by competing banks; and sometimes their banks had been unwilling to match the rates presented by the SME. Loan

applications being rejected by a current BCA provider was clearly a potential trigger for switching or multi-banking.

Overall, there was some divergence of opinion amongst the group who had applied for loans about how easy it is to find a loan. Clearly some felt that it had been difficult, including those who had needed to rely on less formal alternatives (e.g. savings, personal credit card); whilst others had found the process straightforward.

Transparency and comparability

Overall, the SME sample was typically unclear about the costs of their banking and finance arrangements. Moreover, few felt able to make effective comparisons between providers, and few believed that they had the time or expertise to fully understand their options.

There was a lack of awareness across the SME sample that business banking products were compared on price comparison sites in the same way as personal finance products. Respondents saw price comparison sites as a useful tool for initially assessing business banking options, although they felt that this initial search needed to be followed by research either face-to-face or online. The role of the Business Banking Insight website was perceived to be as more of a 'check', after a more thorough examination of banking offers.

Advisers

It was the start-up, small and micro business groups within our sample who were typically more likely to lean on their accountants for banking advice, although some accountants were clearly more proactive than others. For example, some SMEs within our sample reported that they relied on their accountant to flag increases in transaction fees or BCA charges.

There was some evidence of informal networking between accountants and Relationship Managers within our sample. Amongst this group, knowledge of the market and banking offers was typically ascertained through direct enquiry with established connections within certain banks. For example, accountants would have telephone conversations with banking contacts where they would 'explore possibilities' on behalf of clients.

Our advisor sample reported that they tended to advise against established businesses switching banks (although comparisons may have been made at the start up stage). Switching was considered particularly likely to cause practical difficulties for businesses with a wide range of incoming transactions. Our adviser sample reported that they were more likely to advise businesses to switch if relationships between that business and the bank were perceived to have broken down.

Amongst our adviser sample there was a consistent perception that banks could do more to improve the clarity of their charging structures, and offer proactive notification of future increases in charges. This professional group within the sample clearly articulated their view that, overall, SMEs were not sophisticated banking consumers, and that they lacked the ability to engage with banking charges as they are currently presented.

4. MAIN FINDINGS

This report has a narrative structure which reflects different stages of SME growth. It starts with a description of the banking needs of different groups of businesses within our sample, then moves on to describe how the research objectives related to start ups, businesses that have become established, businesses experiencing growth points and businesses experiencing cash flow difficulties.

4.1 Differing Banking Needs

4.1.1 *Start-up/zero employee/micro businesses*

Within this sample group, banking needs varied depending on the type of business the SME was engaged in. For example, creative and blue collar industries (such as photographers, recycling company, pest control, security services, taxi firm) typically needed more support with their decision-making and product explanation. Online businesses (e.g. antique reseller, fashion retail, online dance videos) had relatively low value, simple, familiar transactions which could be managed via a PCA online account (with less need to consider other banking products to help manage cash-flow issues).

The typical client base for the start-up/zero/micro group was a mixture of old and new. These tended to include some well-established and more reliable clients (such as those known through previous working arrangements), and some newer clients who often required chasing for payment. Respondents reported the process of collecting payments as 'time consuming' and 'tedious'.

Transactions volumes among this group were typically low, although some respondents reported increasing transaction volumes if their businesses were undergoing more rapid growth. This group felt that increasing transaction volumes were costly, which prompted interest in reduced banking fees. Lower transaction volumes of larger transactions were seen as less costly, and were perceived to allow respondents more time to focus on running their business.

For the start-up/zero/micro sample group, the types of transaction engaged in were often limited (e.g. cash and cheque), although some respondents referred to newer payment methods as being 'in development' e.g. debit card payment terminals. Typically, there was a high volume of cash and cheque payments, which were seen as demanding in practical terms – as well as costly.

4.1.2 *Small businesses*

Amongst the small business group within our sample, banking needs tended to have become more complex. Some businesses had experienced high levels of cheque or cash payment; among these respondents, there was evidence of negotiation with Relationship Managers to alleviate transaction fees. Negotiation success depended on a range of factors: turnover, business owners' relationship with their Relationship Manager and influence of

the Relationship Manager. Some of these businesses encountered further complexities in relation to foreign currency and exchange rates.

The typical client base for this sample group was more diverse and less distinct than the client base for start-ups/zeros/micros. Respondents from across the small business sample reported having a fairly diverse mix of clients: established, new, fleeting, and more or less profitable. Some businesses with a wider range of client types had experienced difficulty in chasing payments from some clients.

Transactions among this sample group sometimes included highly profitable moments. However, there was some fluctuation in the frequency of transactions amongst less predictable industries (e.g. catering) which could lead to cash flow difficulties. More routine incoming transactions were reported among more stable industries (e.g. contracted consultants).

Amongst the small business sample there was perceived to be an increased need for a Relationship Manager, due to the complexity and unpredictability of this group's financial circumstances. Some had 'lost' their Relationship Managers, who had yet to be replaced. However, some basic elements of banking transactions were reported as being handled online, such as monitoring the balances of different accounts and payments in and out of accounts.

4.1.3 *Medium-sized businesses*

The banking needs of this sample of medium sized business were even more complex in comparison to smaller businesses, and could, for example include invoice factoring, and the use of multiple BCAs for different purposes. There was a strong reliance upon Relationship Managers, and some respondents reported creating opportunities to negotiate with their Relationship Managers regarding fees.

The typical client base for this group was more established; they tended to have more established contracts, along with ongoing business development to win new clients. All respondents in this group had dedicated departments for the financial operation of the business: for instance to chase clients, or to ensure timely payment.

Typically, the number of transactions reported among this group was high, but seen as 'under control'. There were typically a large number of in/out transactions, including payments of large amounts, and sometimes respondents reported that fees had been negotiated down to manage costs. Because these businesses often had established rolling contracts, transaction rates were seen as more 'steady' and 'predictable' than for smaller businesses.

The types of transaction engaged in were typically more streamlined and sophisticated; respondents from this group were more likely to be familiar with, and utilise, facilities such as bank transfers. However, respondents felt that complexities could arise with unfamiliar processes or fees, for instance when dealing with new or foreign markets.

4.2 Starting out

4.2.1 Start-ups with PCAs

Typically, the start-up group within our sample began with PCAs. This was a more familiar banking environment for those starting out in business, and was therefore perceived to be a 'safer' option. Those starting out with PCAs tended to stay with their existing, personal PCA provider, once again due to familiarity and experience with the provider. Changing to a BCA was typically seen as something for the future, perhaps when the business was more established i.e. more certain to succeed. A typical exchange on the subject of starting out with a PCA is set out below.

Zero employee business (Bank X) Personal Current Account	
Do you feel that you actively chose to have a personal account rather than a business account?	<i>"Yes. I felt it was a bit safer for me. If I got into a business account, it was the credit card and overdraft thing. I knew what I was getting with a personal account."</i>
Why (Bank X)?	<i>"I've always been with them and it seemed easier as my banking is all there together... Being time poor, I didn't put a lot of thought into it."</i>
Did you look around?	<i>"There were banks saying they would give me £100 and they would do everything. I tried (Bank Y) but it was too much hassle [to apply] and came back to (Bank X)."</i>
When might you consider opening a business account?	<i>"When I am a bit clearer about where I want to go and what I want to do."</i>

4.2.2 Start-ups with BCAs

Some amongst our start-up sample had set up BCAs immediately. Among these respondents, some had previous business experience, and had chosen to set up a BCA with their current BCA provider. In one case, an experienced business owner explicitly chose to set up an account with a *different* provider, because of perceived poor customer experiences with their current BCA provider.

There were also examples of respondents without any previous business experience setting up BCAs; but typically these respondents had had less success in doing so. Two examples of respondents starting out in business with BCAs are described below.

Zero employee business (Bank X) Current Account	Zero employee business (Bank X) Current Account
Set up the BCA for the new business with his own personal banking provider: <i>"I'm a creature of habit, so I went straight back to (Bank X)."</i>	Set up the BCA for the new business with his own personal mortgage provider; his personal banking provider (Bank Y) was going to charge him if he paid in less than £2,000 a month
The business <i>"hasn't taken off as well as I had hoped"</i> – and his application for an overdraft has been refused	He has free banking for 18 months – but the bank has offered to switch him to a personal current account after this period so that he avoids charges

4.2.3 Moving from PCA to BCA

The move from PCA to BCA was primarily influenced by how well the business owner felt that the business was doing (i.e. whether they perceived it had 'taken off'); and also by its capacity to pay charges:

"There is no point setting up a business account yet as they are so expensive." (Start-up)

"I opened a business account a good few months ago. It wasn't a hard choice – it was a step we needed to do. We wanted to grow and we wanted the bank to help us." (Start-up)

Analysis of start up business owners' decisions to move to a BCA revealed that the basis for the decision was largely qualitative, and not based on a factual assessment of the potential benefits or drawbacks of doing so. Some examples of respondents not feeling ready and feeling ready to move from PCA to BCA are described below.

Not ready yet	Ready
Start-Up (Bank X) Personal Current Account	Start-Up (Bank X) Business Current Account
<i>"They don't give you a chance to breathe these days. It was different 7-8 years ago. Charges are high. Banks make it difficult for you in anything you need. And for a small business, they don't help you. They make it hard."</i>	<i>"I didn't want to take out a business account at first, but with the business taking off so fast and that many payments going in and out, it felt like the right move to open a business account. It felt safer to have the money there."</i>
Zero-Employees (Bank X) Personal Current Account	PCA with (Bank X)
<i>"When I set up my business I thought I'd be the big business man and set up a business bank account, but when I realised that I was going to be charged for putting my money in and taking my money out I thought, hang on, I'm not going to pay this!"</i>	Intends to set up a BCA with (Bank X) in the next couple of months, on the basis that there are a number of crucial orders coming in.

1

For some amongst our start up sample, the move from PCA to BCA was seen as an opportunity to switch banks, which some respondents took. Those moving from PCA to BCA were more likely to look around for alternative providers than they had been when looking for their original PCA.

Examples of respondents from our start up sample using PCAs and deciding to look around for an alternative BCA provider are described below.

Small business (Bank X) Business Current Account	Micro business (Bank X) Personal Current Account
Personal Current Account was with (Bank Y), but <i>"We wanted to grow and we wanted the bank to help us"</i> so he compared different business accounts online	Was operating via a (Bank X) Personal Current Account, but moved to a (Bank Y) Business Bank Account due to location (for making deposits)
He chose (Bank X), based on the 2 years free banking offer: <i>"The charges were the biggest factor in deciding what account to go for. It costs money to pay cash in and when you use the debit card. We use a lot of different suppliers, you can accumulate £10-£15 a day in charges."</i>	Quickly closed the (Bank Y) Business Bank Account when the extent of charges he was paying became clear. Decided to enhance his (Bank X) Current Account by negotiating an overdraft. He feels he got a deal because his dad is known by the bank.

Equally, some stayed with their PCA provider when opening a BCA, once again due to familiarity and experience with the provider.

The end of the free banking period was identified as another potential time for switching. This was an opportunity to switch that some amongst our start-up sample took, while others did not. Analysis of behaviour at the end of the free banking period revealed that behaviour at this point was influenced by two distinct attitudes. There was a group who become more inclined to switch:

- If charges were perceived to have become unacceptable or unaffordable;
- If their current experience of customer service was felt to be poor;
- If they became aware of offers from other banks (e.g. free banking, lower charges).

There was a group who remained less inclined to switch, particularly:

- If they had a key product holding which they considered to be particularly important and felt that they did not want to jeopardise by switching (e.g. loan, overdraft);
- If their current experience of customer service was felt to be good.

Overall, our analysis revealed that both 'push' and 'pull' factors were required for business owners to consider switching at the end of the free banking period.

4.3 Becoming established

This group comprised businesses who had been trading for some time and no longer perceived themselves to be start-ups. The extent to which they intended to grow varied. For example, some SME owners among our sample were more focussed on providing a stable income for themselves rather than growing their business per se.

4.3.1 Multi-product holding

Many of our SME sample preferred to have all their product holding with a single source: partly for convenience and partly because some believed that this was part of a relationship with a bank which might prove beneficial when applying for products in future.

- The most typical multi-product holding scenario was respondents with BCA, overdraft, credit card and sometimes loans, all with the same bank;
- Less common were respondents with more than one BCA account at the same bank: either BCAs for entirely different businesses; or BCAs for different purposes, such as payments in and out, or accounts in dollars and sterling.

Initially, credit cards, loans, overdrafts and savings accounts were most typically obtained from the SME's existing bank. Initially at least, there was little evidence of shopping around, with convenience and time-saving the critical factors.

4.3.2 Barriers to switching

Once respondents had chosen their BCA provider, there was little evidence of an appetite to switch. Our analysis revealed that there were three key reasons why businesses resisted the idea of switching provider:

- a perception of simplicity, convenience and familiarity;
- a perception of difficulty in applying for, or switching to, a different provider;
- and a perception that existing banking arrangements were ‘working well’.

Each of these barriers are discussed in more detail below.

Within our sample there were examples of respondents who remained unwilling to switch, despite expressing unhappiness with their existing banking provider. Typically, these respondents were ‘tolerating’ their situation and delaying activity. Some felt that a change to an ‘unknown’ might lead to a worse scenario than the one they were currently experiencing.

The unsatisfactory experiences these respondents were willing to tolerate included:

- **Poor experience of basic processes:** difficulty changing the name on a bank account; problems applying for a business account (those without relationship managers typically felt that achieving tasks via online and telephone services could be frustrating);
- **Problems around Relationship Managers:** banks not establishing replacement Relationship Managers, or dissatisfaction with replacement Relationship Managers;
- **Increasing bank charges:** for instance, charges being perceived to increase very gradually over a period of time.

4.3.2.1 Barrier to switching: simplicity, convenience, familiarity

These factors were particularly prioritised by respondents with multiple products at one bank.

Those who offered this reason for their reluctance to switch emphasised the advantage of seeing all their bank accounts on one mobile app/internet banking screen. They enjoyed their familiarity with the bank’s online platform, and the ease of managing a number of accounts online (*‘It’s all there together’*).

