
The New Era in Commercial Lending

500 SMEs reflect on their
lending experience

The Survey

The economic contribution of UK SMEs is elevating Britain towards a prosperous future. Improving the growth and productivity of smaller business is vital to enhancing the economy, as a whole.

Finance markets need to be effective in supplying funding to smaller business when it is needed and ensure small businesses have the ability and confidence to obtain the finance that is right for them.

Post-recession, lenders are nervous and traditional banks are causing their customers to jump through hoops to receive their funds. Even after their application is accepted, SMEs are having to wait weeks, if not months, to access the funds they need to propel their business growth.

In the wake of the new digital era, it is crucial that financial institutions focus on their customer relationships, rid themselves of legacy systems and capitalise on opportunities presented by new regulation. With new entrants in the market, providing cheaper, faster and more flexible business loan alternatives, SMEs are beginning to move away from traditional bank-based models.

Our latest study – conducted in partnership with Populus – considered the thoughts and experiences of SME Directors when acquiring finance for their business. The study explored the importance of certain features and highlights possible improvements that could be made to the lending process to ensure a maximised experience for the borrower. In particular, we examined:

- The current state of the borrowing experience for SME Directors when applying for business finance
- The levels of satisfaction felt with various aspects of the over all borrowing experience
- Which features generate the best experience, from first point of applying to receiving funds
- What features could improve the overall customer experience in the future

Our Survey Partner

Populus is a leading research & strategy consultancy specialising in consumer, reputation, stakeholder and political research. They use polling, research, evidence and expertise to provide clients with the critical knowledge they need to make better decisions about their business, organisation or brand.

Survey Methodology and Respondents Profile

The survey was conducted by Populus in collaboration with Arrk Group.

Survey respondents represented Director level and above roles who were either UK Sole Traders or belonged to a Micro, Small or Medium business. These roles included: Owner or proprietor, Managing Director or Managing Partner, Board level Director or partner and Director not board level.

Altogether, 502 individuals participated in the survey. There was no inducement to take part in the survey, and Arrk Group was not introduced as the survey partner.

The results displayed throughout this report are based on those who fully completed the questionnaire and are displayed as a percentage of this group, unless explicitly stated otherwise.

Survey Key Findings

Approach current bank was the highest ranked first course of action when thinking about obtaining business finance, with 42% of respondents choosing this as their most preferred point of call. The least preferred course of action was engaging with a financial advisor/broker, with 33% of respondents ranking this as their last option. Yet the market suggests that SMEs have been underserved by banks and that lending with banks is on the decline.



“The majority of SMEs are still choosing to approach their current bank when obtaining business finance”

When examining this result further, it is evident that SME Director’s between the ages 25-35 tended to rate researching finance options and products on the internet as their first course of action. This suggests that the newer and emerging SME Directors are becoming inquisitive and more inclined to explore their options, as opposed to going straight for the more traditional method of approaching their current bank. This finding also suggests that a seamless digital experience drives a greater conversion of business from that age range.

Figure 1: When thinking about obtaining business finance, please rank the following courses of action in order of preference, where 1 is your most preferred course of action and 5 your least preferred

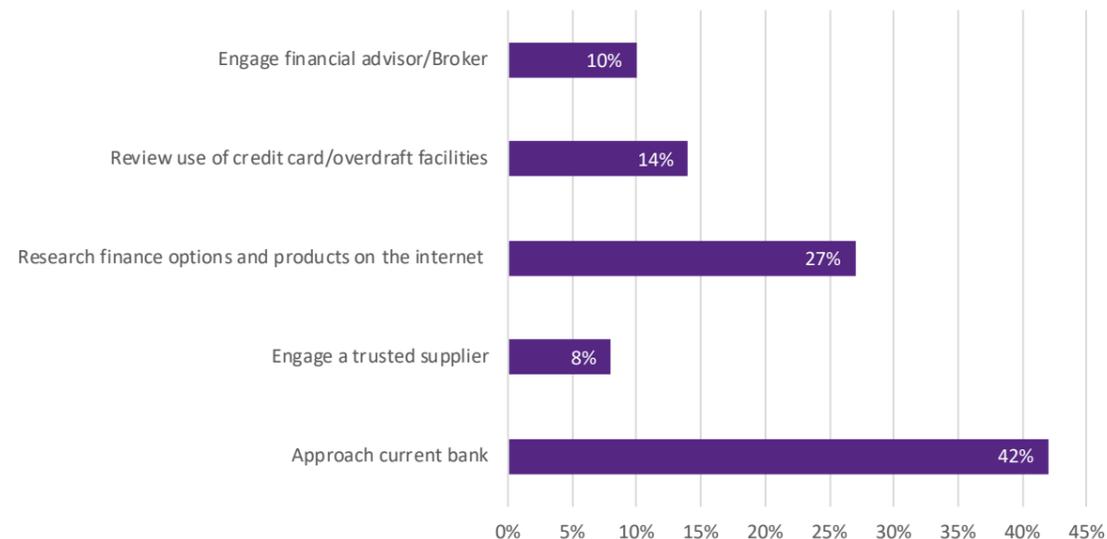
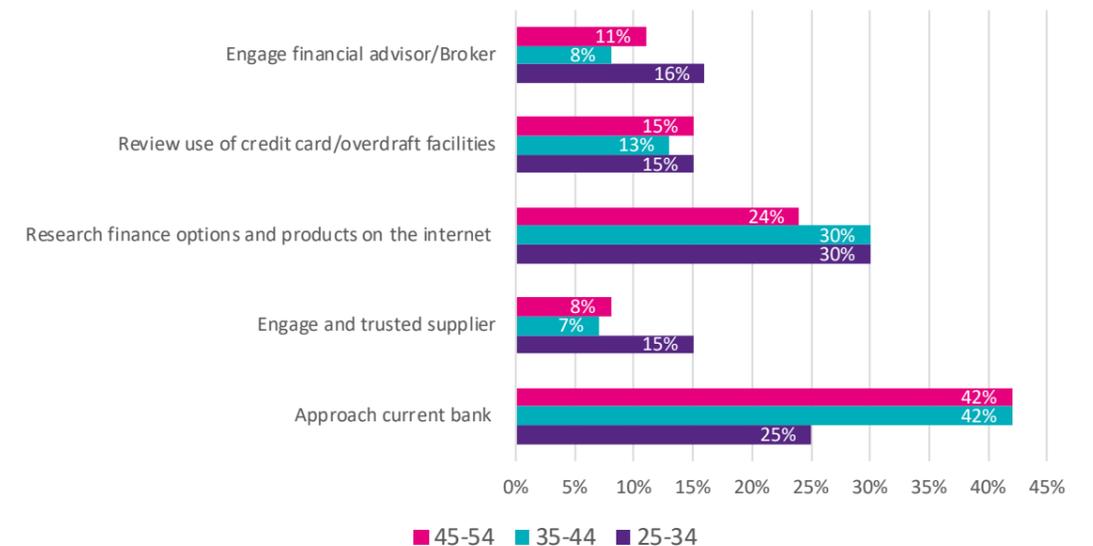


