

10. The impact of the application/renewal process



This chapter reports

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



Key findings

86% of overdrafts and 64% of loans were in place within 2 weeks, with almost all (96% of both loan and overdraft applicants) saying the facility was available in good time.

- Over time the proportion of facilities granted in two weeks has been fairly stable, as has the proportion of overdrafts agreed ‘in good time’. The proportion of loans agreed ‘in good time’ has increased from 86% for the 18 months to Q4 2014 to 96% currently
- Applying for an overdraft remained somewhat more likely to be described as a ‘low effort’ experience (77%) than applying for a loan (65%).

96% of those offered the loan they wanted and 91% of those offered the overdraft they wanted were satisfied with the application process. For those who ended the process with other funding, or no funding, satisfaction levels were markedly lower (13% for loans and 20% for overdrafts).

More broadly, almost a quarter of SMEs (22%) described their working relationship with their bank as ‘strong’, increasing by size of SME from 19% of those with 0 employees to 59% of those with 50-249 employees.

- 13% of SMEs said they did not have an active relationship with their bank and wished that they did. Those with 0 employees (14%) or 1-9 employees (12%) were more likely to say this than those with 10-49 or 50-249 employees (7% and 5%)
- The remaining two thirds of SMEs described their working relationship as ‘fine but transactional’
- This has changed very little over time.



In H1 2017, a quarter (27%) of SMEs had had some contact with a bank about finance

- 18% had been contacted by a bank in the previous 3 months expressing a willingness to lend (13% by their own bank and 8% by another bank). This has increased slightly over time – in 2012 and 2013, 13% of SMEs reported such contact
- 15% of all SMEs reported having any conversation, even informal, with their bank in the previous year about external finance
- In both instances, larger SMEs were more likely to have been contacted
- Overall, 27% had had contact from a bank, increasing by size from 26% of those with 0 employees to 43% of those with 50-249 employees.



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

Satisfaction with application process

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

The table below shows that overall 77% 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. Amongst those who had their overdraft facility after issues 57% were satisfied while satisfaction amongst those that either took another form of funding or had no funding was 20%:

Satisfaction with application process

<u>Sought new/renewed facility</u> Q1 16-Q2 17	All overdraft applicants	Offered OD wanted	OD after issues	Other / No funding
Unweighted base:	808	681	71*	56*
Very satisfied	60%	74%	38%	5%
Fairly satisfied	17%	17%	19%	15%
Satisfied (any)	77%	91%	57%	20%
Neither satisfied nor dissatisfied	11%	8%	7%	26%
Fairly dissatisfied	5%	1%	25%	14%
Very dissatisfied	8%	*	10%	39%

Q100a All SMEs applying for new/renewed facility



It was a similar story for loan applicants, where 62% were satisfied with the application process overall. Those who were offered a loan and took it were again much more likely to be satisfied (96%) than those experiencing any other outcome. While 46% of those who had their loan after issues were satisfied, amongst those that took other funding or ended the process with no funding, 13% were satisfied:

Satisfaction with application process Sought new/renewed facility Q1 16-Q2 17	All loan applicants	Offered loan wanted	Loan after issues	Other / No funding
Unweighted base:	392	268	69*	55*
Very satisfied	45%	74%	34%	2%
Fairly satisfied	17%	22%	12%	11%
Satisfied (any)	62%	96%	46%	13%
Neither satisfied nor dissatisfied	7%	1%	15%	13%
Fairly dissatisfied	8%	-	25%	13%
Very dissatisfied	23%	3%	14%	61%

Q195a All SMEs applying for new/renewed 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 and loan applicants, 4 in 10 said that the outcome of their application had had no negative impact on their business, and this remained more likely to be the case of they now had an overdraft/loan facility, albeit 'after issues'.

Across both loans and overdrafts the most commonly mentioned negative impacts were not expanding or improving the business as they would have liked (both 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:

- 43% 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)
- 3% were for more than 20 years (with little difference by size).

Most successful applicants (90%) said that they got the time period that they had wanted the loan for:

- 8% would have liked the loan over a longer time period
- 2% would have liked a loan over a shorter time period



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 2016 to Q2 2017.

Almost 9 out of 10 overdrafts were in place within 2 weeks (86%), compared to two thirds of loans (64%):

Successful Type 1 applicants

Time taken to put facility in place

Sought new/renewed facility Q1 16-Q2 17

	Overdrafts	Loans
Unweighted base:	717	321
Within 1 week	72%	41%
Within 2 weeks	14%	23%
Within 3-4 weeks	10%	16%
Within 1-2 months	2%	10%
Longer than this	*	7%
Not in place yet	1%	3%

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



Further analysis is provided in the table below.

Time taken & impact Successful Type 1 applicants Q1 2016 to Q2 2017

By size of SME	Loan facilities for smaller SMEs were more likely to be made available within a week (44% for loans where the SME had 0-9 employees, 28% where they had 10-249 employees) with a similar difference by size for overdrafts (74% v 57% available within a week).
In place in good time?	Most applicants agreed that the facility had been put in place in good time for when it was needed (96% for both overdraft and loan applicants).
In place in good time, by size of SME	Larger loan applicants were slightly less likely to say the loan was available in good time, although most did: <ul style="list-style-type: none">• Amongst applicants with 0-9 employees, 96% said their overdraft was made available in good time, while for loans it was 97%.• Amongst larger applicants 96% said their overdraft was made available in good time, while for loans it was 89%.

