

9. The impact of the application/renewal process



This chapter reports

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



Key findings

In a new question for 2016, all SMEs were asked to assess their relationship with their main bank.

- Most (66%) agreed that their relationship was ‘fine’ but that they ‘just use the bank for transactions and so rarely need to contact them’. This was more likely to be the case for smaller SMEs (69% of those with 0 employees compared to 44% of those with 50-249 employees).
- 22% agreed that they had a ‘strong working relationship’ and felt able to approach their bank ‘whenever needed’. This was much more likely to be the case for larger SMEs (51% of those with 50-249 employees compared to 19% of those with 0 employees).
- The final group, 12% of all SMEs, wished that they had an ‘active working relationship’ with their bank. This was the case for 1 in 8 SMEs with 9 employees or less, compared to 1 in 16 larger SMEs. Those who had been Would-be seekers of finance were also more likely to be in this category (28%).

In another new question for 2016, 73% of all overdraft applicants and 59% of loan applicants reported that they were ‘satisfied’ with the way their application has been handled.

- On the limited base sizes currently available there was a clear difference between those offered what they wanted and taking it (where 91% of overdraft applicants and 94% of loan applicants were satisfied) and those experiencing any other outcome (where 15% of overdraft applicants and 17% of loan applicants were satisfied).



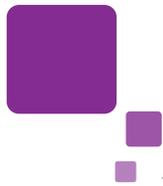
- Within this second group, those who had a facility but ‘after issues’ appeared somewhat more satisfied than those who took other funding or had no facility and were also more likely to report no negative impact on the business as a result of their application.

81% of overdraft facilities and 52% of loan facilities were in place within two weeks and almost all agreed that the facility had been in place in good time for when it was needed (95% for overdrafts and 86% for loans). Those waiting more than a month for their facility remained less likely to think it was in place in good time.

73% of successful overdraft applicants and 53% of successful loan applicants in the 18 months to Q2 2016 said that the process had been ‘low effort’

- Those offered what they wanted were more likely to have rated this as a low effort experience (79% for overdrafts, 60% for loans) than those who had their facility after issues (14% for overdrafts, 25% for loans).

In another new question, most successful loans and commercial mortgages were granted for 10 years or less (49% for up to 5 years, 42% for 5-10 years). 8 in 10 said the term was what they had wanted with almost as many wishing for a shorter loan term (7%) as a longer one (12%).



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

Satisfaction with application process

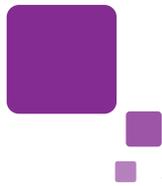
In a new question from Q1 2016, all applicants were asked how satisfied they were with the application process they had been through. Base sizes are somewhat limited for applicants other than those offered what they wanted and so only limited reporting is possible at this stage.

The table below shows that overall 73% of overdraft applicants were satisfied with the application process. However there was a marked contrast in satisfaction between those offered what they wanted and taking it, where 91% were satisfied, and those experiencing another outcome (taking a facility after issues, taking another form of funding or having no funding) where 15% were satisfied:

Satisfaction with application process

<u>Sought new/renewed facility Q1 15-Q2 16*</u> (interviewed from Q1 16)	All overdraft applicants	All OD offered what wanted	All other OD outcomes
Unweighted base:	467	403	64*
Very satisfied	51%	64%	9%
Fairly satisfied	22%	27%	6%
Satisfied (any)	73%	91%	15%
Neither satisfied nor dissatisfied	12%	8%	27%
Fairly dissatisfied	3%	1%	8%
Very dissatisfied	12%	1%	50%

Q100a All SMEs applying for new/renewed facility Q1 2015 to Q2 2016



It was a similar story for loan applicants, with those who were offered a loan and took it being much more likely to be satisfied (94%) than those experiencing any other outcome (including having a loan after issues) where 17% were satisfied.

Satisfaction with application process

<u>Sought</u> new/renewed facility Q1 15-Q2 16* (interviewed from Q1 16)	All loan applicants	All loan offered what wanted	All other loan outcomes
Unweighted base:	259	178	81*
Very satisfied	45%	73%	11%
Fairly satisfied	14%	21%	6%
Satisfied (any)	59%	94%	17%
Neither satisfied nor dissatisfied	7%	2%	14%
Fairly dissatisfied	2%	-	5%
Very dissatisfied	32%	4%	65%

Q195a All SMEs applying for new/renewed facility Q1 2015 to Q2 2016

For both loans and overdrafts the limited data available to date suggests that within the ‘other outcome’ category those who took a facility after issues were somewhat more satisfied than those who took other funding or have no facility.