Figure 2: When thinking about obtaining business finance, please rank the following courses of action in order of preference, where 1 is your most preferred course of action and 5 your least preferred



“The majority of SMEs stated the loan interest rate was most important when applying for business finance, however some indicated poor general process and communication from the lender would impact engagement”

Predictably, loan interest rate was ranked as most important when applying for a business loan, 54% of respondents highlighted this option as critical to their decision. Many SMEs, once happy with interest rates, placed similar importance on speed of funds post decision (15%) and customer service (14%) as key attributes to engaging a lender. Surprisingly, general communication (6%) and efficiency of application process (11%) seemed to be the least important to SMEs when securing business financing.



“Many established SMEs still rely on traditional methods of applying for business finance, i.e. in person, direct or via business broker”

When asked to indicate their preferred channel of engagement to apply for business finance, 46% of SMEs stated In Person which indicates that many still favour a consultative approach to arrange financing for their business. This is not surprising, as the complexity of commercial lending for some SMEs can be a daunting undertaking.

In Person engagement was closely followed by digital with 38% of SMEs opting to engage via this method as we move to a digital economy. Traditional telephone based, and surprisingly mobile channel, scored the lowest which further suggests the complexity of commercial lending isn't best served by this medium.

Figure 3: Now, when thinking about applying for business finance, please rank the following in order of importance where 1 is the most important part of the process and 5 the least important

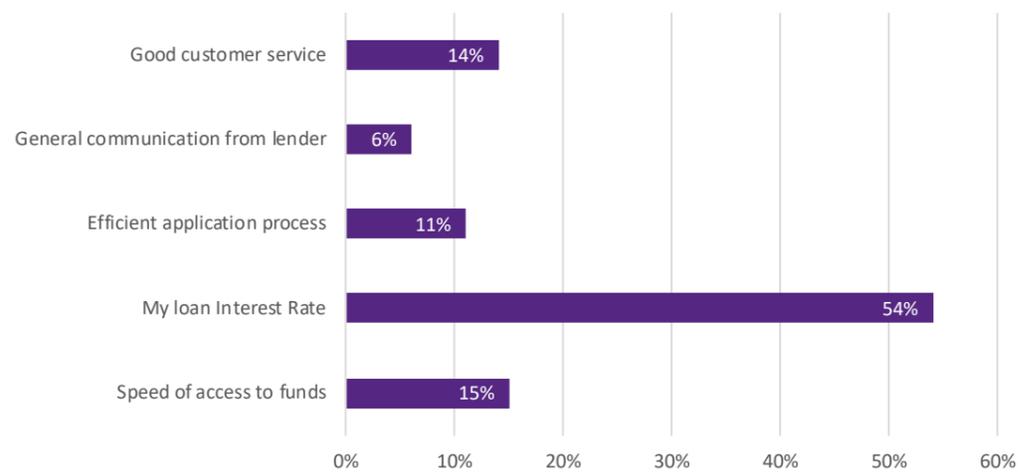
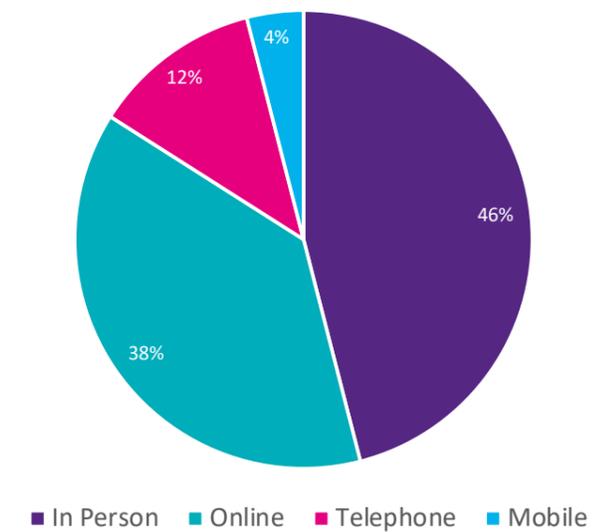


Figure 4: Which of the following channels did you use, when you last applied for business finance?



