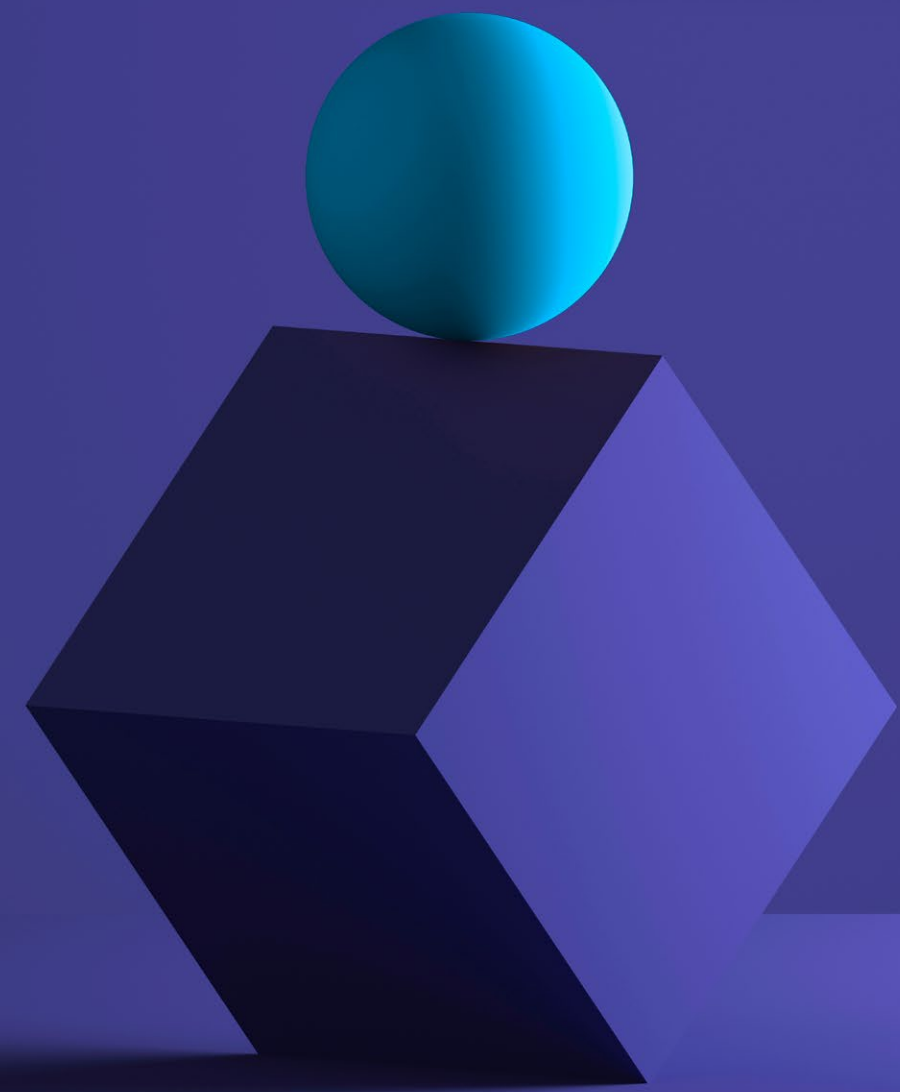
accenture

FINDING THE BALANCE

The forces at play in UK commercial banking



2019 UK SME BANKING SURVEY

THE BACKDROP

Contradictory forces herald a need for change.

Today's banking market for small and medium-sized enterprises (SMEs) is being reshaped by two, often contradictory, forces. Together, these are creating a steady build-up of tensions that mean banks must serve SME customers in a new way—or risk losing out in this vital marketplace.

What forces are at play? In simple terms, commercial banks are having to find the balance between rapid change and traditional business models—as customers' move to digital comes up against banks' established model for serving SMEs.

