

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

Most successful applicants said that their facility was available in good time for when they needed it:

- A consistent 8 in 10 overdrafts had been made available within two weeks, with a similarly consistent 96-97% of overdraft applicants saying that their facility was available in good time for when they needed it.
- The proportion of loans made available in two weeks was lower (at around half of successful applications), but has also remained consistent over time. Whilst the speed of funds does not appear to have changed, the proportion saying their loan was available ‘in good time’ has increased somewhat over time (to 93%), narrowing the gap to overdrafts.

The majority of loans (89%) were agreed for a period of up to 10 years. Most applicants had their loan for the period they had asked for (89%), with 8% having wanted a loan for a longer period of time and 3% for a shorter period.

9 in 10 of those offered the overdraft (89%) or the loan (94%) they wanted were satisfied with the application process they had been through. By contrast, 61% of the overdraft applicants and 65% of the loan applicants that experienced any other outcome (a facility after issues, other funding or no facility) were dissatisfied with the experience.

More broadly, two thirds of SMEs (65%) described their relationship with their bank as ‘fine but transactional’. 1 in 5 (22%) said they had a ‘strong working relationship’ while 12% wished they had a more active relationship with their bank.

- Smaller SMEs were more likely to have a transactional relationship with their bank (68% of those with 0 employees compared to 42% of those with 50-249 employees) or to wish they had a better relationship (13% of 0 employee SMEs compared to 5% of 50-249 employee SMEs).



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- Strong working relationships were more common amongst larger SMEs (53% of those with 50-249 employees compared to 19% of 0 employee SMEs).
 - A third of Would-be seekers of finance (34%) wished they had a more active relationship with their bank, compared to 13% of those who reported a borrowing event.



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

Satisfaction with application process

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 89% 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</u> new/renewed facility Q3 15-Q4 16 (interviewed from Q1 16)	All overdraft applicants	Offered OD wanted	All other OD outcomes
Unweighted base:	671	574	97*
Very satisfied	56%	69%	8%
Fairly satisfied	17%	20%	7%
Satisfied (any)	73%	89%	15%
Neither satisfied nor dissatisfied	13%	10%	24%
Fairly dissatisfied	4%	1%	15%
Very dissatisfied	10%	1%	46%

Q100a All SMEs applying for new/renewed facility

Base sizes for those not offered what they wanted remain limited but qualitatively, 4 in 10 of those with a facility *after issues* reported being satisfied with the process, compared to less than 5% of those taking other funding or who were declined for an overdraft.



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 26% were satisfied.

Satisfaction with application process

<u>Sought</u> new/renewed facility Q3 15-Q4 16 (interviewed from Q1 16)	All loan applicants	Offered loan wanted	All other loan outcomes
Unweighted base:	365	249	116
Very satisfied	49%	72%	17%
Fairly satisfied	17%	22%	9%
Satisfied (any)	66%	94%	26%
Neither satisfied nor dissatisfied	5%	1%	9%
Fairly dissatisfied	7%	-	17%
Very dissatisfied	23%	4%	48%

Q195a All SMEs applying for new/renewed facility

Base sizes for those not offered what they wanted remain limited but qualitatively, 6 in 10 of those with a facility *after issues* reported being satisfied with the process, compared to just over 1 in 10 of those taking other funding or who were declined for a loan.

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 and loan applicants, just over a third said that the outcome of their application had had no negative impact on their business, but almost all of these had an overdraft/loan facility albeit ‘after issues’.

Across both loans and overdrafts the most commonly mentioned negative impacts were not expanding the business as they would have liked (mentioned more by those with no loan) and finding running the business more of a struggle (mentioned more by those with no overdraft).



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 (164 respondents for applications made in the last 6 quarters) but early results are as follows:

- 44% of new loans/commercial mortgages were for less than 5 years (with little difference by size of applicant)
- 45% were for 5-10 years (more common for smaller applicants)
- 9% were for 11-20 years (more common amongst larger applicants)
- 2% 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:

- 89% said that it was (with little difference by size)
- 8% would have liked the loan over a longer time period (half had loans of less than 5 years, half of 5-10 years)
- 3% would have liked a loan over a shorter time period (two thirds of this group had a loan of 5-10 years).

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, Q3 2015 to Q4 2016.

8 out of 10 overdrafts were in place within 2 weeks (82%), while half of loans were in place in this time period (53%):

Successful Type 1 applicants

Time taken to put facility in place

Sought new/renewed facility Q3 15-Q4 16

	Overdrafts	Loans
<i>Unweighted base:</i>	793	408
Within 1 week	69%	36%
Within 2 weeks	13%	17%
Within 3-4 weeks	12%	26%
Within 1-2 months	4%	12%
Longer than this	1%	7%
Not in place yet	1%	2%

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



Further analysis is provided in the table below.