“New SME startups are turning to online methods when applying for business finance”

Almost 1 in 2 SME directors aged 25-54 stated a preference for online channels when applying for business finance. Interestingly, directors aged 65 years and above opted for In Person. This suggests that the more innovative style SMEs are turning to online engagements as their method of applying and gaining advice for business financing, as this is closely aligned to their business culture. Consequently, financial institutions need to adapt their online services to provide better experiences that fit with the new high-growth SME’s demands, not only to remain competitive but to survive.



“Whilst many SMEs were satisfied with services provided by lenders, only 30% felt they had a general good level of experience from the engagement”

Overall, respondents seem to be satisfied with their experience of obtaining business finance, with average satisfaction reaching around 70%. Whilst the majority of SME directors showed satisfaction with the provision of simple and secure methods of submitting information when applying for business finance, only 40% were satisfied with complimentary services offered by business finance providers. This suggests that lenders need to start providing more complimentary services to provide a fully satisfactory service.

Figure 5: Which of the following channels did you use, when you last applied for business finance?

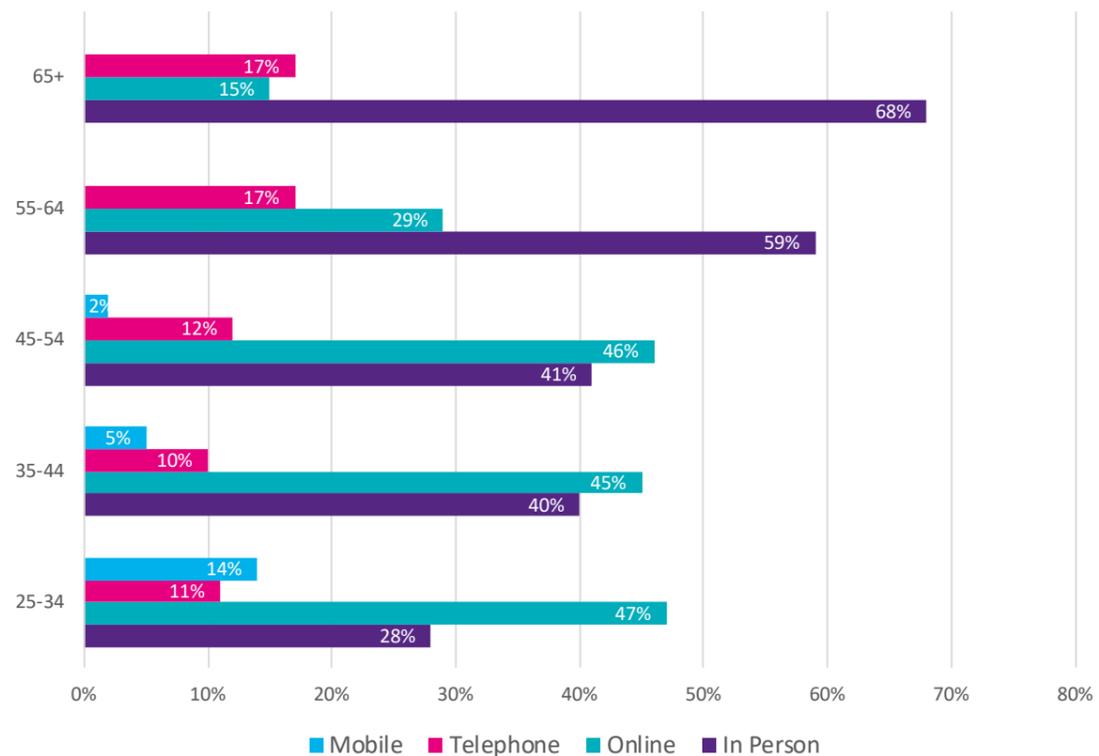
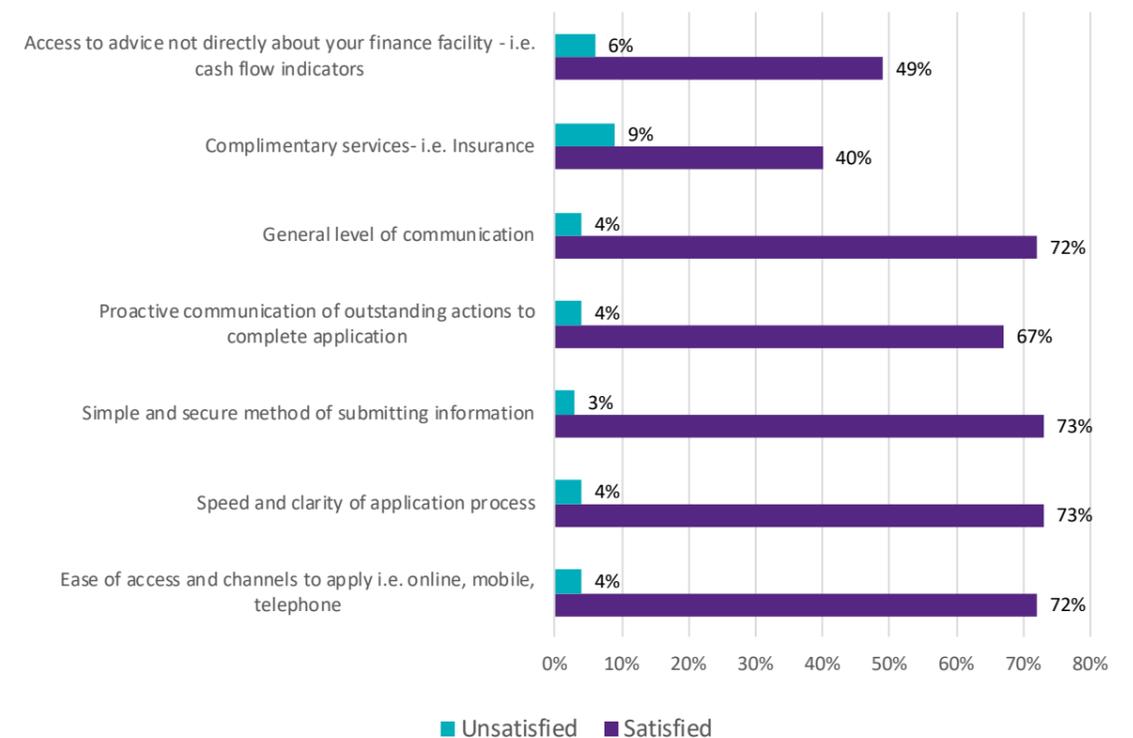