This is supported by a follow up question, asked of all applicants *except* those who were offered, and took, the facility they wanted. Amongst such overdraft applicants, 4 in 10 said that the outcome of their overdraft application had had

no negative impact on their business, but almost all of these had an overdraft facility albeit ‘after issues’. The same was true for the 1 in 5 loan applicants who reported no negative impact.

Across both loans and overdrafts the most commonly mentioned negative impacts were not expanding the business as they would have liked and finding running the business more of a struggle. More detail will be provided in subsequent waves as more data is gathered.



Period for which new loan facility granted

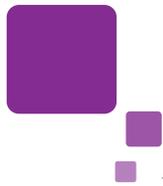
From Q1 2016 those with a new loan or commercial mortgage were asked how long the loan was granted for. Base sizes are limited at this early stage (120 respondents) but indicative results are as follows:

- 49% of new loans/commercial mortgages were for less than 5 years (more common for smaller applicants)
- 42% were for 5-10 years (with little difference by size)
- 6% were for 11-20 years (more common amongst larger applicants)
- 3% were for more than 20 years (with little difference by size).

These successful applicants were also asked whether this was the time period they had wanted the loan for:

- 81% said that it was (with little difference by size)
- 12% would have liked the loan over a longer time period
- 7% would have liked a loan over a shorter time period

More analysis will be provided as base sizes permit.



New facility granted in good time

Successful respondents were asked how long it had taken from submitting their application to putting their new facility in place and whether this was in ‘good time’ for when they needed it. In line with analysis elsewhere in this part of the report, the table below is based on all applications made in the last 18 months, Q1 2015 to Q2 2016.

8 out of 10 overdrafts were in place within 2 weeks (81%), while half of loans were in place in this time period (52%):

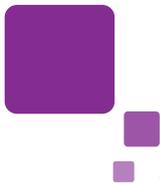
Successful Type 1 applicants

Time taken to put facility in place

Sought new/renewed facility Q1 15-Q2 16*

	Overdrafts	Loans
<i>Unweighted base:</i>	1065	540
Within 1 week	66%	34%
Within 2 weeks	15%	18%
Within 3-4 weeks	13%	20%
Within 1-2 months	5%	16%
Longer than this	2%	8%
Not in place yet	*	5%

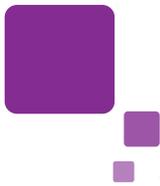
Q101a and Q196a All SMEs that granted new/renewed facility Q1 2015 to Q2 2016, excluding DK



Further analysis is provided in the table below.

Time taken & impact Successful Type 1 applicants Q1 2015 to Q2 2016

Time taken by sector	<p>Overdrafts were more likely to be agreed within a week in the Construction (80%) and Other Community sectors (86%), compared to 51% in the Property/Business Services sector. For other sectors the proportion agreed within a week ranged from 53-71%.</p> <p>Base sizes are small for loans and there is more variability – the proportion with a facility agreed in a week ranged from 16% for applicants in Manufacturing to 54% for the Transport sector.</p>
By level of security	<p>Secured loans were less likely to be in place within a week (23%) than unsecured ones (52%), given the security processes that need to be undertaken.</p> <p>There was also a difference between secured (52%) and unsecured (75%) overdrafts that were in place within a week (overdrafts are more likely to be renewals where the security may already be in place).</p>
By size of SME	<p>Loan facilities for smaller SMEs were slightly more likely to be made available within a week (35% for loans where the SME had 0-9 employees, 23% where they had 10-249 employees) with less of a difference by size for overdrafts (66% v 62%).</p> <p>In terms of facilities being made available within a <i>month</i>, there was less of a difference by size for overdrafts (94% for smaller SMEs v 92% for larger ones) than for loans (72% for smaller SMEs v 64% for larger SMEs).</p>
In place in good time?	<p>Most applicants agreed that the facility had been put in place in good time for when it was needed, with overdraft applicants more likely to agree (95%) than loan applicants (86%).</p>
In place in good time, by size of SME	<p>The main difference was amongst smaller loan applicants. Despite typically waiting longer for their facility, larger loan applicants were more likely to agree that their facility was in place in good time:</p> <ul style="list-style-type: none"> • Amongst applicants with 0-9 employees, 95% said their overdraft was made available in good time, while for loans it was 85%. • Amongst larger applicants 95% said their overdraft was made available in good time, while for loans it was 92%.



Analysis by the length of time taken for the facility to be put in place showed that overall it was typically those waiting less than a month who were more likely to say that the facility had been put in place in good time:

- Over 90% said their overdraft facility was in place in good time if they waited less than a month compared to 64% if they had waited a month or more.
- For loans, 95% or more said their facility was in place in good time if it was received within 3 weeks. The proportion then started to drop and was 65% for those who waited a month or more (all excluding DK answers).