Time taken & impact Successful Type 1 applicants Q3 2015 to Q4 2016

Time taken by sector	<p>Overdrafts were more likely to be agreed within a week in the Other Community sector (88%), compared to 43% in the Transport sector. For other sectors the proportion agreed within a week ranged from 53-72%.</p> <p>Base sizes are small for loans and there is more variability – the proportion with a facility agreed in a week ranged from 2% for applicants in the Health sector to 50% for the Other Community sector.</p>
By level of security	<p>Secured loans were less likely to be in place within a week (22%) than unsecured ones (54%), given the security processes that need to be undertaken.</p> <p>There was also a difference between secured (50%) and unsecured (80%) 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 (38% for loans where the SME had 0-9 employees, 26% where they had 10-249 employees) with a clearer difference by size for overdrafts (70% v 56%).</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 slightly more likely to agree (97%) than loan applicants (93%).</p>
In place in good time, by size of SME	<p>There was little difference in rating the facility as available in good time by size of SME:</p> <ul style="list-style-type: none"> • Amongst applicants with 0-9 employees, 97% said their overdraft was made available in good time, while for loans it was 93%. • Amongst larger applicants 97% said their overdraft was made available in good time, while for loans it was 91%.

Analysis by the length of time taken for the facility to be put in place showed that overall almost all those waiting up to 3 weeks said that the facility had been put in place in good time.



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

A consistent 8 in 10 overdrafts have been made available within two weeks, with a consistent 96-97% of overdraft applicants saying that their facility was available in good time for when they needed it. The proportion of loans made available in two weeks was lower (at around half of successful applications), but has also remained consistent over time. Whilst the speed of funds does not appear to have changed, the proportion saying their loan was available ‘in good time’ has increased somewhat over time (to 93%), narrowing the gap to overdrafts:

Successful Type 1 applicants

Time taken to put facility in place	Q3 13	Q1 14	Q3 14	Q1 15	Q3 15
<u>Over time</u>	Q4 14	Q2 15	Q4 15	Q2 16*	Q4 16*
Overdraft					
• Agreed within 2 weeks	83%	82%	82%	81%	82%
• Agreed in good time	96%	96%	96%	96%	97%
Loan					
• Agreed within 2 weeks	55%	59%	54%	54%	53%
• Agreed in good time	86%	84%	86%	89%	93%

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



‘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) as overdraft applicants who got their facility ‘after issues’ give a markedly different effort score.

Customer effort	Successful Type 1 applicants Q3 2015 to Q4 2016
Overdraft applicants	74% of successful Type 1 overdraft applicants described the process as ‘low effort’. 12% described it as ‘high effort’, a net score of +62.
Loan applicants	63% of successful Type 1 loan applicants described the process as ‘low effort’. 21% described it as ‘high effort’, a net score of +42.
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. 63% 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	16% of those who had their overdraft facility ‘after issues’ rated it a low effort experience (compared to 79% offered what they wanted). 59% of those who had their loan facility ‘after issues’ rated it a low effort experience (compared to 63% 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 2016, especially for smaller SMEs, was that the relationship was fine, but transactional:

Nature of relationship with main bank		0	1-9	10-49	50-249
YEQ4 16 all SMEs	Total	emps	emps	emps	emps
<i>Unweighted base</i>	18,000	3600	5800	5800	2800
We have a strong working relationship with our bank and feel we can approach them whenever we need to	22%	19%	29%	47%	53%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	65%	68%	59%	47%	42%
We don't have an active working relationship with our bank and wish that we had one	12%	13%	12%	7%	5%

Q24a All SMEs

There were clear differences by size of SME. Those with 0 employees were much more likely to describe their relationship as 'transactional' (68%) 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 (53% v 42% 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 that around 1 in 5 of SMEs of all ages up to 15 years had a 'strong relationship' increasing to 1 in 4 of the oldest SMEs.



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 more than twice as likely as the other groups to wish that they had a more active relationship with their bank (34%):

Nature of relationship with main bank				
YEQ4 16 all SMEs	Total	Had an event	WBS	HNS
<i>Unweighted base</i>	18,000	3223	350	14,427
We have a strong working relationship with our bank and feel we can approach them whenever we need to	22%	29%	13%	21%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	65%	57%	53%	67%
We don’t have an active working relationship with our bank and wish that we had one	12%	13%	34%	12%

Q24a All SMEs

Analysis by future borrowing intentions shows a different pattern, with Future would-be seekers no more likely to wish they had a better relationship (15%) than those planning to apply (17%).

28-30% of SMEs in the Hotel & Restaurant, Agriculture or Wholesale/Retail sectors had a strong working relationship compared to 20% of those in Construction or Property/Business Services. There was relatively little variation by sector in the proportion wanting a more active relationship (9-14%).