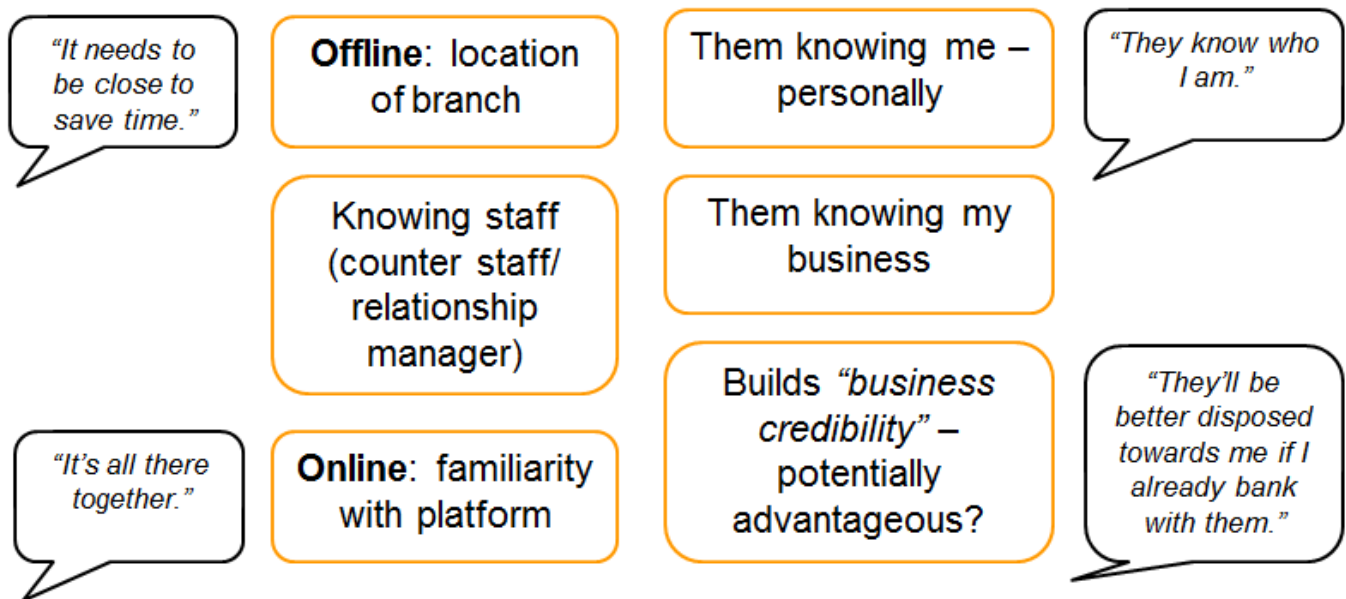
Branch location was an important offline consideration (*‘it needs to be close to save time’*), as was respondents knowing branch staff, particularly counter staff and the Relationship Manager. Being known personally (*‘they know who I am’*) implied that the provider knew respondents’ businesses as well, and this was seen as a reason for staying.

It was also felt by this group who prioritised simplicity, familiarity and convenience – particularly those with multi-product holding at the same bank - that staying with the

provider was a marker of business credibility, and that this was potentially advantageous to them. There was an underlying assumption that banks would look more favourably on businesses who had multiple transactions with that bank in the past:

“I think there comes a point when you feel that you have built business credibility with a bank – that’s the fear of moving.” (Small employer)

The chart below describes how perceived simplicity, familiarity and convenience combine to become a barrier to switching.

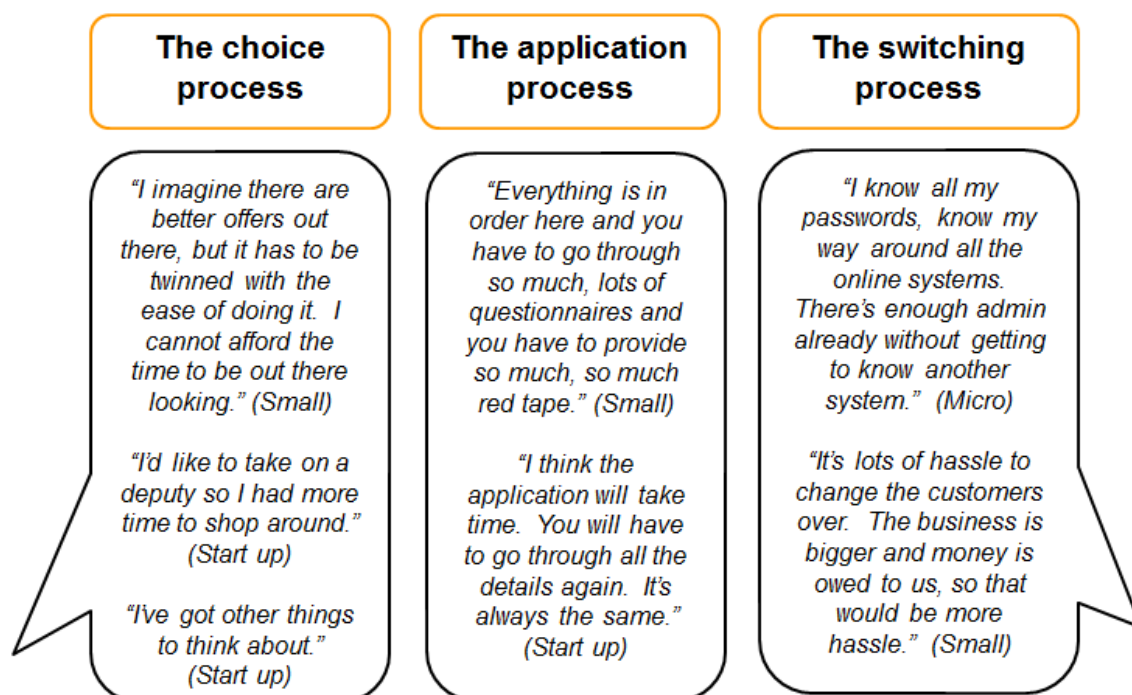


4.3.2.2 Barrier to switching: applying for or transferring to a new provider

Three barriers emerged to switching provider, articulated by respondents from across our sample, regardless of size, sector or location: the choice process; the application process; and the switching process itself.

- Those who saw the choice process as a difficulty typically saw themselves as time poor. They did not feel they had the time required to shop around, as described in the examples below.
- Those who saw the application process as a barrier to switching also tended to see themselves as time poor. Typically, this group had little appetite for the assumed complexity of the application process which, for some, was a barrier to switching in its own right.
- Those who saw the switching process itself as a barrier typically valued their familiarity with existing arrangements, and were apprehensive about having to learn a new set of procedures and passwords. More importantly, they also anticipated

difficulties with customers and disruption to processing payments. A fear of jeopardising current payment systems was a key barrier to switching.

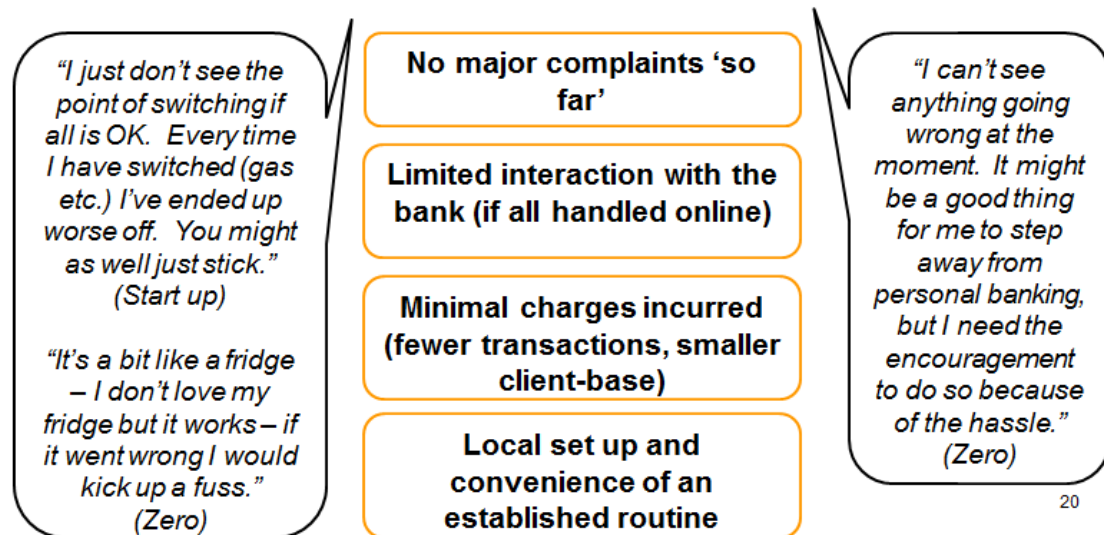


4.3.2.3 Barrier to switching: existing arrangements working well

There was a group of respondents who expressed an 'if it's not broken, don't fix it' attitude towards switching. This group felt that they would only consider switching if something went wrong. If all was functioning as it should, this group felt that there was no real reason to consider switching – as memorably expressed by one respondent:

"It's a bit like a fridge – I don't love my fridge, but it works – if it went wrong, I would kick up a fuss." (Zero employer)

This attitude was particularly prevalent among respondents representing younger businesses, largely because they did not demand much from their banking providers. Amongst this group, transaction rates were typically low due to smaller client bases, as were charges, and the types of transaction were relatively straightforward. As a result, this group typically had a limited interaction with their banking provider, particularly if all their transactions were carried out online. Those using bank branches valued the advantages of a local set-up and the convenience of an established routine.



4.3.3 Barrier to switching: perceptions of banks

For some, a perception that banks are 'all the same' contributed to a preference for remaining with the same provider:

"I would be happy moving to any of the big four really." (Micro business)

"Yes, I think all banks are pretty much the same, but some are worse than others for customer service." (Zero business)

This perception was based on an assumption rather than a factual appraisal or understanding of the range of BCA banking offers. Nonetheless, when prompted during the research interview, none were perceived to have a clear business offer i.e. a business offer distinct from any other provider; and, when prompted during the research interview, there was perceived to be a general lack of specific BCA advertising (particularly in comparison with PCA advertising).

Where differences were perceived, these had been identified either via experience or by word-of-mouth from other SME owners. Any differences identified tended to centre on price or customer service standards, for example:

- those with awareness of Bank X felt that they were striving to be more accessible and convenient for SME owners, particularly in terms of opening hours, which was perceived to be an innovative approach;
- in Northern Ireland, Banks X and Y were perceived as less conservative in relation to lending;
- Bank X (which was perceived as ethical);
- Bank X was noted for its current account advertising. (Although not a business account, the idea of X account was perceived to be different and engaged interest).

Lastly, some newer banks specialising in asset finance were unfamiliar to most across the sample. This category included providers such as Banks X, X, X, X and X. There was also little awareness of Bank X across the SME sample, except amongst the medium sized business audience.

1. A 'bit different'

- Bank X (available and convenient)
- Bank X and Bank Y (less conservative with lending)
- Bank X (ethical)

"(Bank X) bank have made a difference because they've made opening an account very easy." (Small)

2. Perceived to be the 'all the same'

- Big high street banks such as:
 - Bank X
 - Bank X
 - Bank X
 - Bank X
 - Bank X

"When I look particularly at the big ones (Bank X), (Bank Y), (Bank Z) they're going to be the same." (Zero)

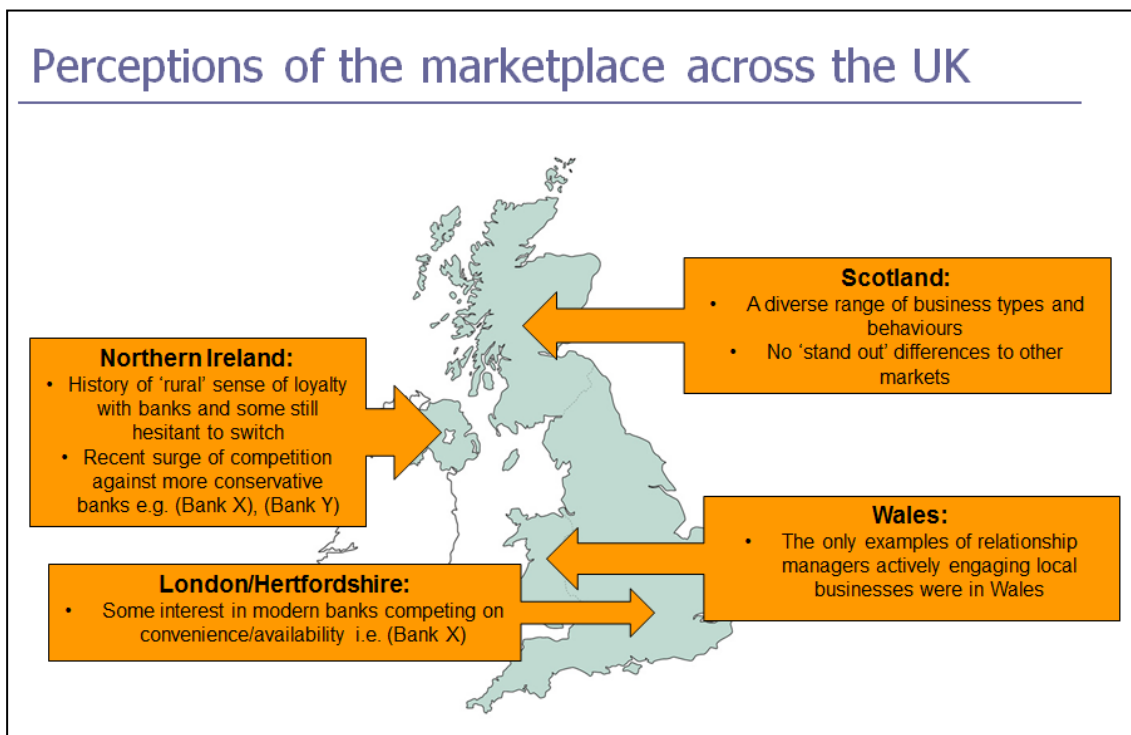
3. Small and unfamiliar

- Bank X
- Bank X
- Bank X
- Bank X; Bank X; Bank X; Bank X

"...(Bank X), (Bank Y), (Bank Z) I've never heard of." (Small)

4.3.4 Perceptions of the marketplace across the UK

Some areas of the UK had experienced new entrants to the market, which had increased perceptions of difference – as explained below.