Figure 6: When you last applied for business finance, please state how satisfied or unsatisfied you were with your experience of the following areas



“Over half of SMEs received funds in over 2 weeks”

Whilst many respondents (45%) did state that they received funds in under 2 weeks, the remaining 55% who received their funds in over 2 weeks, is a concerning figure. Especially considering that 18% did not receive their funds in over a month. With earlier findings from question two showing that SME Directors view speed of access to funds as the second most important aspect of the process, this is an indicator that business finance lenders providing a faster service needs to be addressed.



“89% of SMEs rated the time taken to a loan decision as vitally important to their business”

When responding to the question which asked about the importance of speed of certain processes, the majority of participants viewed all aspects of the loan process as important, with over 80% in each instance. The two processes which rated as the highest importance, with 89%, were the release of funds and the time to loan decision. Typically, when an SME chooses to obtain business finance, it is to conduct business growth/debt finance, so speed of access is important. However, this was closely followed by other key factors, such as, communication from lender (87%), completion of application form (83%) and submission of supporting documents (82%). This again signifies how speed is a crucial factor in the lending process as SMEs expect a fast and efficient engagement.

Figure 7: How long did the process take, from application to receipt of funds, when you last applied for business finance?

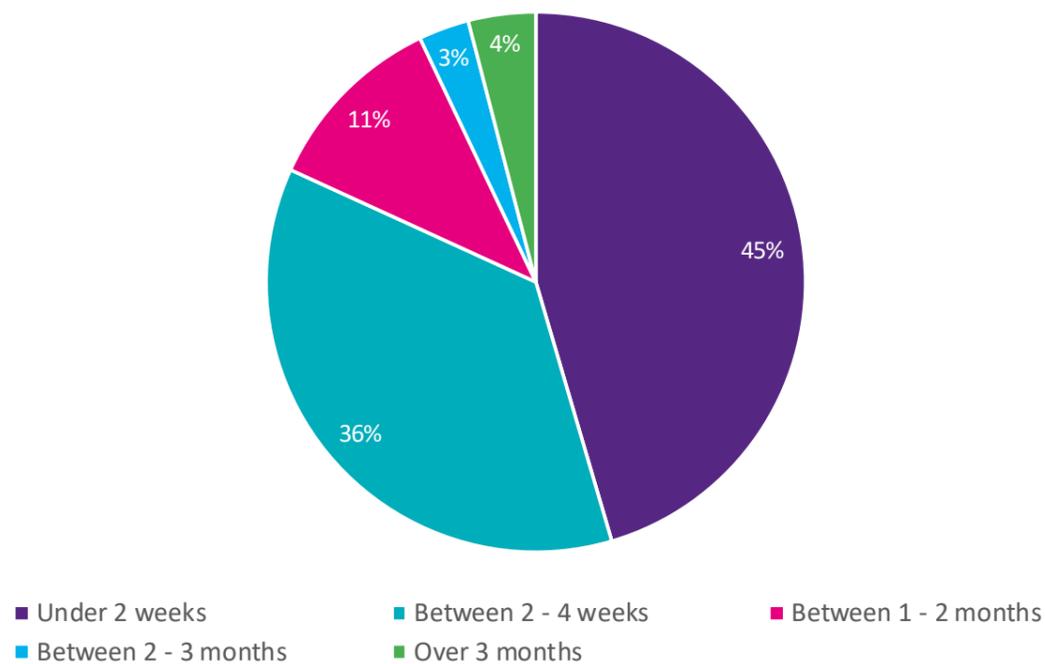
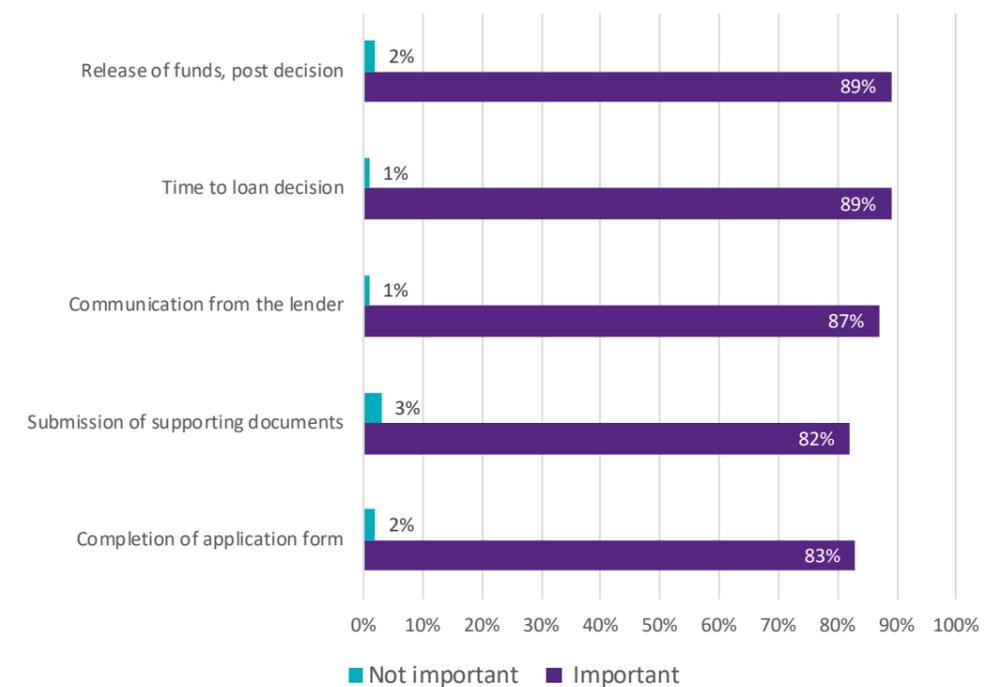