Analysis of the data available over time shows that a consistently high percentage of overdrafts (typically 90%+) were in place within a month, with 95%+ of respondents saying the facility was available in good time.

The pattern for loans is similarly consistent. Over recent years around 7 in 10 facilities have been in place within a month and over 8 in 10 applicants have said their facility was available in good time.



'Effort' required to obtain a new facility

From Q1 2014, successful Type 1 loan and overdraft applicants were asked how much effort they had to expend to get their new facility. This question is derived from various academic studies from Harvard Business School which claim that the more 'effort' a situation requires, the less satisfied the customer and the less likely they are to remain loyal in future. A score is given between 1 and 5 (where 5 is high effort) and the net score of low-high effort calculated. The higher the net score the better,

but negative net scores are not uncommon in other banking studies undertaken.

Overall, the overdraft application process was more likely than the loan application process to be rated a low effort experience. This, though, is due to more overdraft applicants being offered the facility they wanted (and then rating it a low effort process). Both loan and overdraft applicants who got their facility 'after issues' give a markedly different effort score.

Customer effort	Successful Type 1 applicants Q1 2015 to Q2 2016
Overdraft applicants	73% of successful Type 1 overdraft applicants described the process as 'low effort'. 13% described it as 'high effort', a net score of +60.
Loan applicants	53% of successful Type 1 loan applicants described the process as 'low effort'. 26% described it as 'high effort', a net score of +27.
Effort if offered what wanted	79% of successful overdraft applicants who were 'offered what they wanted and took it' rated this as a low effort experience. 60% of successful loan applicants who were 'offered what they wanted and took it' rated this as a low effort experience.
Effort if have facility after issues	14% of those who had their overdraft facility 'after issues' rated it a low effort experience (compared to 79% offered what they wanted). 25% of those who had their loan facility 'after issues' rated it a low effort experience (compared to 60% of those offered what they wanted).



Overall bank relationship

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

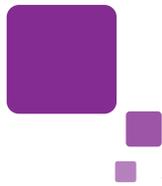
From Q1 2016 this question was replaced by one that sought to understand the banking relationship in more detail, with SMEs asked which of three phrases best described their relationship with their main bank. As the table below shows the most frequent answer in H1 2016 was that the relationship was fine, but transactional:

Nature of relationship with main bank		0	1-9	10-49	50-249
H1 2016 all SMEs	Total	emps	emps	emps	emps
<i>Unweighted base</i>	9000	1800	2900	2900	1400
We have a strong working relationship with our bank and feel we can approach them whenever we need to	22%	19%	28%	46%	51%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	66%	69%	59%	46%	44%
We don't have an active working relationship with our bank and wish that we had one	12%	13%	13%	7%	5%

Q220

There were clear differences by size of SME. Those with 0 employees were much more likely to describe their relationship as 'transactional' (69%) than to say they had a 'strong working relationship' (19%) and were almost as likely to wish for a more active relationship (13%). As the size of SME increases, so does the proportion with a 'strong working relationship' and amongst those with 50-249 employees this was the most common answer (51% v 44% who have a transactional relationship).

Excluding the Permanent non-borrowers increases the proportion with a 'strong relationship' slightly (to 25%). Analysis by age of business shows a slight increase with age in the proportion with a 'strong relationship': 19% of Starts had such a relationship compared to 26% of those trading for more than 20 years.



Analysis by previous borrowing behaviour shows that those who had reported a borrowing event (typically the larger SMEs) were more likely to have a ‘strong working relationship’ than those who had been Would-be seekers of finance’. The relatively small group of WBS was twice as likely as the other groups to wish that they had a more active relationship with their bank (28%):

Nature of relationship with main bank				
H1 2016 all SMEs	Total	Had an event	WBS	HNS
<i>Unweighted base</i>	9000	1777	185	7038
We have a strong working relationship with our bank and feel we can approach them whenever we need to	22%	28%	16%	21%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	66%	58%	56%	67%
We don’t have an active working relationship with our bank and wish that we had one	12%	14%	28%	12%

Q24a

Analysis by future borrowing intentions shows a similar stronger relationship for those planning to apply compared to FWBS (27% v 18%) but no difference in the proportion wishing for a more active relationship (both 16%).

SMEs in Agriculture and the Hotel & Restaurant sector were more likely to have a strong working relationship (both 33%) compared to 18% of those in Transport. There was relatively little variation by sector in the proportion wanting a more active relationship (9-12% with the exception of Property/Business Services 15%).

Further analysis will be conducted as base sizes permit.