4.3.4 Current Account Switching Service

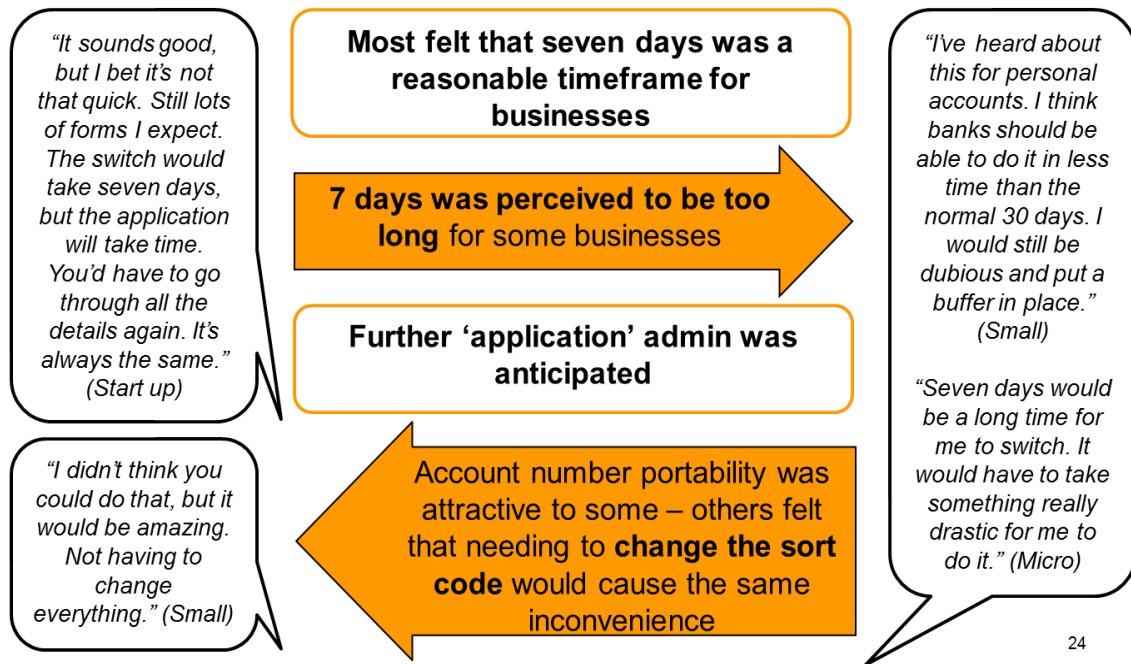
Respondents were asked if they had heard of the Current Account Switching Service. Only those with experience of switching had heard of it and were therefore aware that it is applicable to SMEs.

Across the sample, there was some resistance to the idea of a 7-day switching *guarantee*, which was not perceived to be credible. Respondents were aware of problems that could occur with banking administration, regardless of a suggested 'guarantee'. They felt that any errors relating to incoming and outgoing payments could be extremely costly to their businesses. Despite the 'guarantee', there was a general belief that there was little (or no) scope for reimbursement or compensation for damages (beyond a possible retraction of bank charges).

Despite a perceived gradual improvement in the reputation of banks (respondents pointed to the PPI scandal as a time marker in this respect), cynicism of banks was still evident and trust was still relatively low. Any cost/time implications, beyond those clearly and directly associated with the bank, were not expected to be covered if problems were to occur with switching. There was therefore an assumption that SMEs would need to sort out any problems with payments if anything were to go wrong.

While most SME owners within our sample felt that seven days was a reasonable switching period, some felt that it was too long for some businesses. Some also assumed that there would be further application administration to deal with after the seven-day period.

Respondents were also asked how they felt about account number portability. This idea was attractive to some; but others felt that the need to change sort codes would be just as big an inconvenience.



4.4 Growth Points

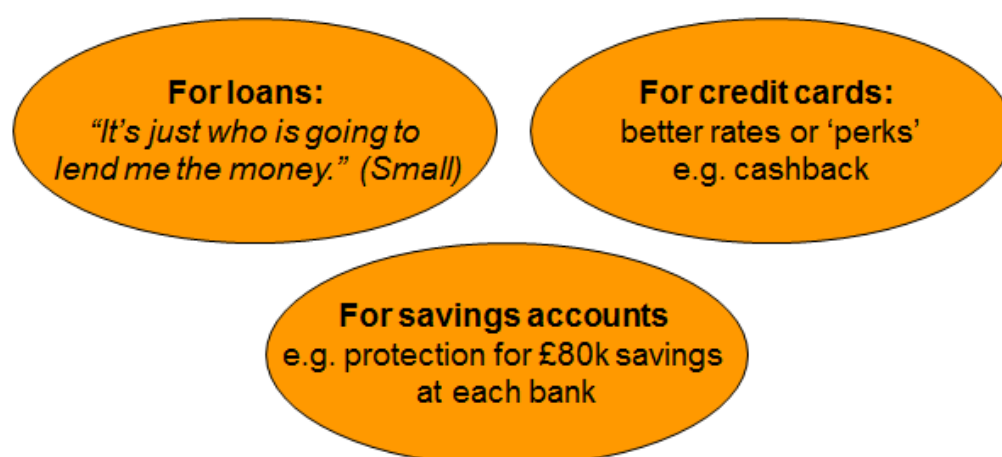
4.4.1 BCA switching and multi-banking inspired by growth

Analysis of our switcher group indicated that business growth can motivate switching between BCAs and multi-banking. There were examples among the sample of businesses switching providers when increasing numbers of transactions had led to higher costs, or when respondents found that new types of transaction or products were required. Two examples of switching inspired by changing business banking needs are described below.

Micro business	Small business
Account with (Bank X) became too expensive when the business grew (all payments are taken by card and they have several different currency accounts for supplier to pay in their local currency)	Another respondent moved from (Bank X) to (Bank Y) when their business became more dependent on overseas transactions: “For us, (Bank Y) was a no brainer as they were the only ones who could give us good information on dealing with business in the countries we were trying to work in.”
“(Bank Y) gave us a great merchant services deal.” “I told the bank what I needed and they came up with the answers.”	(Bank X) were unable to handle international payments and were unwilling to offer a credit card facility: “We feel that (Bank X) kept us at arms length.”

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Analysis of examples of multi-banking indicated that growth could also encourage businesses to look at a wider range of providers for other banking products (i.e. multi-banking), such as loans, credit card facilities, or savings accounts. For example, medium-sized businesses could acquire multiple savings accounts across banks ‘chasing interest rates’ (as one accountant put it). As a result, as businesses became more established, credit cards and loans were the most likely products to be sought outside the BCA relationship.



The group who had switched BCA banking providers tended to feel that their banks had not supported their businesses at particular growth points, either financially or in terms of understanding their business' needs. Several examples of switches driven by banks refusing loans at critical business growth points were captured within our sample. Two examples of switches inspired by banks not being perceived to support/understand business needs are described below.

Small business	Start up
Respondent took over a business with a BCA at (Bank X) and felt that they were being unreasonable in their refusal to lend	(Bank X) wrote to the business saying that it was shutting down their account. because they had failed to provide proof of trading address.
The respondent made a swift decision to go to (Bank Y) (Bank X) offered to lend, but too late – the BCA moved to (Bank Y)	They had already explained that they were currently web based: <i>"It is the most basic point of customer service that you listen to your customer."</i> They will be 'thoroughly shopping around' after their 18 months free banking finishes.

4.4.2 *BCA switching driven by poor bank relationship management*

Analysis of switchers revealed that another key time when established SME businesses could consider switching was if or when relationships with Relationship Managers were perceived to have broken down.

This was particularly the case for older businesses. Although many amongst this group were managing their accounts online on a day-to-day basis, a relationship with a Relationship Manager was still perceived to be important when trying to make key financial decisions: for example regarding lending or discussing charges.

For those who had switched for this reason, their sense that their relationship with the banking provider was failing had been typified by: the erosion of a sense of security; a perception that the bank was not supportive of their business needs; or an ongoing inability to resolve problems. An example of a switch inspired by a relationship that was perceived to be failing is described below.

Micro	
What happened prior to the switch?	This respondent had a longstanding relationship with his bank manager who he felt understood his business. This bank manager then left his bank
What impact did this have on the business?	Once this bank manager had left, the respondent felt that his replacement had less understanding of his business and that consequently, it was difficult to build another trusting relationship
How did the business respond?	The respondent “tolerated” this situation for an entire year until his wife made a recommendation to meet someone at another bank

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4.4.3 *BCA switching deterred by good banking relationship management*

Conversely, respondents felt that a good relationship with their banking provider was a deterrent to switching, as described in the example below. Analysis revealed that there were several reasons why businesses valued ongoing relationships with a Relationship Manager:

- A clear point of access (without the need to queue when trying to call centres);
- A person who understands me and my business;

- A person with whom I can negotiate;
- And for some, a belief that this person may advocate on behalf of my business.

For those who felt that they had good relationships with their Relationship Managers, all of these factors contributed to an overall sense of security regarding their business banking arrangements:

“When we buy from overseas, managing the different currencies can be tricky. They can be helpful then. Also asking about changes that have happened, when it’s someone you know you feel they have an interest.” (Small business)

Two examples of business owners who felt that they had very positive relationships with their Relationship Managers are described below.

Small business (Bank X) Business Current Account	
What is the quality of service like?	<i>“I’ve been through four relationship managers, which is a shame because you need to build new relationships from the start. I went through a phase of feeling like the bank didn’t appreciate me and just wanted to sell me things.”</i>
How important is the relationship manager?	<i>“The relationship manager is the bank; he’s the face of it.”</i>
What are the most important factors when choosing a bank?	<i>“Trust is very important and feeling comfortable with your face-to-face contact. They have to have decent knowledge (or at least be interested to learn) about my business.”</i>

Small business (Bank X) Business Current Account	
Why do you have all your products at one bank?	<i>"Because (Bank X) have gone out of their way to be helpful and have delivered on everything we need. They've got faith in us, so we've got faith in them."</i>
How important is the relationship manager?	<i>"His yearly visits are really helpful. He comes in to negotiate. He's good to consult about potential loans and the face-to-face contact is important."</i>
What would encourage you to consider switching?	<i>"I'd worry about severing ties with a decent relationship manager if we decided to switch banks."</i>

Moreover, banks responding positively to complaints had the potential to increase loyalty and deter switching. (It should be noted that medium sized businesses felt more at liberty to raise issues; this was typically perceived to be linked to their turnover, which they felt gave them a more powerful and influential relationship with their bank.) Two examples of banks maintaining positive relationships with businesses are described below.

Medium business	Medium business
A high turnover investment company had a BCA and an Added Value PCA with the same bank (for himself and his wife), giving them access to first class airport lounges	A high turnover recruitment consultancy director visited competing banks to present his existing banking arrangements
The bank charged him £45 for taking his children into the airport lounge. This was raised with his relationship manager and cleared within hours on the basis that he refuses to pay any charges (on either BCA or PCA accounts)	Any competitive offers were then presented back to his relationship manager, to be matched

Some expressed their perception that Relationship Managers were decreasing in numbers and influence. For example, some had experienced Relationship Managers being removed, or not having the influence they had had in the past in terms of being able to influence business banking decisions made by the bank (e.g. regarding loan applications):

"I used to get a visit from my manager every quarter. He'd sit down and give me advice. Now it's all online." (Zero employee business)

“It’s about that person having proper knowledge. A US bank was trying to pay my client and wanted intermediary bank details to wire money here despite having a branch over here. I eventually had to accept a cheque and post it to the branch. A relationship manager might have been able to sort it out. The lack of knowledge is incredible.” (Accountant)

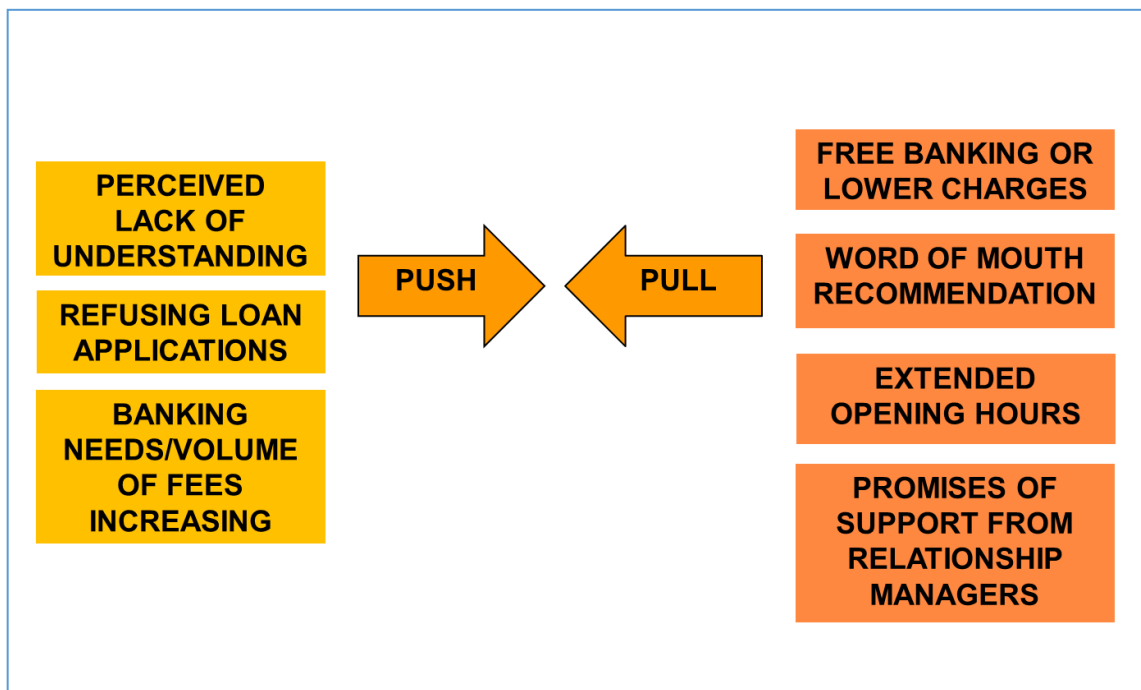
Despite these perceived changes, some accountants reported that longstanding relationships with managers at specific banks remained:

“It’s informal, just people I meet. We have done a lot with (Bank X)...for the larger companies it may be the Relationship Manager that is a priority.” (Accountant)

4.4.4 The ‘pull’ and ‘push’ factors that contribute to BCA switching

Analysis of examples of switching revealed that if banks were not perceived to be supporting businesses, either by: not providing products to support growth or not being perceived to understand business’ needs; or because relationships with Relationship Managers were perceived to be failing; the propensity for respondents to look around for alternative BCA banking providers or specific products increased. Once the group of business owners within our sample who had successfully switched had begun to look around, other offers began to contribute to the decision to switch.

Thus, from an analysis of switching experiences it emerged that both ‘push’ and ‘pull’ factors were required to instigate a switch, as described in the chart below.



An example of how both ‘push’ and ‘pull’ factors contributed to one switching example is described below.