Figure 8: How important, if at all, is the speed of the following processes?



“When asked to name their best business finance provider, 20% of SMEs indicated that Barclays provided the best end-to-end application process.”

SME responses to this question indicate that there is still a dominance of the traditional banks providing the best application process. 60% of all respondents stated either Barclays (20%), Natwest (17%), HSBC (17%) or RBS (6%) provide the best end-to-end process. Due to there being no clear leader, this backs up the assumption that traditional banks are offering similar services which are not necessarily innovative. Interestingly, the only alternative finance provider chosen as providing the best end-to-end process was Funding Circle (5%). This may not be a ground-breaking figure but it shows the pace of new entrants in the market continuing to challenge the traditional methods of obtaining business finance.



“Speed and clarity of the application process stood out for many respondents, but general advice and guidance rated low when engaging with business finance providers”

Many of the established banks, such as Barclays, Natwest and HSBC, were rated highly by SMEs as providers of the best end-to-end process. Respondents praised hygiene factors including speed, clarity and security of the application process and communication levels. However, many SMEs did not rate highly the general advice, support and help available from each lender to help them grow their business. Today's SME are seeking a collaborative engagement which addresses their specific needs, wants and know-how from finance partners.

Figure 9: In your opinion, which of the following Lenders provide the best end-to-end application process?

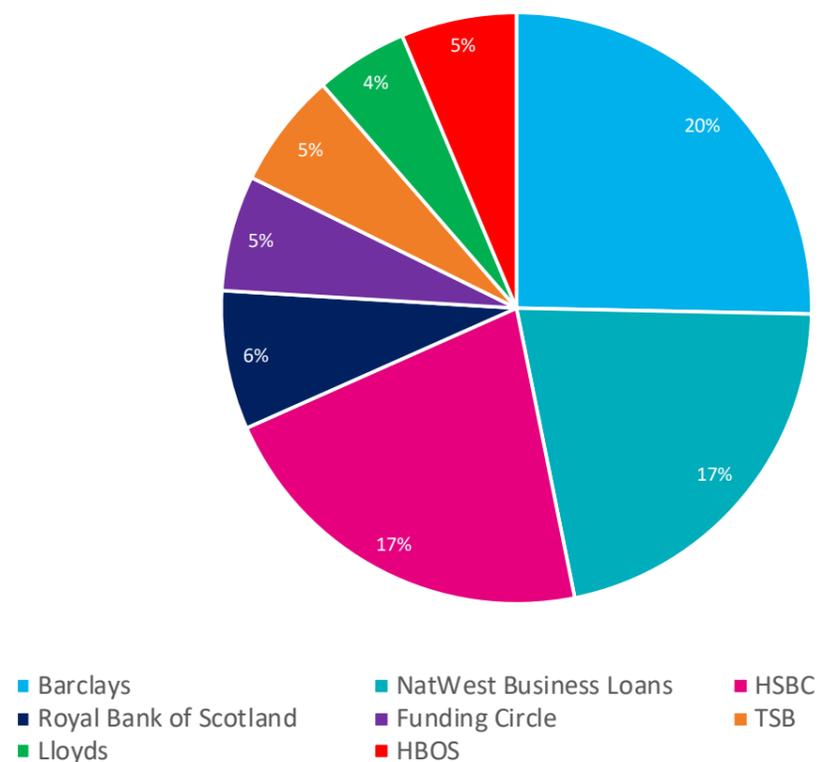


Figure 10: What makes "... " stand out' to you?