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% 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 but has improved somewhat in recent periods to around 6 in 10 applications. The proportion saying their loan was available ‘in good time’ has also increased somewhat over time (to 96%), 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	Q1 16
<u>Over time</u>	Q4 14	Q2 15	Q4 15	Q2 16	Q4 16*	Q2 17*
Overdraft						
• Agreed within 2 weeks	83%	82%	82%	82%	82%	86%
• Agreed in good time	96%	96%	96%	96%	96%	96%
Loan						
• Agreed within 2 weeks	55%	59%	54%	54%	56%	64%
• Agreed in good time	86%	84%	86%	89%	93%	96%

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



‘Effort’ required to obtain a new facility

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

higher the net score the better, but negative net scores are not uncommon in other banking studies undertaken.

Overall, the overdraft application process was more likely than the loan application process to be rated a low effort experience. This, though, is due in part to more overdraft applicants being offered the facility they wanted (and then rating it a low effort process):

Customer effort	Successful Type 1 applicants Q1 2016 to Q2 2017
Overdraft applicants	77% of successful Type 1 overdraft applicants described the process as ‘low effort’. 10% described it as ‘high effort’, a net score of +67.
Loan applicants	65% of successful Type 1 loan applicants described the process as ‘low effort’. 19% described it as ‘high effort’, a net score of +46.
Effort if offered what wanted	78% of successful overdraft applicants who were ‘offered what they wanted and took it’ rated this as a low effort experience. 69% 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	67% of those who had their overdraft facility ‘after issues’ rated it a low effort experience (compared to 78% offered what they wanted). 50% of those who had their loan facility ‘after issues’ rated it a low effort experience (compared to 69% 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 YEQ2 2017, especially for smaller SMEs, was that the relationship was fine, but transactional and this has changed very little over time:

Nature of relationship with main bank		0	1-9	10-49	50-249
YEQ2 17 all SMEs	Total	emps	emps	emps	emps
<i>Unweighted base</i>	18007	3604	5802	5801	2800
We have a strong working relationship with our bank and feel we can approach them whenever we need to	22%	19%	27%	47%	59%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	65%	67%	61%	46%	36%
We don't have an active working relationship with our bank and wish that we had one	13%	14%	12%	7%	5%

Q24a All SMEs



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

- Those with 0 employees were much more likely to describe their relationship as ‘transactional’ (67%) than to say they had a ‘strong working relationship’ (19%) and were almost as likely to wish for a more active relationship (14%).
- 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 (59% v 36% who have a transactional relationship).
- Excluding the Permanent non-borrowers increases the proportion with a ‘strong relationship’ slightly (to 24% overall).
- 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 risk rating shows that the proportion describing the relationship as ‘strong’ declines from 35% of those with a minimal risk rating to 20% of those with a worse than average risk rating.
- 27-28% of SMEs in the Hotel & Restaurant, Agriculture or Wholesale/Retail sectors had a strong working relationship compared to 20% of those in Construction or Health. There was relatively little variation by sector in the proportion wanting a more active relationship (11-14%).

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 (44%):

Nature of relationship with main bank		Had an		
YEQ2 17 all SMEs	Total	event	WBS	HNS
<i>Unweighted base</i>	18007	3172	310	14,525
We have a strong working relationship with our bank and feel we can approach them whenever we need to	22%	31%	9%	21%
The relationship with our bank is fine but we really just use the bank for transactions so rarely need to approach them	65%	54%	47%	67%
We don't have an active working relationship with our bank and wish that we had one	13%	15%	44%	12%

Q24a All SMEs



Bank communication about lending

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

In Q2 2017, 19% of all SMEs said that they had received such a contact in the previous 3 months (14% of SMEs had heard from their main bank, while 9% had heard from another bank). Levels of contact in the first half of 2017 were somewhat higher than in the latter half of 2016, but in line with earlier quarters:

Approached by any bank in last 3 mths

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

Q221 All SMEs

SMEs with employees remained more likely to have been contacted. 21% reported in Q2 2017 that they had been approached by a bank (15% by their main bank and 9% by another bank).



Analysis over time shows that level of contacts in H1 2017 were somewhat higher than in previous years:

Approached by banks in last 3 months						H1
All SMEs over time	2012	2013	2014	2015	2016	2017
Unweighted base:	20,055	20,036	20,055	20,046	18,000	9007
Approached by main bank	8%	9%	10%	11%	10%	13%
Approached by other bank	6%	5%	5%	6%	7%	8%
Any approach	13%	13%	14%	15%	15%	18%

Q221 All SMEs

A new question from Q1 2017, asked more generally whether the SME had had any conversation or contact, however informal, with their bank about external finance in the previous 12 months. As the table below shows, 15% had, increasing to 31% of the largest SMEs:

Had any contact with bank re finance		0	1-9	10-49	50-249
H1 17 all SMEs	Total	emps	emps	emps	emps
Unweighted base	8677	1769	2830	2763	1315
Yes	15%	14%	17%	24%	31%
No	85%	86%	83%	76%	69%

Q24b All SMEs excl DK

Initial analysis of this new question shows that

- Those with a minimal risk rating were more likely to have had contact (21%) compared to 14% of those with a worse than average risk rating.
- Those currently using external finance were twice as likely to have had contact (23%) as those not using external finance (11%).
- There was little difference by age of business (12-18%). By sector, contact ranged from 22% in Agriculture (who were also more likely to have a strong relationship with their bank) to 12% in Construction (14-18% across other sectors).



Further analysis of the existing and new questions in combination shows that 27% of all SMEs had had contact with a bank at either of these two questions (ie expressing a willingness to lend and/or a more general or informal contact about finance). Larger SMEs were more likely to have had contact:

- 26% of those with 0 employees had had contact
- 30% of those with 1-9 employees
- 34% of those with 10-49 employees
- 43% of those with 50-249 employees

Levels of contact were higher once the Permanent non-borrowers were excluded (33%) and amongst those already using external finance (35%). They were also higher amongst those planning to apply for finance (44%) and those who had a strong working relationship with their bank (37%).