Small business 2 BCAs Switching from (Bank X) to (Bank Y)	
Push factors	<ul style="list-style-type: none"> • Charges were becoming too high • Fed up of having to deal with automated call centres • (Bank X) also removed his relationship manager
Pull factors	<ul style="list-style-type: none"> • Through networking was invited to a (Bank Y) branch opening • Talked with bank manager who said “<i>call me anytime</i>” • The branch is open on Sunday and until 8pm in the week • Debit cards were made in the bank and are handed over on the same day (rather than via post) • Overall, felt more personal service

4.4.5 Comparing banking providers

Typically, respondents in our sample had not compared prices. Most felt that this would be hard work, largely because they envisaged comparing prices either by visiting banks foot or online; very few had realized that one could compare business banking providers via price comparison sites. There was a perception that price comparison sites would support decisions about personal finance products e.g. insurance.

Within our sample, it was only a small group who had tried to compare business banking providers as part of their switching process who realised the complexity involved. An example of a business owner who had tried to compare banking providers is described below.

Small business BCA with (Bank X)
Went through the process of finding out what each bank offered, their charges, opening hours, relationship manager ...
Making comparisons took a lot of time: <i>"You need to understand what you are being charged for before you can make comparisons with other banks."</i>
Found a provider with better opening hours and charges: <i>"Everything was better, other than this fear of losing my ten years worth of banking history that I've got with them."</i>

Further to this, SMEs often perceived their own business banking set up as being unique and therefore challenging to assess in comparison to the market, unless visiting a bank in person. Some also felt that visiting banks in person was time consuming e.g. setting up appointments and taking out time during a working day to visit.

SMEs with much simpler transactions (i.e. fewer transactions and less of a range of transaction types) perceived it as being potentially easier to evaluate prices at competitor banks. For start-ups, the real cost of bank charges (i.e. once the free banking period is over) was not something that was felt to be communicated clearly by banks. Many assumed that this was due to business banking rates changing over time.

Quality of service was typically evaluated in terms of word-of-mouth recommendation (e.g. via accountants, other businesses and informal business networks) - and overall reputation of certain banks across both personal and business banking. Obtaining reliable information about quality of service was not felt to be easy (especially outside of the respondent's formal/informal network) - and, therefore, was often seen as something that is dependent on 'who you know'.

Comparisons of quality were rare in this sample - and quality was often perceived as something that was difficult to measure unless through local word-of-mouth recommendation, from a trustworthy source. Quality of service was often perceived as something that might also be assessed during an initial visit to a bank – for example, when making comparisons with their existing set up.

Most respondents within our sample assumed that their charges would be easy to understand, given that they knew they were quoted on their bank statements, but very few had scrutinized their charges in any detail. An example of a business owner who had tried to compare charges is described below.

Micro business BCA and credit card with (Bank X)	
How transparent do you feel the charges are?	<i>"If you have a magnifying glass. It is an issue. I would ring the bank and ask them exactly what I have to pay. Not from the handbook."</i>
Are you aware of the different types of charges?	<i>"Yes, I go online to see. I have a tick list to go through."</i>
How easy is it to compare prices across different banks?	<i>"It's difficult to hold everything in your head as you look through them."</i>

However, it emerged that there were certain single products that some felt were easier to compare than BCAs: credit cards and loans. Some perceived these products to be more familiar consumer-style products that were easier to compare in terms of cost, flexibility and fit to need.

4.4.6 Channels for comparing banks

Respondents were asked to review various comparison sites during their interview. A selection of comparison provider sites were pre-loaded on to a laptop and respondents were asked to take a look, navigating their way through their chosen site by hand. For many amongst our sample, this exercise proved to be something of a revelation. As a result, a number of respondents said that they would now be comparing different banking offers.

4.4.7 Comparison websites

Comparison websites were generally welcomed by respondents across the sample as a 'starting point' for investigating the business banking marketplace. Fully independent sites were perceived by some to be more credible.

Typically, respondents envisaged using comparison sites to form a short-list of providers by focussing on their main choice criteria. They then envisaged that the comparison process would then be resumed online or by visiting short-listed banks on foot. Respondents tended to envisage that they would be seeking more detailed information about their short-listed providers. Some even felt that they might print off comparative information to take into competitor banks as a basis for discussion.

Overall, the research indicates that comparison websites have some potential to change attitudes towards switching BCAs and the behaviour of those considering switching (alongside other influences).

Calculator tool

The tool was perceived as useful, again as a 'starting point'. Once again, respondents felt that they might use the calculator as a way of short-listing providers before embarking on a more detailed search for information.

However, there was some scepticism regarding the tool's credibility, given that it has been created by a provider. Some respondents noted that the provider brand always appeared to be the more cost effective.

Business banking insight

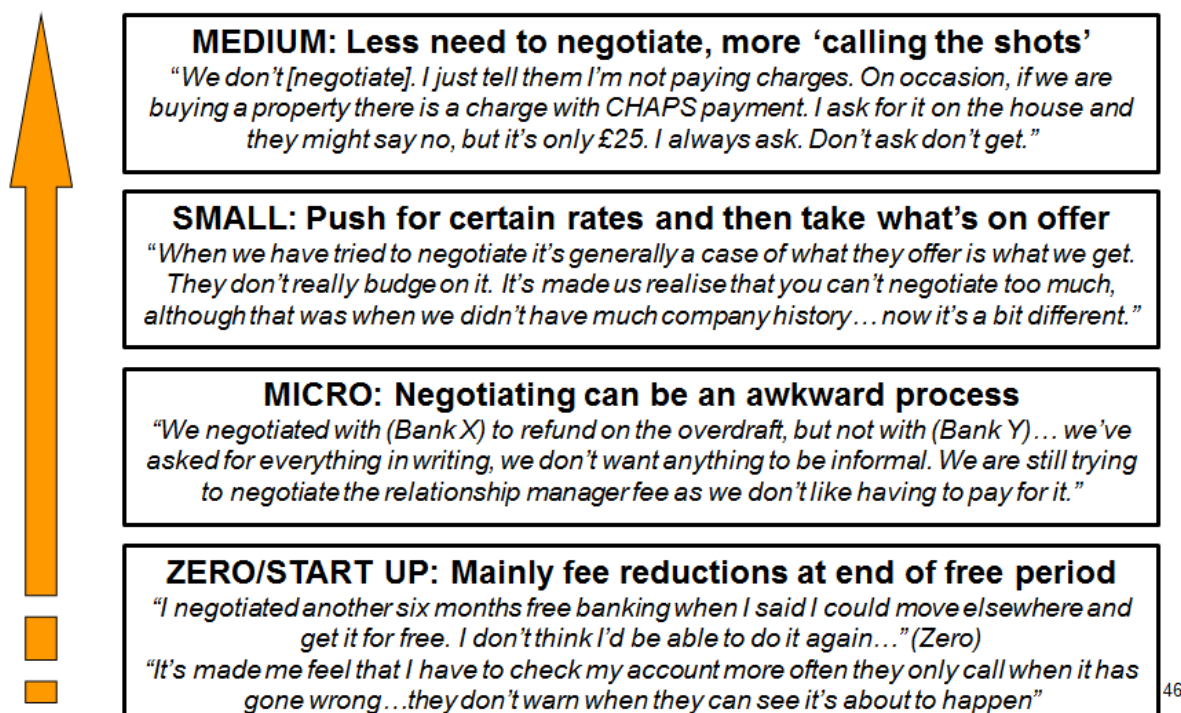
Respondents felt that this resource had the potential to become part of the choice process as a 'final check', although this reaction appeared mainly among the group most concerned about customer service quality. Respondents envisaged coming to a conclusion about their preferred provider, then checking their customer service scores on this website.

When comparing information about banks online or by visiting banks on foot, respondents typically tended to pay more attention to 'hard measures' i.e. practical aspects of day-to-day banking, for example: opening times; the availability of a Relationship Manager; and speed of access and speed of setting up specific services. The characteristics of customer services (whether there was a UK-based call centre; whether there were dedicated customer handling staff; the extent of automation) were also felt to be important.

Service quality was perceived as a 'softer' measure. For many respondents within our sample, the way in which service quality was reported on the Business Banking Insight website was perceived to be similar to Trip Advisor (which they felt was open to manipulation). Overall, judgements about service quality made by SME peers were perceived to be a more powerful influence over decision-making than judgements about service quality from unknown SME owners.

4.4.8 Negotiation

Overall, analysis of examples of respondents negotiating with their banks revealed that the propensity to negotiate appeared to be most strongly influenced by individual business owners' experience, business sophistication and personality. There were therefore examples of attempts to negotiate across our sample, as described in the chart below.



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Although there were examples of attempts to negotiate across the SME sample, it was medium-sized businesses tended to be the most successful negotiators.

Medium businesses were aware of their contributions to the banks given their consistently high turnover and uptake of different lending product throughout the lifespan of their business. With this in mind, medium sized businesses were more likely to feel that they could dictate elements of their business banking contract.

Small businesses tended to rely more heavily on the history of their relationship with their business bank as a basis for negotiation. Where small businesses had managed to develop a good relationship with their bank, small gains (e.g. on BCA fees) were more commonplace. There was also some evidence to suggest that negotiating at this level was, to an extent, driven by personality.

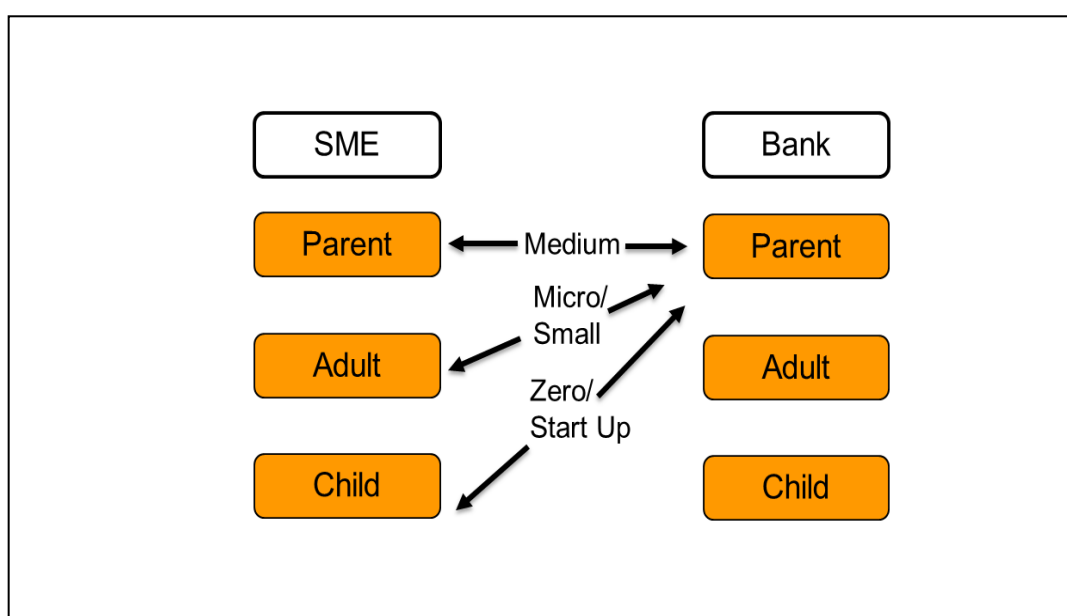
Micro businesses felt that they had less of a platform for negotiation with banks. This was often linked to perceived barriers such as a lack of a relationship manager, having to utilise the basic customer service routes and simply not feeling confident about pushing back on certain contractual elements that they were not happy with.

Zero/start-up businesses typically applied their focus to other, competing issues aside from their business banking (e.g. the day to day establishment/running of their business). Negotiating territory was therefore limited to the extension of free BCA banking periods.

We considered how to describe the negotiating positions of different sized businesses and their banks. Below we have used a transactional analysis model to describe the typical

'ego-states' of different sized businesses within our sample when negotiating with their banks.

When comparing different types of businesses by size, it was clear that medium-sized businesses had the most 'peer-to-peer' based relationship with their banks. By comparison, micro and small businesses were more likely to feel that their banks were in a more powerful position than themselves, albeit within the context of a professional, business-based relationship. It was zero business and start-ups who were most likely to feel that the power balance between themselves and their banks was in favour of their banks.



4.5 Cash flow difficulties

Within our sample, attitudes towards overdrafts varied, depending on whether the business was prone to cash flow problems. Broadly speaking, three groups emerged:

- Those who considered their overdraft to be a 'safety net', but hardly ever used it: *"Not having an overdraft would be like jumping out of a plane without a parachute."* (Small business)
- Those who saw overdrafts as an occasional resource for when there were cash flow issues: *"It's to expand and breathe, not to be used as a piggy bank."* (Zero employee business)
- Those who heavily relied on their overdrafts: *"Our overdraft is our lifeline. We use it every day."* (Micro business)

4.5.1 Overdrafts

Overdrafts were the typical solution to cash flow problems, large or small, across the SME sample. However, start up or zero employee businesses often relied on personal or family lending when in financial need.

The group who were most reliant on their overdrafts typically faced regular cash flow issues. Within our sample, the group of businesses with regular cash flow issues tended to be small, but well established (up to 35 years in business) and 'blue collar' e.g. construction, catering, hairdressing.

The two factors that most influenced cash flow problems were: payment methods (cheques and direct debits taking time to clear); and high up-front costs, such as paying suppliers. For instance, a catering company paying suppliers 'up front' described themselves as '*constantly chasing cash*'. Another example of a small business experiencing cash flow issues was a construction firm dealing in cheques and cash, which was struggling due to the amount of time that cheques were taking to clear.

Of the very few examples of businesses within the sample actively using BCAs at different banks, two were driven by cash-flow and payment issues. The case study below describes how two BCAs were used to ease cash flow difficulties.

Small business BCAs with (Bank X) and (Bank Y)	
Why this set up?	<i>"I opened the account with (Bank Y) last year in order to increase my overdraft size and allow a separate source of funds to deal with late payment problems."</i>
Why late payment problems?	<i>"I take a lot of cheque payments due to the nature of the business which means that payments can take a while to go through. I'm reliant upon good relationships with the businesses I dealt with to tide me over when cheques are taking a while to arrive and clear."</i>
Would anything persuade you to switch banks?	<i>"Yes, flexibility with regards to cash flow...not charging for problems arising from cheques taking a few days to clear...also a relationship manager who knows a bit about the sector."</i>

4.5.2 The potential complexities of overdraft arrangements

Awareness of how overdrafts worked varied across the sample, depending on the extent to which respondents used their overdraft (and therefore how familiar they were with how they worked). Typically, awareness of how overdrafts worked was low amongst those who had little cause to use their overdrafts. It was those respondents who had had poor experiences of overdrafts who were the most knowledgeable about how they worked.

There were a number of businesses who had been denied access to an overdraft, or denied an extension to their existing overdraft. In these circumstances, businesses felt that loans were more readily available from their banks, which caused frustration for some (due to a perception of loan arrangements as being more restrictive). However, the charges associated with an overdraft were felt to be less clear than those associated with a loan. Areas where businesses reported a sense of feeling overcharged included overdraft renewal, extension, or during long periods of time spent quite deep in the business overdraft where charges were perceived to be less clear or unknown.