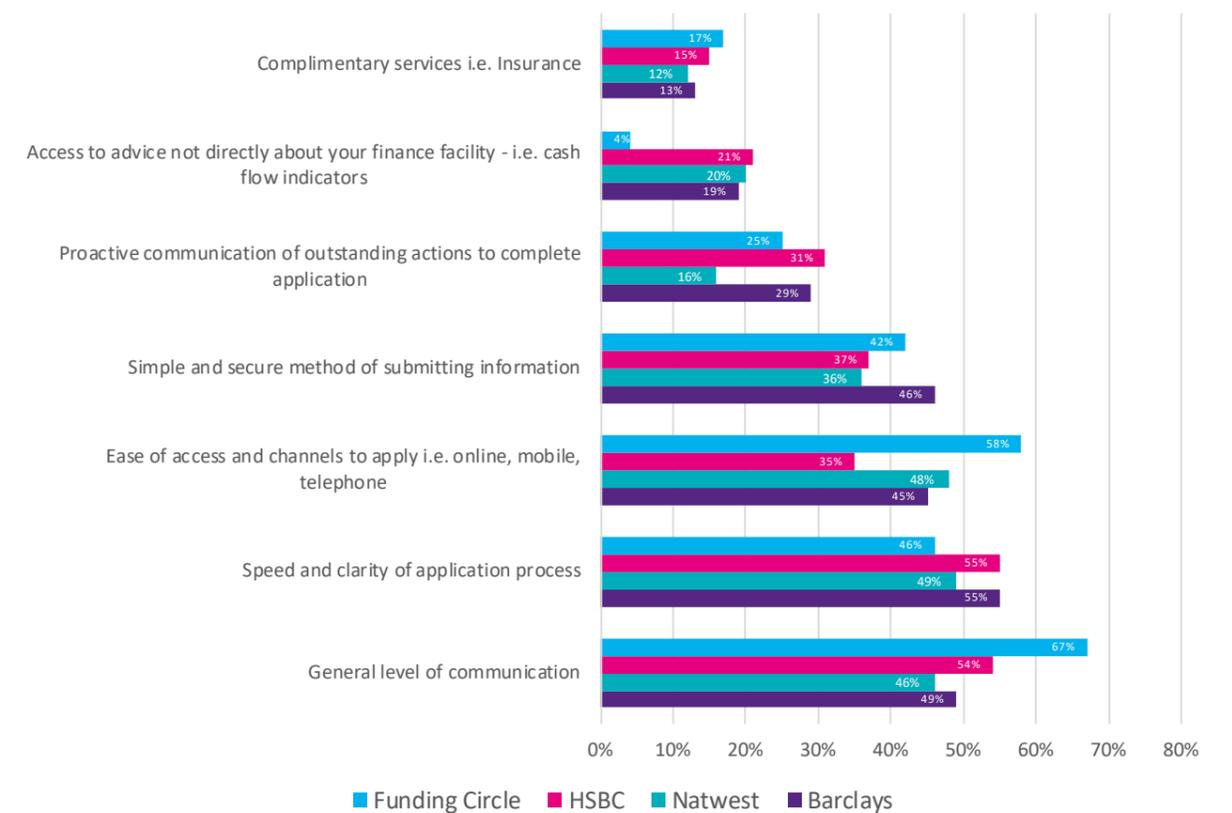


Figure 11: What makes Barclays 'stand out' to you?

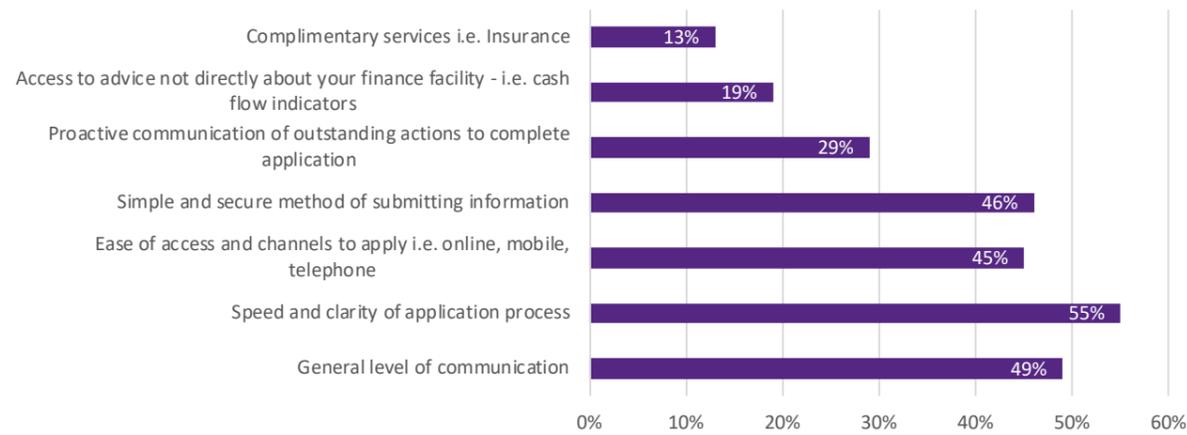


Figure 12: What makes Natwest 'stand out' to you?

