

SMEs too busy in tough economy to escape ‘high’ bank charges and ‘complex’, ‘unfair’ bank accounts

Only 18% of SMEs likely to switch banks in next two years

The UK’s small and medium enterprises (SMEs) say they are too busy to switch banking providers – despite the excessive charges of their ‘complex’ and ‘unfair’ business bank accounts. Results from the *YouGov SixthSense SME Banking Report* – released today – also show that SMEs believe banks offer finance on more restrictive terms than in the past. Yet despite a third (33%) of the UK’s SMEs having complained to their banks in the past two years – with the majority saying they were disappointed with the outcomes – small businesses are failing to ditch their current providers.

Collectively, SMEs indicate bank charges are too high (58%), unjustified (27%), complex (24%) and unfair (21%). Only 3% think they were ‘simple’ and just 2% feel they are ‘justified’. Many SMEs (74%) see charges not as a price to be paid for their banking services but as an easy way for banks to make profits. If this were not bad enough, 50% of SMEs think these charges have increased over the past three years.

A similar number (49%) feel bank charges are now levied on services that were previously free. A total of 38% SMEs say they pay a monthly service fee. On a scale of 1 (good value) to 7 (poor value), with 4 as the mid-point, the average across all SMEs was 4.4, indicating that the monthly fee was seen as poor value for money. Lack of clarity on the fee structure (31%) and poor customer service (27%) tops the list of more than 20 possible reasons for this perceived poor value.

Harder to get money

Bank charges are one gripe; but SMEs also believe banks are offering finance on more restrictive terms than in the past. A total of 35% of SMEs say negotiating maximum loan amounts has become harder over the past three years vs 4% who say it is easier, making a ‘net harder’ result of 31%. There is a similar ‘net harder’ result for other aspects of a loan such as interest charged (31%), required collateral (30%), facility fees (25%) and personal guarantees (18%).

Few SMEs try to switch bank

Yet despite the issues over charges, lending terms and complaints, few SMEs actively look around for alternative banking suppliers with 73% 'rarely' or 'never' searching for a better provider. Only 3% look out for better offers all year round. Around 15% of SMEs tried to switch provider in the past two years but only 8% succeeded. Only 12% of SMEs who had managed to switch provider (or who had tried) found the process easy and painless. In addition, the SMEs most deterred from borrowing in the past three years include those from capital intensive industries (62% in this sector felt deterred). This is a business sector that implicitly seeks bank funding so the findings indicate how serious the lending issue is for smaller businesses.

Simon Mottram, Director of Financial Services Consulting at YouGov, says: "The level of charges and fees imposed on SMEs by banks for the operation of the accounts has long been a source of dispute between the two parties. Yet smaller businesses appear to be suffering in silence over this issue. SMEs also feel current complaint processes take too long, impose too many burdens on them and are generally too complicated. Banks need to be careful with their policies on bank charges, lending terms and complaints because it is the most profitable SMEs – the larger ones – who have the most negative view of them."

What of the future? A total of 23% of those SMEs that believe there are better banking options available in the market either lack the time to search for them, don't know where to look, or feel it's too much hassle to change. So in the next two years, just 18% of SMEs indicated they were likely to switch their main account provider.

A reliance on other sources of finance

The *YouGov SixthSense SME Banking Report* also shows that charges are a key issue when SMEs select a bank. A total of 68% of SMEs say charges are the main factor for them and 56% look for free banking – even if only for a trial period. The bank's brand appeal is the least important factor (7%). SMEs have also tapped other finance sources over the past three years. Injections of fresh money from owners and directors (including family and friends) have helped 29% of SMEs. Retained profits have also played a role (24%) but venture capital was a small part of the picture (2%).

Mottram adds: "The message from our report is clear – banks need to build closer relationships with SMEs and improve communications. If they do this, they can improve SME

opinion on monthly charges and loan terms. Banks must make life easier for SMEs as these businesses are vital for creating jobs and generating economic growth.”

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Notes to Editors

YouGov SixthSense commissioned two surveys among its online panel: the first was based on a nationally representative sample of 937 adults who are senior managers in a company of between two and 249 employees. These adults were filtered to ensure they know about the banking relationships of their businesses. The second survey, exploring in more detail issues raised in the first survey, was based on a sample of 992 adults. The research was carried out in April 2012.

About YouGov SixthSense

SixthSense, part of YouGov plc, is a provider of comprehensive business intelligence. Through a proprietary panel of over 350,000 UK consumers and bespoke research methodology, we collect unique consumer insight. Highly qualified analysts draw on an average of over 15 years' industry experience each to deliver analysis, comment, opinion and advice on the latest market trends and conditions across a range of sectors including Food & Drink, Retail, Health & Beauty, Lifestyle, Finance and Technology. www.yougovsixthsense.com

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