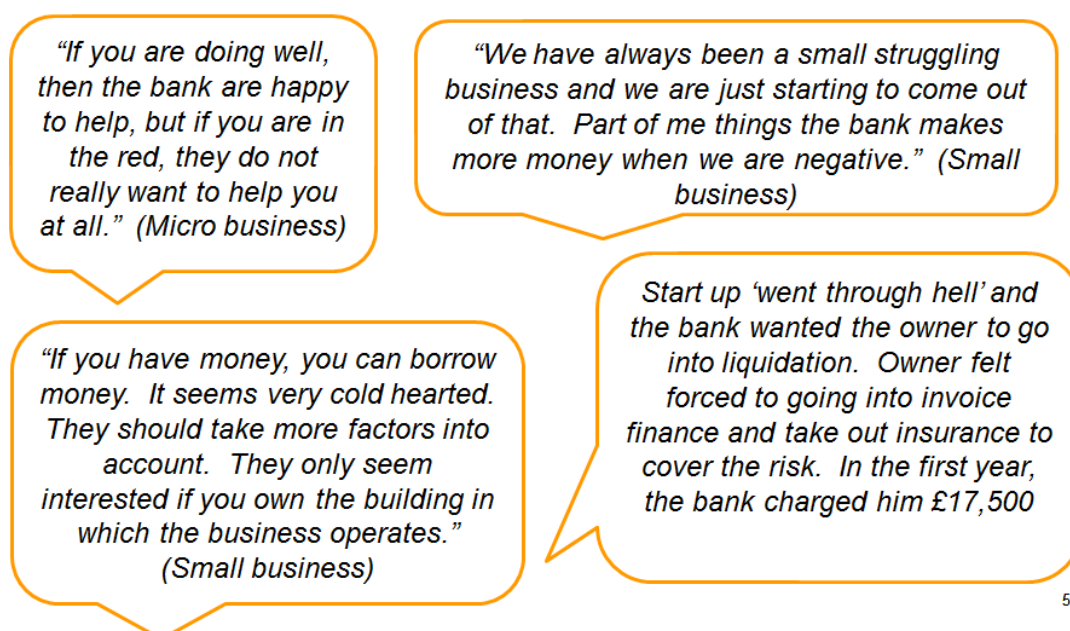
The chart below describes two examples of businesses who had poor experiences of using their overdrafts, and through this experience had become more knowledgeable about how they worked.

Micro business (Bank X) overdraft (and invoice factoring)	Micro business (Bank X) overdraft
Incurred charges with (Bank Y) overdraft when using their chargeable unauthorised overdraft on one occasion: <i>"The experience wasn't fun."</i>	Wanted to consolidate an overdraft, but the bank offered them a loan. The loan payments were cheaper than the overdraft, but it meant that no further funding has been available to them.
When switched to (Bank X), got them to put it in writing that they have 30 days to get out of their unauthorised overdraft before incurring charges.	Complained about the way that a loan was sold to them, but met with <i>"closed doors and no apology."</i>

More generally, some of those who had faced difficult times often felt that their banks could have been more helpful. The case study below describes how one business felt about their relationship with their bank.

Start up BCA and credit card with (Bank X)	
Is there a difference to how the bank treats you if things are not going well?	<i>"If you are doing well, everyone wants to be with you, but when things are bad they make it tough. You feel they could be more helpful, especially if you have been with them for years."</i>
What happens when payments are late?	<i>"It's happened a couple of times, they slam a big fine, a big charge."</i>
How do you feel about the fees?	<i>"I think they are very steep. I think they could be more competitive. They keep offering loans, saying that they are cheaper, so why can't they do the same with the overdraft?"</i>

The group of SMEs who had experienced hard times typically felt that their banks could have been more supportive, particularly in terms of loans and overdrafts. Some respondents wondered whether their banks had their best interests at heart, as described in the chart below.



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4.5.4 Choosing a loan

Within our sample, the group applying for loans tended to use them for investing in their business e.g. for renovations, expansions, or new vehicles/equipment (as opposed to managing cash flow issues):

“We took out the loan with (Bank X) after a few years of trading to cover moving to bigger premises and buying a load of gear. We did shop around although the best rate happened to still be with (Bank X).” (Micro business)

Loan applications were typically made to respondents’ main BCA business banking provider for four main reasons:

- They were perceived as the ‘obvious first choice’;
- It was assumed to be a faster application process - respondents tended to assume there would be less initial paperwork;
- Respondents perceived an advantage in long-standing and trusted relationships, which implied knowledge of their financial history;
- Respondents assumed this would involve ease of oversight and monitoring alongside their BCA and other products.

“It’s a hassle going elsewhere because they need to gather a picture of your business. The process with Bank X has been seamless, they have been proactive and I’ve got one point of contact.” (Small business)

Some SMEs admitted not having made the effort to look at offers from competing banks, but the majority of SMEs shopped around and made comparisons. For those that did evaluate the loan market, it was understood that rates can vary – and that this might depend on the degree of trust built up with certain banks:

“Lending options were better at (Bank X) than (Bank Y), because they had a grading system and you could borrow at a progressively lower rate the more they trusted you.” (Small business)

A selection of SMEs challenged their existing providers with loan rates offered by competing banks, and in these situations their experience was that their banks had sometimes been unwilling to match the rates presented by the SME. Again, the outcome of negotiation on loan rates appeared to depend on factors such as: the relationship with the Relationship Manager; and the power of that Relationship Manager in terms of being able to negotiate internally.

If loan applications were rejected, the need to borrow became more important than loyalty to a BCA provider. As described in section 4.4.1, our sample included examples of respondents who had switched BCA providers after being refused loan applications.

There were examples of SMEs relying on less formal alternatives to credit (e.g. Personal Credit Cards and savings) when the bank was not willing to lend - or equally, when the

application process became time-consuming or problematic. Essentially, for issues that were compulsory and imminent (such as needing to pay HMRC), businesses looked for the next logical step that was available to access the funds needed:

“The overdraft was like £25k and the loan I wanted was something like £78k, and I tried to go through the process but it was so long winded. Then I spoke to the Inland Revenue and I just paid with my credit card instead. The loan process was taking something like a week for approval even though I’d been with them for five years at the time...” (Medium business)

There was some divergence of opinion amongst the group who had applied for loans about how easy it is to find a loan. Clearly some felt that it was harder to access a loan during time of financial need:

“It seems that you can only borrow if you don’t need to.” (Small business)

Equally, others amongst this group had found the process straightforward:

“It’s just a phone call and it’s sorted. It took 2 days to receive the money. Plus if you go elsewhere, you are unknown and you might have to pay to talk to someone for advice.” (Zero business)

4.6 Accountants and IFAs

Across our sample, accountants were seen as influential in relation to business banking; IFAs were considered less so. Overall, banking advice was perceived to be more within the remit of the general business support offered by accountants, particularly for start-ups, as described in the chart below.

Accountants

- Some felt a responsibility to provide assistance around broader financial issues (including banking)
- Typically acting directly on behalf of smaller (and less financially savvy) businesses
- Some evidence of more proactive assistance e.g. looking at statements/VAT returns and identifying increases in charges
- Signposting towards better loan/overdraft/factoring terms also provided

IFAs

- Banking perceived as being further away from their area of expertise
- Less proactive than accountants
- Informal 'personal' advice – encouraging businesses to investigate themselves
- Some advice on rates i.e. where to put larger sums of money
- One IFA looking into setting up a platform for clients to log in and manage immediate cash flow more effectively

4.6.1 Role of the accountant/IFA

It was the small and micro business groups within our sample who were typically more likely to lean on their accountants for banking advice. For example within the adviser sample there were some who actively made calls and negotiated on behalf of their start up clients; for instance, to ensure that they were given a satisfactory free banking period.

By comparison, medium-sized businesses within our sample were more likely to deal more directly with their Relationship Manager; they also had more advisors around them: accountants regarding tax matters; IFAs for pensions and savings; and other internal financial support.

Analysis revealed that the advice given to SMEs by accountants within our sample was not consistently proactive or reactive; instead, our advisor sample assessed their clients' needs and tailored their approach to suit.

Some accountants within our sample were clearly more proactive than others. For example, some SMEs within our sample reported that they relied on their accountant to flag increases in transaction fees or BCA charges; which could trigger conversations regarding their banking options (for instance, about exploring other potential providers). Two examples of more proactive accountants are described in the charts below.

Accountant	
What tasks would you undertake?	<i>[For clients that aren't sure about their banking arrangements] "I would suggest that they talk to their own bank and at least two others, I'm a firm believer in the three quote rule."</i>
How would you step in?	<i>"Out of the three banks at least one will offer free banking for more than two years if I'm able to negotiate properly. I wouldn't expect a client to leave having to pay banking fees."</i>
What's the typical banking arrangement?	<i>"Someone would have one bank and a single BCA attached to some sort of business savings account... If they're VAT registered, I would advise them to have an account in which to move money on a regular basis to meet their VAT liabilities."</i>

Accountant	
What tasks would you undertake?	<i>[Refers micro clients to different banks – depending on sector] “Lately we’ve referred the firm types to (Bank X) as they’ve been more helpful. A lot of the high street banks have changed their opening criteria and made it difficult.”</i>
How would you describe your network?	<i>“It’s informal, it’s just people I meet. We’ve done a lot of work with (Bank Y). Although we often just say to go who they bank with personally as they know who you are and it will make it quicker.”</i>
What’s the typical banking arrangement?	<i>“Generally just one BCA. Although it can vary, a couple may have deposit accounts when they have a cash surplus. One client has a foreign currency account. Some have debit and credit cards. One has a loan facility for buying property.”</i>

4.6.2 Knowledge and awareness of the market and banking offers

There was some evidence of informal networking between accountants and Relationship Managers within our sample. This was typically a relationship between a small number of local Relationship Managers and accountants. This kind of networking was more common among more experienced, senior accountants.

Amongst this group, knowledge of the market and banking offers was typically ascertained through direct enquiry with established connections within certain banks. Accountants would have telephone conversations with banking contacts where they would ‘explore possibilities’ on behalf of clients.

The accountant sample group felt that their general knowledge of the wider market (and the overall service offering across different providers) was typically gained ‘through experience’ and conversations with clients. By relying on their experience, accountants felt that they were able to make recommendations tailored to specific businesses. For example, less financially savvy clients (who were considered likely to be more reliant upon the provider for customer service) could be advised to go with more ‘approachable’ banks; clients who were perceived as likely to need fast access to lending could be signposted towards banks that were deemed to be ‘less conservative’ within the local market.

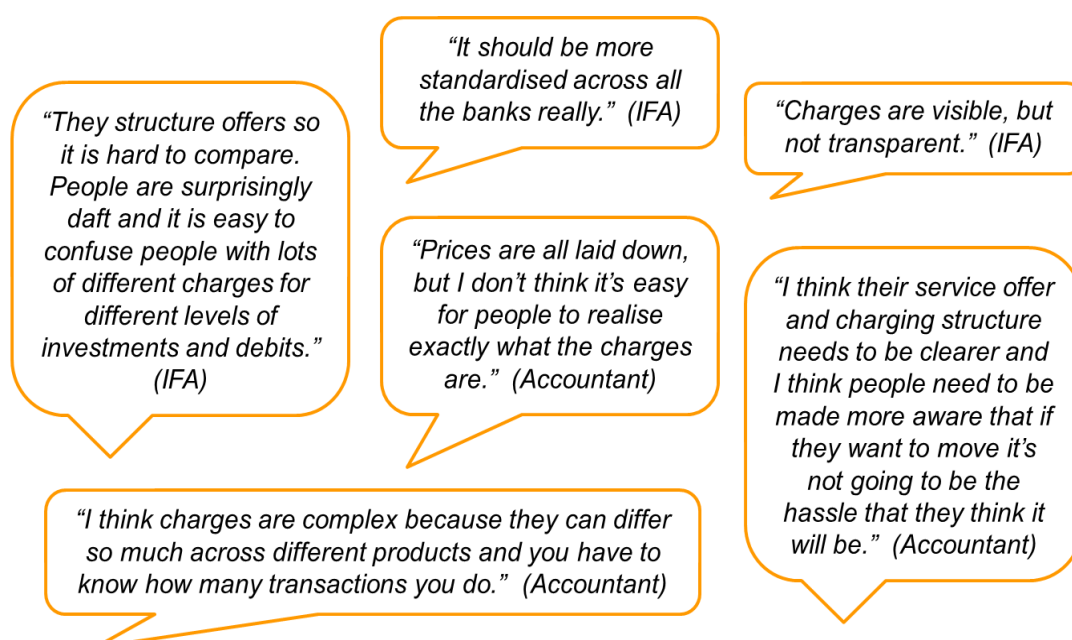
4.6.3 Accountant/IFA views on switching, price transparency/comparability and negotiation

Our advisor sample reported that they tended to advise against established businesses switching banks (although comparisons may have been made at the start up stage). This

was due to a fear of potential problems. Switching was considered particularly likely to cause practical difficulties for businesses with a wide range of incoming transactions.

Our adviser sample reported that they were more likely to advise businesses to switch if relationships between that business and the bank were perceived to have broken down. If the inflexibility of a provider had reached a point perceived to be causing financial damage to the business, or charges were perceived to be unreasonable, and there was no scope for negotiation, then advisors felt that they were more likely to advise switching.

Amongst our adviser sample there was a perception that banks could do more to improve the clarity of their charging structures, and offer proactive notification of future increases in charges. This group clearly articulated their view that, overall, SMEs were not sophisticated banking consumers, and that they lacked the ability to engage with banking charges as they are currently presented, as described in the chart below.



Overall, our adviser sample was comparatively more vocal than SMEs about the need to make bank charges more transparent. This was a key difference between the SMEs and adviser samples.

Research Report Appendices

APPENDIX A

CMA SME Customer Research Qualitative Discussion Guide

1. Introductions and background (5 mins)

- Introduce self and **Research Works Limited**, an independent market research agency
- We will be discussing their **role in making decisions around banking and finance for their business. The research is being conducted on behalf of CMA**
- Explain **confidentiality** (DPA and MRS code of conduct)
- What **is your role** and how long have you been in post?
- **How much time** do you spend working on issues around banking and finance for your business? Why is that?
- What are the **most regular tasks/work** that you undertake in relation to banking and finance for your business? Why is that?
- What type of business is it?
- What size (no. of employees and turnover)
- How long has the business been in operation?
- How is it set-up?
 - Legally, what form does the business entity take? (ie limited company, sole trader, partnership?)
 - How is it managed (Owners/Directors/ managers)?
- On a **day-to-day basis**, what are the key challenges you face?