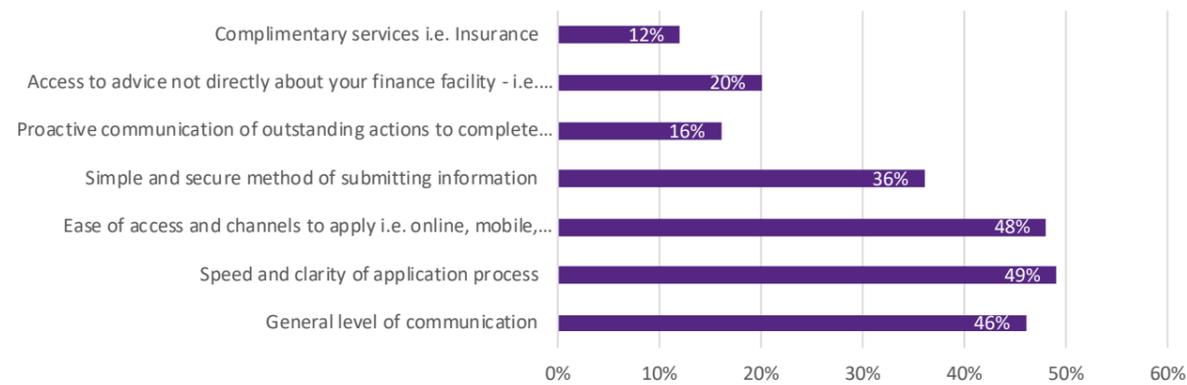


Figure 13: What makes HSBC 'stand out' to you?

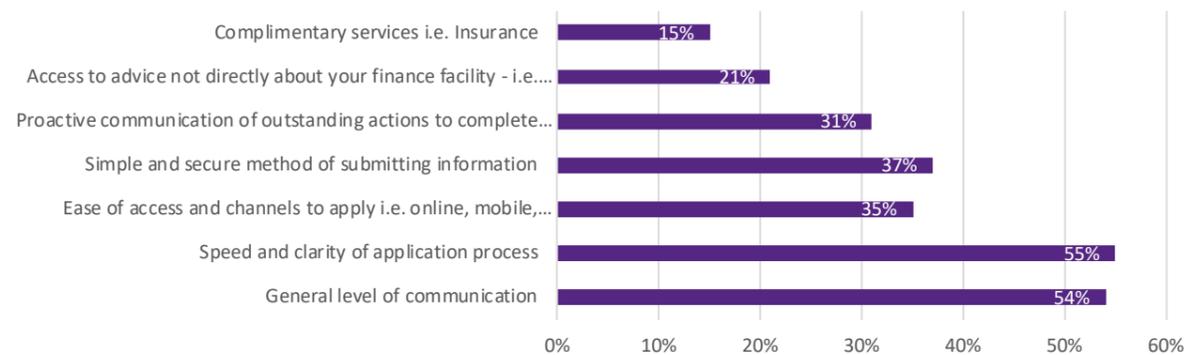
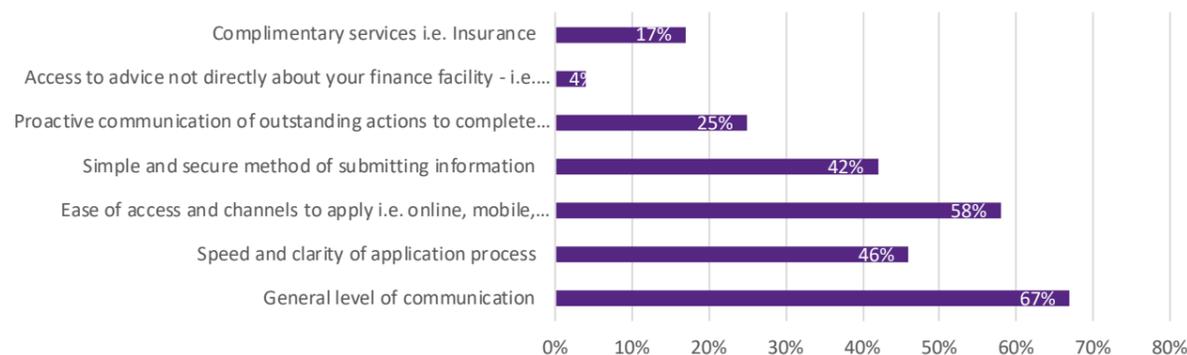


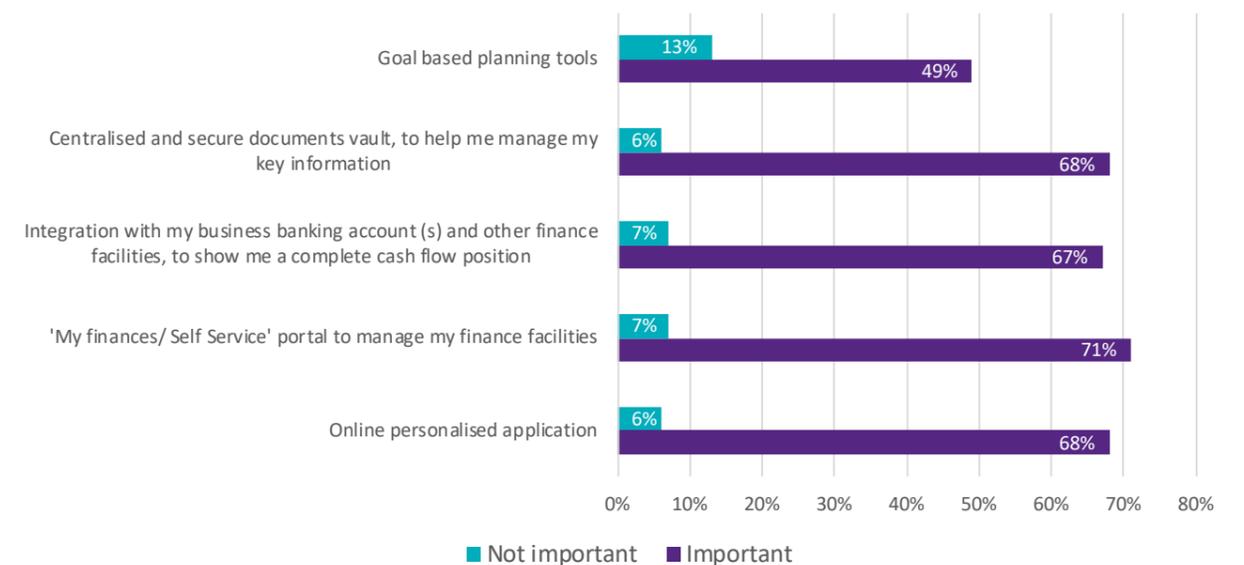
Figure 14: What makes Funding Circle 'stand out' to you?