2. Context: how business arrived at current banking/finance arrangements (15 mins)

MODERATOR: DRAW A MAP OF CURRENT BANKING PRODUCTS FOR REFERENCE

- **What bank accounts does the business have?**
 - Which bank/banks? *Probe for multi-banking⁴*
 - Are they BCAs or PCAs? Have you operated via a PCA in the past?
- How long have you banked with your current bank/s?
- Do you feel that you chose your bank? If no, why not?
 - **If yes**, why did you choose these particular banks? *Probe: was it location/ convenience or a recommendation from other business owners?*
- Have you previously owned a business?

⁴ By multi-banking we mean businesses that have one or more business bank accounts with other bank providers other than their main banks and/or businesses that have one BCA but hold other financial products with other providers.

- **If yes**, how, if at all, did this influence your choice of bank? Has your experience influenced your attitude towards business banking in any way? If so, how?
- **What type of account do you have?** *Probe for type e.g. a monthly plan with a flat monthly rate or per transaction, e-account*
- Do you feel that you chose the type of account?
 - **If not**, *probe whether the bank effectively chose it for them? How were they informed of this if the bank chose (and do they remember)?*
 - **If yes**, how important was it to you to shop around to get the best current account? Why?
- **What other products does the business have?**
 - Does the business have an **overdraft**?
 - What other financial products (e.g. **loans, credit cards, savings account**) does the business hold?
 - Does the business have any **formal business lending**?
 - **Any other** banking or finance services?
- **For each of the above:**
 - When was it arranged?
 - From which providers? Why/how were they chosen?
 - When/how was the overdraft/lending limit agreed? Is it adequate? Why/not?
- **Overall**, which were the most important factors in the process of choosing your bank/s? *Probe: how does price compare to other factors such as:*
 - services available
 - service
 - location (branch easy to access)? How important are branches?

3. For those who have multiple products at one bank
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- *Thinking about how many of these products are held with your main bank:*
- How have you arrived to this situation? Do you get a better deal? Is it easier? Have you ever tested going somewhere else?
- What impact does having multiple financial products with your main bank have on your relationship with that bank? Might it affect any decision to switch banks? If so, why is that?
- Might having a loan with their main bank affect your willingness and ability to switch banks? If so, in what ways? (Also probe for overdraft)
- Why not? What are your views on using different banks for different products or the same product (e.g. multiple BCAs)?

4. For those currently using a PCA⁵ or who have used a PCA in the past

- Did you actively choose to have a PCA?
 - **If not**, how did you come to be using a PCA?
 - **If yes**, why have you chosen/did you choose to do this?
- Did you move/are you moving to a BCA?
 - **If yes**, what prompted you to open a BCA? When was this? *Probe: when you registered for VAT/PAYE? Free banking?*
 - Did you go to your main PCA provider? Why? Did you go to your local branch?

5. For those with Multiple Bank Accounts

- Why do you have multiple BCAs?
 - *Probe: as a precautionary measure, testing out a new bank (e.g. partial switching), need for an international bank, the result of bundling multiple products together, etc.?*
- What is your experience of having multiple bank accounts? Are charges an issue?
- Does having multiple BCAs make you more or less loyal to your main banks? Why?
- Does it make you more or less inclined or willing to switch banks? Why do you say that?

6. Context: current perceptions of service

- What channels do you use to access and manage your account?
- What is the service quality like? Does your bank provide support?
- Do you have a relationship manager?
 - **If yes**, how helpful are they?
 - **If no**, do you want a relationship manager? If so, why? If not, why not?
- Overall do you feel that the bank is responsive to complaints?
- Is there a difference in treatment between struggling businesses /low turnover businesses and wealthy businesses in terms of treatment?

7. For all: Overdrafts (5 mins)

- How do you manage late payments and consequent cashflow issues (things beyond their control such as late payments by customers)?
- How important is an overdraft to your business?
- **If you do not have an overdraft**, have you ever applied for one?
 - **If yes**, how easy was this process? What happened? Why was that?
- Do you believe that you could get an overdraft at short notice? Why do you say that?

⁵ Moderator NB: particularly important for new startups and businesses with 0 employees

- **For those with overdrafts:** what fees do you pay? How do you feel about these? Why?
- Do you have to renew your overdraft every year? If so how easy/difficult is this?
- Are you required to pay an arrangement fee every time you renew? What is the approximate arrangement fee?
- Do you believe that you could get an increase in your overdraft at short notice? Why?
- Have you ever had an unarranged overdraft? Why was that and what happened – what were the cost implications?
- In what ways, if at all, do overdraft arrangements affect your choice of BCA provider? Are the two linked? If so, why is that? Do you feel you could get a comparable overdraft elsewhere? Why do you say that?
- In what ways, if at all, do overdrafts affect your decision to switch? Are you aware that you can switch if you have an overdraft?

8. For all: Business Lending (5 mins)

- **For those with experience of the business lending process:**
- What is your experience of the lending process?
- Do you typically shop around for different lending products or do you typically just go to your main bank? If so, why is that?
 - *Probe whether this is out of a sense of loyalty, because you have an emotional attachment to their bank,*
 - *or something more transactional? (i.e. it is time consuming to search across multiple products, their application will be processed faster by your bank or your main bank is more likely to lend to you?)*

For all (with or without experience of the business lending process):

- Does the quality of the service that your main bank provides affect your willingness to approach it for finance? If so, in what ways? Why do they say that?
- In what ways might considerations around credit scores affect your willingness to apply to other banks and financial providers? Why do you say that?
- How much time in advance of needing the finance would you apply for finance? Why is that?
- Have you ever found yourself needing funds urgently? If so, was your main bank or provide able to provide you with finance quickly? If not, what happened?

9. For all: Price Transparency and Comparability (5 mins)

- **How visible and transparent do you feel your BCA charges are?** Why do you say that?
- Do these costs need to be calculated? What does your monthly statement look like?
 - *For BCA probe whether there are too many charges – one charge per transaction, depending on the type of transaction made*
 - *If respondent feels that it is too complex, how does this complexity arise? Probe: is complexity caused by being charged for different types of*

transactions e.g. electronic transactions, cash deposits in branch, cheques, direct debits, standing orders, etc.

- What improvements do you feel could be made to BCAs to allow better comparability and transparency in terms of pricing? Why do you say that?

10. Experience of comparing prices and products (5 mins)

- **To what extent do you compare or have you ever compared prices and products across BCAs, overdrafts, loans and other lending products?**
- **For those who do compare prices or have compared prices in the past:**
- When did you do this and why? How did you go about it? How satisfied were you with the information you found? How easy was it to compare prices?
- Does or did your statement help you to compare costs across bank accounts?
- **For those who do not compare prices or have not compared prices in the past:**
- **Why not?** *Probe around issues such as: too time consuming, the information needed to make meaningful comparisons is too complex, urgency*

Imagine that you decided that you wanted to compare prices across different products (BCAs, overdrafts, loans and other lending products) and suppliers:

- **How easy would it be to compare prices and products across different products and suppliers?** Why do you say that? How visible are prices across banks?
- What would you need to do in order to compare prices?
 - *Probe: is there an issue that they have to go to each bank separately and spend time doing an application form for each bank/provide document evidence before they are able to appropriately compare price?*
 - How long does it take you to apply for a loan/overdraft?
- Would your statement help you to compare costs across bank accounts?

For all: *keeping in mind the answers to questions above – share with respondents an ideal customer pathway [Stimulus C]*

- To what extent do you feel that you *could* follow this pathway, if you decided it would be beneficial to your business? *Probe: does the information exist that would enable you to follow this pathway?*

Show respondents examples of different ways of communicating costs [Stimulus B]

Firstly, ask respondent to explore one of the price comparison sites and a calculator site:

- If there was a tool like this that could compare products across the market how helpful would this be to you? How satisfied are you with the information available?
- How does it compare to the tools available for PCAs?

Secondly, ask respondent to review the business banking insight site:

- Would you be more or less likely to use this? Is it helpful? Why/not?
- Are businesses aware of these tools? Have they been communicated by banks? How do the tools available for BCAs compare to PCAs?

11. For all: Negotiation (5 mins)

- To what extent do you feel compelled to accept an offer from your main bank or provider? Why is that?
- Do you typically negotiate on prices with your bank or other provider - or do you accept the prices set by the bank? Why is that?
- Do you typically negotiate on prices for business products e.g:
 - Applying for, renewing or extending an overdraft
 - Lending products
- Do you have any experience of attempting to negotiate (whether successful or not)?
 - **If yes**, how did you go about trying to negotiate? Did you use competitors' prices for instance?
 - Have you had experience of successfully negotiating with a bank?
 - How has this experience made you feel about negotiating with a bank in future?
- Have you any experience of banks attempting to cross-sell products?
 - **If yes**, what has your experience been? *Probe: did you welcome this opportunity or not? Why?*

12. Switching BCA or Financial Provider (5 mins)

- **For those who have switched products:**
- Why did you decide to switch?
- What were the 'pull' factors and what were the 'push' factors?
 - *Probe: if for cost reasons, how big does the gain need to be to encourage switching?*
 - *Probe: if because of service quality, why did they think their new bank would be any better?*
- **For those that have switched BCA:**
- How does the 7 day switching promise compare with what happens in practice? Why do you say that?
- Was it important that your new bank had a branch near you or would you have been happy with a purely online/mobile account?
- How did you find out about the price/quality of other banks? How easy was it to do this?
- What factors do you think are preventing more businesses from switching BCA? Why do they say that?

If unhappy with service from bank, but didn't switch:

- What stopped you? *Probe on whether anything has changed in their relationship e.g. do they just deal with bank less?*
- **For those who have not switched:**
- Why have you not considered switching?
- What are the practical considerations in relation to switching BCA?
 - *Probe around barriers such as: having to inform all their customers of their new bank account, reviewing all their existing contracts, etc.?*
- What are your expectations about how easy or difficult it might be to switch BCA? Why do you say that?
 - *Probe awareness of 7 day switching – (show stimulus D)*
- What would need to change in order for you to feel more comfortable with the idea of switching BCA? Why are those things important?
 - Would account number portability provide more comfort/ reassurance?
 - More information about 7 day switching?
- Would you consider switching to a new bank or an internet only bank e.g. not the big 4/5? If not why not?
- ***Moderator:*** *introduce full list of potential banking providers [stimulus A] and gauge awareness of their overall business offer including range of product options.*

In future:

- What factors might prompt you to switch?
- What would be the 'pull' factors?
 - *Probe: what would a bank need to offer to encourage you to switch?*
- What would be the 'push' factors?
 - *Probe on whether they think all banks are the same? Why do they think this? Do they see much differentiation? Have they looked into this?*
- How important are costs? Is this a prompt to switch? By how much would costs have to rise to prompt you to switch?
 - How much are your costs in terms of banking fees/charges?
 - *Probe on how whether costs are relatively low to overall turnover, therefore perceived time/hassle of switching outweighs potential cost savings*
- To what extent, if at all, do you feel that banks are competing for your business? If not why would they say that?
- Do you see much advertising targeted at you? How does this compare with PCA or other financial products?
- Have you ever been contacted by a relationship manager? Or approaching by a relationship manager at a networking event? If so, how influential is this type of approach?

13. Summing up (5 minutes)

- What would you **say to other businesses**, similar to yourselves, which are considering switching BCA or finance? Any key advice/thoughts/suggestions for the CMA?
- What is most important to them that they think needs fixing in the provision of banking services to SMEs?

APPENDIX B

CMA SME Customer Research Qualitative Discussion Guide (Accountants - draft 2)

Introductions and background (5 mins)

- Introduce self and **Research Works Limited**, an independent market research agency
- We will be discussing their **role in advising SME clients about making banking and finance decisions.**
- **The research is being conducted on behalf of CMA, the Competition and Markets Authority**
- Explain **confidentiality** (DPA and MRS code of conduct)
- Ask permission to record the interview

- **Respondent to introduce themselves:** name, role in business, key areas of responsibility, length of time in the role
- What size of business are you running?
- **Clients:** What proportion of your clients are SME businesses (micro, small and medium)?
- Do you have a ‘typical’ client? If so, what size are they? *Probe: sole traders, micro, small, medium? Probe: industry sectors?*
- What are the typical tasks that you undertake for your SME clients?
- What type of relationship do you have with your clients? *Probe: do you advise them generally or in a particular area of work?*
- To what extent do you get involved in business banking on behalf of your SME clients?
 - *Probe: do you conduct business banking tasks on their behalf? If so, what?*
 - *Probe: do they ask you for advice about business banking? If so, what about?*
 - *Probe: do you proactively offer advice? If so, when and what about?*
- To what extent do you get involved in advising clients on finance and types of finance?
- **Business network:** Do you belong to or are you a member of any professional bodies or networks? If yes, which ones?

Context: SME clients’ current banking/finance arrangements (15 mins)

- **What banking arrangements do your clients tend to have?**
 - *Probe: do they tend to have BCAs with one bank or several?*
 - *Probe: do they have financial products with several banks?*
 - *Probe: do they have BCAs or PCAs?*
- Do clients with these different types of arrangements have particular characteristics? If so, how would you describe them?

- **How do your clients choose their banks?**
- What, from your experience, are the key influencing factors?
- *Prompt: are any of these influencing factors?*
 - *Personal banking provider*
 - *Location/convenience of branches*

- *Ranges of services available*
 - *Recommendation from other business owners*
 - *Inheriting banks from previous business owners*
 - *Price*
 - *Previous business banking experience*
- *Does this vary by different types of businesses?*
 - *Large vs small*
 - *Sole-traders/self-employed with employees*
 - *Sectors*
- **To what extent, if at all, do your clients seek your opinion when choosing a banking provider?**
- **If so:** what do you advise them to do when seeking any of the following products?
 - BCA
 - Overdraft (applying)
 - Overdraft (renewing)
 - Loans or other formal business lending
 - Credit cards
 - Savings account
- **To what extent, if at all, do you encourage clients to shop around when seeking any of these products? Why/not?**
- If yes, what do you advise them to look for? (Ask for each product)
- If not, why not?
- **Have you ever been contacted by banks asking them to refer clients to them?** If so, when and how? How did you feel about this approach?
- Do you feel that you have relationships with any banks? If so, what is the nature of this relationship? *Probe: do you know local relationship managers? Do you participate in outreach events for banks?*
- Do banks refer clients to you? If so, when and how?

For clients who have multiple products at one bank

- *Thinking about clients who have most or all of their products with one bank:*
- **How have your clients arrived at this situation?**
- What are the factors that encourage them to stay with one provider? *Probe: ease?*
- In your view, do you think they get a better deal from staying with the same bank? Why do you think this? Have you seen it in practice?
- Generally speaking, do you find that clients test going to other banks? Why/why not? In what way do they test going to other banks – bank accounts with different banks? Different financial products?
- Do you feel that having multiple financial products with one bank might have an effect on clients' future decision-making? *Probe: might it affect any decision to switch banks? If so, why/not?*

- Do you feel that having a loan or overdraft with their main bank might have an effect on clients' willingness and ability to switch banks? If so, in what ways?

For clients with Multiple Bank Accounts

- What are your views on clients using different banks for different products or the same product (e.g. multiple BCAs)? Would you advise this? Do you think they get better deal?
- Do you have clients using multiple BCAs? If so, why?
- Do you feel that having multiple BCAs has an effect on clients? *Probe: might it make clients more or less loyal to their main banks? Why/not?*

For clients currently using a PCA⁶ or who have used a PCA in the past

- Do you have clients using PCAs?
 - **If so**, how did they come to be using a PCA?
 - Why do they choose to do this?
- What is your advice for your clients in this situation? *Probe: what do you advise them regarding PCAs vs BCAs?*
- Do you advise clients to move to a BCA?
 - **If yes**, when do you advise them to do so? *Probe: is there a particular point in the lifecycle of the business e.g. when business registers for VAT/PAYE?*
 - What are their key concerns about moving from PCA to BCA? Are they reluctant to do this?
 - What do clients tend to do when they want to open a BCA? *Probe: do they go to their PCA provider?*

Context: current perceptions of service

- What is your SME clients' experience of service quality? In your experience, do banks provide support for your SME clients? Why/not?
- Does the support banks give to SME vary? If so, what, in your view, influences the amount or type of support they are prepared to give? *Probe: turnover, age of business, sector?*
- Do your SME clients tend to have relationship manager?
- If yes, do you ever contact relationship managers on behalf of your clients?
 - **If yes**, when and why? How helpful are they?
- Have you ever complained to a bank on behalf of an SME client?
- If so, when and why? What was the result?

For all: Overdrafts (5 mins)

⁶ Moderator NB: particularly important for new startups and businesses with 0 employees

- How do your SME clients manage late payments and consequent cashflow issues (things beyond their control such as late payments by customers)?
- How important are overdrafts to your SME clients? *Probe: do businesses who rely on overdrafts more than others have particular characteristics? If so, what?*
- From experience, what is the process of applying for an overdraft like for an SME customer?
- How do clients approach applying for overdrafts? *Probe: do they shop around or do they typically go to their main bank? If so, why?*
- Are your SME clients able to get overdrafts at short notice? Why/not?
- Do your SME clients ask you for advice about applying for overdrafts?
- If so, what advice (if any) do you give to SME clients wanting to apply for an overdraft? *Probe: particularly in terms of shopping around or negotiating?*
- **For clients with overdrafts:**
- Do your SME clients need to renew their overdraft every year? From experience, how easy/difficult is this process?
- Are clients required to pay an arrangement fee every time they renew? Do you know what the approximate arrangement fee is?
- Do you believe that your SME clients could get an increase in your overdraft at short notice? Why/not?
- How do clients approach renewing overdrafts?
- Do your SME clients ask you for advice about renewing overdrafts?
- What advice (if any) do you give to SME clients wanting to apply for an overdraft? *Probe: particularly in terms of shopping around or negotiating?*
- Have you got clients who have ever had an unarranged overdraft? Why was that and what happened – what were the cost implications?
- In what ways, if at all, do you feel that overdraft arrangements affect clients' choice of BCA provider? If so, why is that?
- In what ways, if at all, do you feel that overdraft arrangements affect clients' decision to switch? Are you aware that they can switch, even if they have an overdraft?

For all: Business Lending (5 mins)

- What is your experience of the lending process?
- How do clients approach the lending process? *Probe: do they shop around or do they typically go to their main bank? If so, why?*
- What influences clients' choice of lender? *Probe: quality of service, credit scores, fees?*
- How much time in advance of needing the finance do clients apply for finance?
- Have you ever had clients who found themselves needing funds urgently? If so, what happened?
- Do your SME clients ask you for advice about applying for loans/business finance?
- What advice (if any) do you give to SME clients wanting to apply for a loan? *Probe: particularly in terms of shopping around or negotiating?*

For all: Price Transparency and Comparability (5 mins)

- **How visible and transparent do you feel your BCA charges are?** Why do you say that?
- Do these costs need to be calculated? *Probe: any complexities and why they arise?*
- Do you see your clients' monthly bank statements? What do monthly statements look like? *Probe: do they vary between banks? Are they useful and simple can clients easily identify their costs?*
- What improvements do you feel could be made to BCAs to allow better comparability and transparency in terms of pricing or make these less complicated/useful? Why do you say that?
- Do you think your clients take account off or look at their statements

Experience of comparing prices and products (5 mins)

- **To what extent do you compare or have you ever compared prices and products across BCAs, overdrafts, loans and other lending products?**
- **For those who do compare prices or have compared prices in the past:**
- When did you do this and why? How did you go about it? How satisfied were you with the information you found? How easy was it to compare prices?
- **For those who do not compare prices or have not compared prices in the past:**
- **Why not?** *Probe around issues such as: too time consuming, the information needed to make meaningful comparisons is too complex, urgency*

Imagine that you decided that you wanted to compare prices across different products (BCAs, overdrafts, loans and other lending products) and suppliers:

- **How easy would it be to compare prices and products across different products and suppliers?** Why do you say that? How visible are prices across banks?
- What would you need to do in order to compare prices?

For all: *keeping in mind the answers to questions above – share with respondents an ideal customer pathway [Stimulus C]*

- To what extent do you feel that both you and your clients *could* follow this pathway, if you decided it would be beneficial? *Probe: does the information exist that would enable you to follow this pathway?*

Show respondents examples of different ways of communicating costs [Stimulus B]

Firstly, ask respondent to explore one of the price comparison sites and a calculator site:

- If there was a tool like this that could compare products across the market how helpful would this be to you/your clients? How satisfied are you with the information available?
- How does it compare to the tools available for PCAs?

Secondly, ask respondent to review the business banking insight site:

- Would you be more or less likely to use this? Is it helpful? Why/not?

- Are you aware of these tools? Have they been communicated by banks? How do the tools available for BCAs compare to PCAs?

For all: Negotiation (5 mins)

- **Do you ever negotiate with your clients' bank or other provider on their behalf?**
- If so, do you typically negotiate on prices for business products e.g:
 - Applying for, renewing or extending an overdraft
 - Lending products
- Do you have any examples of attempting to negotiate (whether successful or not)?
 - **If yes**, how did you go about trying to negotiate? Did you use competitors' prices for instance?
 - Have you had experience of successfully negotiating with a bank?
 - How has this experience made you feel about negotiating with a bank in future?
- **To what extent, if at all, do you encourage clients to negotiate with banks when seeking any of these products? Why/not?**
- If yes, what do you advise them to negotiate about? (Ask for each product)
- If not, why not?

Switching BCA or Financial Provider (5 mins)

- **For those with clients who have switched providers:**
- Why did they decide to switch?
- What were the 'pull' factors and what were the 'push' factors?
- How, if at all, were you involved in the process of switching?
- Do you know how long did the switching process take and was this an issue? If it took a long time, why did it take a long time? Was this because they have to supply to many documents? Do you know what documents they had to supply?
- What factors do you think are preventing more businesses from switching BCA? Why do they say that?
- **For those with clients who have not switched:**
- Do you have clients who are unhappy with their banks? If so, why?
- Why have they not switched banks? What are the barriers to switching?
 - *Probe: practical barriers such as: having to inform all their customers of their new bank account, reviewing all their existing contracts, etc.?*
 - *vs other barriers*
- In your experience, how does the 7 day switching promise compare with what happens in practice? Why do you say that?
- Why have your clients not considered switching?
- What are the practical considerations in relation to switching BCA?

- What are your/clients' expectations about how easy or difficult it might be to switch BCA? Why do you say that?
- What would you/your clients need to feel more comfortable with the idea of switching BCA? Why are those things important?
 - Would account number portability provide more comfort/ reassurance?
 - More information about 7 day switching?
- **Moderator:** *introduce full list of potential banking providers [stimulus A] and gauge awareness of their overall business offer including range of product options.*
- Would your clients consider switching to a new bank or an internet only bank e.g. not the big 4/5? If not why not?
- Would you advise your clients to consider switching to a new bank or an internet only bank e.g. not the big 4/5? Why/not?

In future:

- What factors might prompt your clients to switch? Or you to encourage them to consider switching?
- What do you think might encourage your clients to consider engaging with a wider variety of providers – and potentially switching providers if unhappy?
- What would be the 'pull' factors?
 - *Probe: what would a bank need to offer to encourage you to advise your clients to switch?*
- What would be the 'push' factors?
 - *Probe on whether they think all banks are the same? Why do they think this? Do they see much differentiation? Have they looked into this?*
- How important are costs? Is this a prompt to switch? By how much would costs have to rise to prompt you to advise your client switch?
 - How much are your costs in terms of banking fees/charges?
 - *Probe on how whether costs are relatively low to overall turnover, therefore perceived time/hassle of switching outweighs potential cost savings*
- To what extent, if at all, do you feel that banks are competing for your SME clients' business? If not why would they say that?
- Do you see much advertising targeted at SMEs? How does this compare with PCA or other financial products?

<h4>Summing up (5 minutes)</h4>
--

- What is most important to them that they think needs fixing in the provision of banking services to SMEs?

APPENDIX C

STIMULUS MATERIALS

Stimulus A





Stimulus B

STIMULUS B

PRICE COMPARISON WEBSITES FOR BCA AND LOAN PRODUCTS

<http://moneyfacts.co.uk/>

<http://www.moneysavingexpert.com/>

<http://www.moneysupermarket.com/>

<http://www.uswitch.com/current-accounts/>

<http://www.gocompare.com/>

CALCULATORS

<http://www.santander-products.co.uk/business-banking/calculator>)

<http://www.lloydsbank.com/business/commercial-banking/rates-and-charges/tariff-calculator.asp>)

AND BUSINESS BANKING INSIGHT

<http://www.businessbankinginsight.co.uk/>

Stimulus C

Suggestions for how businesses should go about choosing banking products

- Access all the information on products from different suppliers
 - The information needs to be transparent, charges to be clear and not hidden.
- Actively search around, and access all this information on different providers (price comparison sites could help)
- Access data on their own usage (if not new) so they are able to compare with other providers
- Compare different banks, making like for like comparisons
 - The information needs to be understandable and not too complicated
- Make a decision, based on a comparison between products/ banks

Suggestions for how businesses should go about reviewing banking products

EXISTING BUSINESS BANK ACCOUNTS

- *Every few years go through with their accountant/FD, and discuss whether it would be worth switching account based on their transactions.*
- *From this discussion, either switch or re-negotiate with bank. This would include the cost of overdrafts.*

NEW BUSINESSES BANK ACCOUNTS

- *Look beyond their PCA provider*
- *Examine fees and other factors, not just free business banking.*

FOR LOANS AND OTHER PRODUCTS

- *Experiment with other banks and providers*
- *Obtain a free quote*
- *Discuss with accountant, Finance Director*

Stimulus D



Benefits of the new service

Customers can switch their current account simply and reliably using a consistent service. The Current Account Switch Service features a number of benefits for customers, including:

- the customer can switch on a date that suits them that they choose and agree with their new bank
- the new service is faster. It will take seven working days to switch account using the new Current Account Switch Service – an improvement on the previous process which sometimes took between 18 and 30 working days.
- the Current Account Switch Service is backed by a Current Account Switch Guarantee which details the key benefits of the switch and outlines what a customer is entitled to in the unlikely event of something going wrong.
- it is hassle-free for the customer; existing payment arrangements, those going out (e.g. Direct Debits and standing orders) and those coming in (e.g. salary), will be transferred from the old account to the new account.
- a new redirection service will ensure that any payments made to or requested from the old account will be redirected automatically to the new account, for a period of 36 months after the switch date

The switching process is managed by the new bank so, if a customer has any questions or concerns, they have a single point of contact. Equally, if a problem

occurs, the new bank is responsible for resolving the issue so that there is no need for the customer to speak to the different parties involved. Crucially, if a customer wants to leave a bank, they can do so simply by dealing with a new bank – there is no need to talk to the old bank as part of the process.

APPENDIX D

Recruitment Questionnaire - Customer

J.1970 COMPETITION AND MARKETS AUTHORITY SME CUSTOMERS AND THE RETAIL BANKING MARKET RECRUITMENT QUESTIONNAIRE: ADVISORS (FINAL)

RECRUITER READ OUT:

Good morning/afternoon evening, my name is _____, from Research Works Limited, an independent market research agency.

We are conducting a survey on behalf of the Competition and Markets Authority⁷ about the retail business banking market.

We are interested in interviewing advisors and intermediaries whose clients are from a range of small and medium sized businesses companies; the purpose of the research is to explore your experiences of your clients' attitudes towards business banking.

FIRSTLY, A FEW QUESTIONS ABOUT YOU AND YOUR BUSINESS:

Q1 Have you ever taken part in a market research depth interview or group discussion before:

⁷ The CMA "work to promote competition for the benefit of consumers, both within and outside the UK. Our aim is to make markets work well for consumers, businesses and the economy." IF NECESSARY: "The Competition and Markets Authority was formed from the merger of the Office of Fair Trading and the Competition Commission in April 2014"

Yes	1	Go to Q2

No	2	Go to Q4

Q2 When did you last take part?

Within 6 months	1	CLOSE

Longer than 6 months ago	2	Go to Q4

Q3 What was the subject/s of the research? (Write in)

CLOSE IF ANY OF THE SUBJECT/S WERE RELATED TO RETAIL BANKING OR BUSINESS FINANCE

Q4 Do you work for a company that provides business advice and services to micro, small or medium-sized businesses?

Yes	1	Continue

No	2	Close

ALL RESPONDENTS MUST WORK FOR A COMPANY THAT PROVIDES BUSINESS ADVICE AND/OR BUSINESS SERVICES (CODE 1) TO SMEs

Q5a Do you ever get involved with advising your clients about aspects of business banking (for example their choice of bank/type of account/ applying for business credit/overdrafts etc etc)?

Yes	1	Continue

No	2	Close

Q5b To what extent do you get involved with advising your clients about aspects of business banking (for example their choice of bank/type of account/ applying for business credit/overdrafts etc etc)?