“SMEs surveyed showed a high appetite for better collaboration with finance partners and welcome a better connected digital experience”

Many SMEs surveyed sought better engagement and collaboration with finance partners to help them grow their business through tools and portals to help manage finances in a central location. 71% rated the self-service portal as an important feature, which provides in house management of finance facilities. Whilst many (67%) viewed integration of business banking accounts as an important aspect of the process for achieving a consolidated view of the financial health of their organisation.

Figure 15: Given your experience with a finance provider, how important, if at all, is it that the following features be improved?



Survey Conclusion



“New entrants into the market are leading with exceptional customer experience and better lending rates”

Over 99% of UK private sector businesses are SMEs employing up to 250 people and accounts for almost half of private sector income. Despite a crucial role within UK economic growth, SMEs face an increasing struggle to obtain business finance to support the growth of their business. The lack of information and support in the UK SME lending market has come under increased scrutiny, as many SMEs face challenges accessing business finance.

Traditionally, small firms requiring finance usually only have one provider in mind, typically from an existing banking relationship. It is therefore not surprising that just under half of respondents are still opting to approach their current bank as their first point of call when obtaining business finance. This causes a concentration of UK SME lending from the big four banking groups, which accounts for a combined share of 80% of SME loans. However, despite significant

volume of available commercial lending via traditional means, SMEs often experience problems and remain discouraged from applying for finance through fear of being rejected.

Traditional lenders rely heavily on the SMEs’ financial track record and security of their existing asset base to help with lending decisions. Smaller businesses and startups find it difficult to provide potential lenders with these assurances. As the SME-lending market relationship in the UK can be largely characterised as transactional, SME bank lending (loans and overdrafts) facilities offer little to no support and often limited collateral access to determine the best form of finance for their business. This highlights that, particularly for smaller businesses with growth potential, there would be benefit in improving the information available to them about their finance options.

Poor engagement experiences, assumptions that they will be turned down, and cumbersome application processes are three of numerous reasons SMEs cited for not approaching lenders for finance. Some SMEs believe loans are too expensive, and with 54% of respondents ranking loan interest rate as the most important consideration when

applying for a business loan, it is no surprise that high cost is a key discouraging factor. It is also viewed by SMEs as too much hassle to apply, as institutions do not understand their sector or markets.

However, SMEs recognise the onset of a silver lining on the horizon. The lending landscape is changing, and fast, with new government initiatives such as PSD2 (open banking) and the rise of alternative lenders and Fintech platforms is set to stimulate the SME lending market and enable a new approach to servicing the SME. Creating easier access to finance, increasing competition and opening up new avenues of finance at more competitive rates.

SMEs are waking up to the transformation in the B2C finance arena and are seeking similar experiences and personalisation in their business engagements. These experiences and engagements are required to be more collaborative in nature to secure advice and the right type of business financing, amongst other needs. This relates to the views that many SMEs surveyed sought better engagement and collaboration with finance partners to help them grow their business through tools and portals to help manage finances in a central location.

SMEs therefore, are keen to challenge established financial institutions and new lenders alike, to offer more value over and above a loan process and payment schedule, as it is vital to securing their business. In return, SMEs are happy to share real-time business performance data which, coupled with credit reference data and analytical capabilities, will enable lenders to build a comprehensive view of a business and the people behind. This will allow them to assess credit risk more accurately and take robust lending decisions faster, thereby improving the service to SMEs.

Arrk Group, a leading global professional services company, is dedicated to helping financial services organisations transform through broad range of services and solutions in strategy, consulting, digital, technology and operations. An established player in the financial services industry, Arrk collaborates with each institution to understand their strengths, weaknesses and future expectations to identify ways to simplify their structures and streamlining their business activities and ultimately “thinning out” their structures to support consolidation and net capital benefits.

Arrk solutions enable financial institutions of all sizes to innovate and expand markets, adapt to meet regulatory compliance, drive profitability and optimise operational transparency.

Focused across 4 key apparatus:

1.

Organise for the long term. Thinking end-to-end across regulations and geographies, and holistically assess and communicate impacts across their business and operating models – to streamline the change response and identify smart investments

3.

Focus on compliance and efficiency. Reputational competitive advantage, customer acquisition and retention through strong ethical reputations for service capable of meeting their needs efficiently.

2.

Market-driven competitiveness. Understand institutions strategy to address competitive challenges through focused resources and attention on customer, product or geographic market segments. The consideration of the type of customer engagement they want to conduct and the practical operations required to sustain those approaches

4.

Demonstrate value to stakeholders. Identify and focus on value which can be realised through planning effectively throughout the business and tuning of the new operating model to help retain engagement and support from internal and external stakeholders.

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