I am prepared to offer advice/discuss If they ask me about business banking	1	See instruction
--	----------	------------------------

<i>I actively offer them advice about business banking</i>	2	See instruction
---	----------	------------------------

Neither of the above	3	Close
----------------------	---	-------

A MAJORITY OF INTERVIEWS 81-100 TO CODE 2

Q6 Are you:

<i>An accountant</i>	1	Continue
<i>An IFA</i>	2	Continue
<i>A book keeper</i>	3	Continue

<i>None of the above</i>	4	Close
---------------------------------	----------	--------------

A MIX OF CODES 1-3 TO BE ACHIEVED ACROSS INTERVIEWS 81-100

Q7 Which of the following sizes of company would you say you predominantly work with?

<i>Start-up companies (any size, but have been going for less than 12 months)</i>	1	CHECK QUOTA
<i>0-9 employees</i>	2	CHECK QUOTA
<i>10 - 49 employees</i>	3	CHECK QUOTA
<i>50 - 249 employees</i>	4	CHECK QUOTA

<i>350+ employees</i>	5	Close
------------------------------	----------	--------------

CHECK QUOTA :

<i>D81 – 84</i>	<i>MUST CODE 1</i>
<i>D85 - 92</i>	<i>MUST CODE 2</i>
<i>D93 – 96</i>	<i>MUST CODE 3</i>
<i>D97 – 100</i>	<i>MUST CODE 4</i>

Q8 What type of organisation do you work for?

I am an independent adviser	1
I work for a small firm of advisers	2

I work for a large firm of advisers	3
I work as an adviser within an SME	4

A MIX OF CODES 1-4 TO BE ACHIEVED ACROSS INTERVIEWS 81-100

RECRUIT FOR DEPTH INTERVIEW

NAME OF RESPONDENT: _____

JOB TITLE: _____

COMPANY NAME: _____

ADDRESS: _____

TELEPHONE NO: _____

INTERVIEWERS DECLARATION:

I certify that I have carried out this interview according to instructions received from Research Works Limited and confirm that they are in line with the rules and regulations set out by the MRS and the respondent is not a relative/friend of mine and has not attended a research session in the past 6 months.

Research Works Ltd reserves the right to reject a respondent if we believe they are inaccurately recruited and/or have attended a research session in the past 6 months.

INTERVIEWERS SIGNATURE: _____

DATE: _____

APPENDIX E

Recruitment Questionnaire – Intermediaries

**J.1970 COMPETITION AND MARKETS AUTHORITY
SME CUSTOMERS AND THE RETAIL BANKING MARKET
RECRUITMENT QUESTIONNAIRE :BUSINESS OWNERS/DIRECTORS
(FINAL)**

RECRUITER READ OUT:

Good morning/afternoon evening, my name is _____, from
Research Works Limited, an independent market research agency.

We are conducting a survey on behalf of the Competition and Markets Authority⁸
about the retail business banking market.

We are interested in interviewing business owners/managers from a range of small
and medium sized businesses companies to explore your experience of business
banking.

FIRSTLY, A FEW QUESTIONS ABOUT YOU AND YOUR BUSINESS:

Q1 *Are you the person in the company who makes decisions about
business banking?*

Yes	- myself solely	1	Go to Q2
Yes	- along with others	2	Go to Q2

Yes, but I pass everything on to my

⁸ The CMA “work to promote competition for the benefit of consumers, both within and outside the UK. Our aim is to make markets work well for consumers, businesses and the economy.” IF NECESSARY: “The Competition and Markets Authority was formed from the merger of the Office of Fair Trading and the Competition Commission in April 2014”

advisor (e.g. accountant)	3	SEE INSTRUCTION
---------------------------	---	------------------------

No	4	SEE INSTRUCTION
----	---	------------------------

CODE 3: ASK TO SPEAK TO THE ADVISOR

CODE 4: ASK TO SPEAK TO THE RELEVANT INDIVIDUAL

Q2 Have you ever taken part in a market research depth interview or group discussion before:

Yes	1	<i>Go to Q3</i>
-----	---	-----------------

No	2	<i>Go to Q5</i>
----	---	-----------------

Q3 When did you last take part?

Within 6 months	1	CLOSE
-----------------	---	--------------

Longer than 6 months ago	2	<i>Go to Q4</i>
--------------------------	---	-----------------

Q4 What was the subject/s of the research? (Write in)

CLOSE IF ANY OF THE SUBJECT/S WERE RELATED TO RETAIL BANKING OR BUSINESS FINANCE

Q5 We need to interview people in certain trades and professions. Could you please tell me if you or any of your close friends or family work in one of the following areas:

Advertising on behalf of banks	1	CLOSE
--------------------------------	---	--------------

Market Research on behalf of banks	2	CLOSE
------------------------------------	---	--------------

Marketing on behalf of banks	3	CLOSE
------------------------------	---	--------------

Journalism	4	CLOSE
------------	---	--------------

Public Relations on behalf of banks	5	CLOSE
-------------------------------------	---	--------------

Retail banking	6	CLOSE
----------------	---	--------------

None of the above	7	<i>Continue</i>
-------------------	---	-----------------

RECRUITER: IF IN DOUBT, PLEASE CHECK WITH THE OFFICE

Q6 How many employees (apart from yourself) does the business have?

0	1	SEE INSTRUCTION
---	---	------------------------

1-9 (MICRO)	2	SEE INSTRUCTION
-------------	---	------------------------

10-49 (SMALL)	3	SEE INSTRUCTION
---------------	---	------------------------

50-249 (MEDIUM)	4	SEE INSTRUCTION
<hr/>		
250+	6	CLOSE

INTERVIEWS 1 – 16 CAN BE ANY SIZE
INTERVIEWS 17-32 – CODE 1
INTERVIEWS 33-48 (MICRO) - CODE 2
INTERVIEWS 49-64 (SMALL) - CODE 3
INTERVIEWS 65-80 (MEDIUM) - CODE 4

Q7 For how long has your business been trading?

Less than 12 months	1	SEE INSTRUCTION
Longer than 12 months	2	SEE INSTRUCTION

INTERVIEWS 1-16 (STARTUPS) MUST CODE 1

Q8 *And what sector does your business operate in:*

Blue collar:

Building/construction industry	1
Catering	2
Cleaning industry (office, streets)	3
Electrical	4
Factory work	5
Farm labour	6
Plumbing	7
Technical (car, aircraft, rail etc)	8
Telecommunications (installation, repairs)	9
Transportation (lorry, bus taxi etc)	0
Other	W
(write in): _____	

White collar:

<i>Services</i>	<i>X</i>	
<i>Office based</i>		<i>Y</i>
<i>Other</i>	<i>Z</i>	
<i>(write in):</i> _____		

A MIX OF SECTORS TO BE ACHIEVED ACROSS THE SAMPLE

Q9 *What is your annual business turnover?*

<i>Less than £100,000k</i>	<i>1</i>	
<i>£100,000- £500,000</i>		<i>2</i>

£500,000-£1,000,000	3	
£1,000,000-£2,000,000	4	
£2,000,000 - £10,000,000		5
£10,000,000 - £25,000,000		6

A MIX OF CODES 1-6 TO BE ACHIEVED ACROSS THE SAMPLE

SECONDLY, A FEW QUESTIONS ABOUT YOUR BUSINESS BANKING:

Q10a Which of the following accounts do you use for business purposes?

Business Current Account	1
Personal Current Account used for business purposes	2

INTERVIEWS 17-32: ENSURE THAT SOME RESPONDENTS CODE 2 WITHIN THIS GROUP

Q10b Who chose these accounts?

I did	1
Someone else did	2

A MAJORITY OF RESPONDENTS TO CODE 1

FOR THOSE WHO CODE 1 AT Q10a:

Q11a How many Business Current Accounts (BCAs) do you have?

1 only	1	Q11c
<hr/>		
2 or more	2	Q11b

FOR THOSE WHO CODE 2 AT Q11a

Q11b Where are these BCAs held?

At one bank only	1
At more than one bank	2

INTERVIEWS 1-16, 17-32, 33-48, 49-64 AND 65-80: ENSURE THAT SOME WITHIN EACH GROUP CODE 2 AT Q11a and Q11b

FOR THOSE WHO CODE 1 AT Q11a

Q11c Do you hold other business products (e.g. overdrafts, credit cards, loans⁹) at another bank?

Yes	1
No	2

INTERVIEWS 1-16, 17-32, 33-48, 49-64 AND 65-80: ENSURE THAT SOME WITHIN EACH GROUP CODE 2 AT Q11c

ASK ALL

Q12 Have you made any of the following applications WITHIN THE PAST 12 MONTHS?

Applied for a business overdraft	1
Applied to renew a business overdraft	2
Applied to extend a business overdraft	3
Applied for a business loan¹⁰	4
Applied for a new BCA	5

None of the above	6

ENSURE THAT SOME RESPONDENTS CODE 1, 2, 3 AND 4 ACROSS THE SAMPLE

Q13 Have you negotiated with your bank regarding any of these products? NB: By 'negotiated' we mean asked your bank to re-consider their terms or fees.

Business Current Account	1
Business Credit Card	2
Business Overdraft	3
Business Loan¹¹	4
Business Insurance	5

None of the above	6

ENSURE THAT SOME RESPONDENTS CODE 1, 2, 3, 4 AND 5 ACROSS THE SAMPLE

⁹ In the definition of loan we are including commercial mortgages, asset finance, invoice discounting and factoring

¹⁰ As above

¹¹ In the definition of loan we are including commercial mortgages, asset finance, invoice discounting and factoring

INTERVIEWS 1-16, 17-32, 33-48, 49-64 AND 65-80: ENSURE THAT SOME WITHIN EACH GROUP CODE 4

Q14 Have you changed the bank with whom any of these products are held WITHIN THE PAST 12 MONTHS?

Business Current Account		1
Business Credit Card	2	
Business Overdraft		3
Business Loan	4	
Business Insurance		5

None of the above		6

RECORD FOR INFORMATION PURPOSES ONLY

Q15 And finally, to what extent would you say having a relationship with the bank with whom you conduct your business banking was important to you?

It's very important to me	1
It's quite important to me	2
It doesn't really matter whether	
I have a relationship with my bank	3
It's not important at all	4

RECORD FOR INFORMATION PURPOSES ONLY

NAME OF RESPONDENT:

JOB TITLE/ROLE: _____

COMPANY NAME: _____

ADDRESS: _____

TELEPHONE NO: _____

INTERVIEWERS DECLARATION:

I certify that I have carried out this interview according to instructions received from Research Works Limited and confirm that they are in line with the rules and regulations set out by the MRS and the respondent is not a relative/friend of mine and has not attended a research session in the past 6 months.

Research Works Ltd reserves the right to reject a respondent if we believe they are inaccurately recruited and/or have attended a research session in the past 6 months.

INTERVIEWERS SIGNATURE: _____

DATE: _____

APPENDIX F

Pre-task

Competitions and Markets Authority (CMA) Research

Pre-task planning exercise

Thank you for agreeing to participate in this research **to understand SMEs' experiences and attitudes towards business current accounts and other business banking products in more detail**. Before coming along to the session, we would like you to do some preparatory thinking and planning to ensure that you have something to bring along to the discussion.

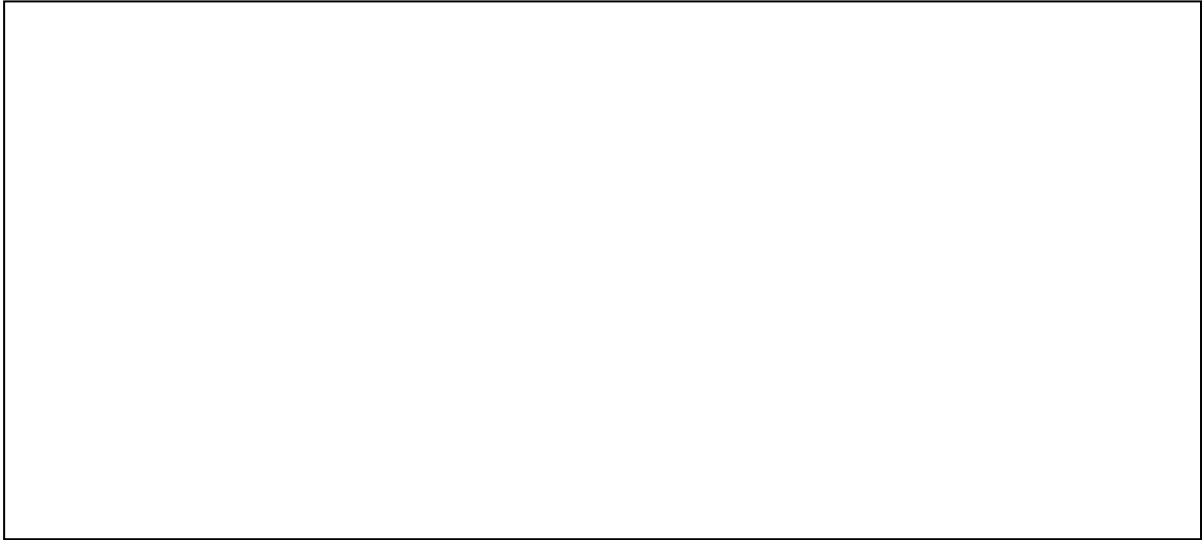
Please make sure that you have taken some time to think about this task and considered it in terms of your business and what makes it unique in terms of banking. **It will be more difficult to take part in the research session if you have not done this.**

PREPARATORY TASK:

- 1. Please consider and note down any ways in which your current banking and product set up might be improved:**

Please record any current and past activity (in the last 18 months) in relation to banking – for example applications for loans, overdrafts or credit cards, changes to your business current account, negotiations over fees etc.

2. What might prompt you to consider switching banks, or negotiating elements of your banking arrangements?



**Once complete please print off and bring your ideas to the session.
Thank you and we look forward to meeting you.**

APPENDIX G

Content analysis approach

We adopted a **content analysis approach** in order to ensure a consistent and robust approach to analysis.

- First, we listened and made notes from our own tapes (rather than reading transcriptions) to conduct **conversational analysis**.
- Second, **key themes were agreed**, following key areas of the topic guide.
- Each researcher collated the findings for each theme on a grid, disaggregating the data about each topic area **in terms of the key sample variables**. In this case, we have structured our sample so that we were able to ascertain any differences by size of company or industry sector.
- The data was assessed in terms of: **frequency of mention, content, tone, and emphasis**.
- The final part of the process was **generating insight** (and therefore recommendations).
- Our approach was based on **two insight models** (the **Government Communications Network** insight model and **HM Revenue & Custom's** 'Simple' model):