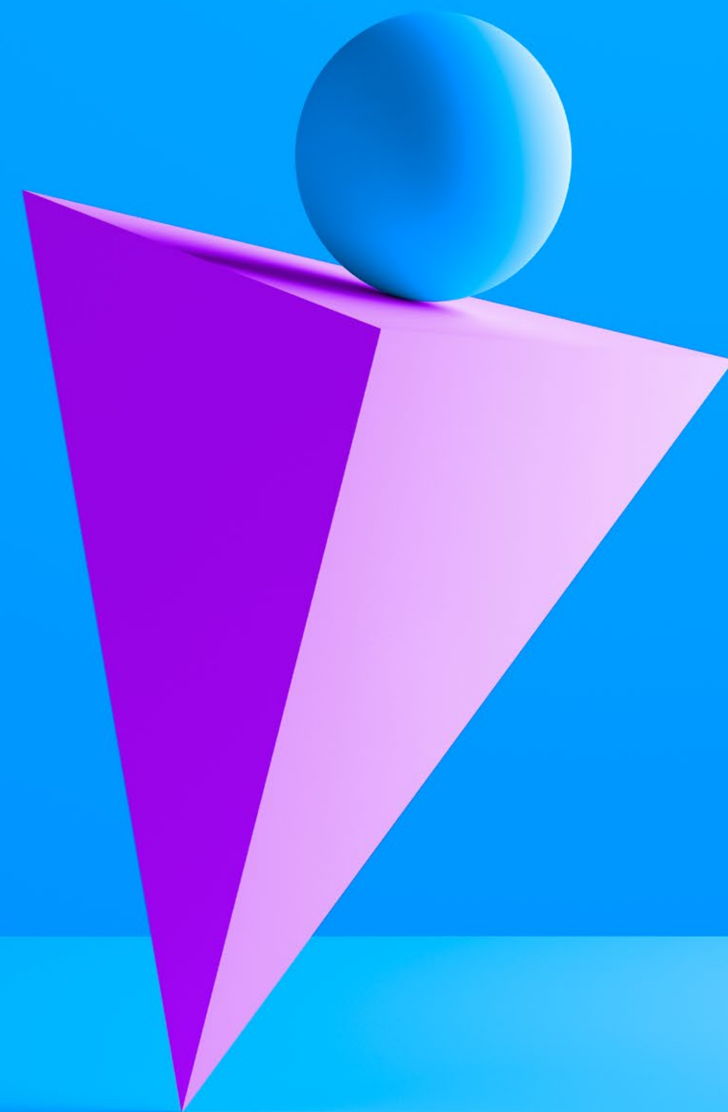
DRIVERS FOR CHANGE...

These forces are playing out by the day.

On the change side, the industry's focus on SME customers is more intense than for a decade or more—a shift reflected by the entry of several new challenger banks and FinTech players, the injection of funding from the RBS Alternative Remedies Package, and ongoing heavy investment in SME services by the leading incumbents.

But what's changing most is SME customers' expectations. While their banking needs are remaining relatively consistent, SMEs' readiness to seek out and use digital banking services is rising at unprecedented speed.

The overwhelming majority now say they need digital banking, and over half see advantages in services based on artificial intelligence (AI) compared to traditional human service. Yet they still want to know the human touch of a relationship manager (RM) is available when they need it, giving them the best of both worlds.



...ARE FACING RESISTANCE

Banks are actively trying to respond to meet these shifting customer preferences. But this isn't easy.

It's not that banks can't see the direction of change in customer expectations or the opportunities presented by new technology. What's harder to see and plan for is what expectations and preferences will look like in three to five years' time, what inroads will be made by new challenger banks, and how incumbent banks can optimally (and economically) reconfigure their banking services in light of this.

While digital services have advanced by leaps and bounds in retail banking, migrating these up to SMEs as 'retail-plus' offerings is not straightforward, given SMEs' diversity in terms of size and complexity. So most incumbent banks are still using the traditional model that's based on relationship managers (RMs) as the default channel—a kind of 'corporate-minus' service. Digital offerings are being incorporated into this model, but in some cases maybe more as 'bolt-ons' rather than as part of a more fundamental, strategic reconfiguration.

The effect is that banks are torn between underserving some SMEs through low-touch, retail-type digital services, and overserving others through costly, corporate-type RMs. To date, switching rates among SMEs have remained low, reducing the incentive for banks to transform at pace. But, at some point soon, the tensions between service and economics will start to become unbearable—and, when that happens, incremental approaches won't do. If incumbent banks are to retain their SME market shares in a profitable way, they have no option but to transform.

In this report, we draw on our research, including a new survey of over 1,000 SME banking customers across the UK, to explain why banks who want to continue serving SMEs in an effective and profitable way must respond by changing the balance between RMs and digital—before their current approach runs out of road.

About this research

Accenture's UK SME Banking Survey 2019 is based on a study conducted by YouGov between 28th January and 5th February 2019. The research was carried out online among 1,014 senior business decision makers in organisations of up to 250 employees. While the respondents' businesses represented a broad range in terms of size, most of the sample were at the smaller-to-medium end of the SME segment, with 794 (78.3% of the sample) having fewer than 50 employees. The organisations surveyed covered a broad spread in terms of geographical location, industry sector and banking providers. Where appropriate, we've compared the findings with our last survey of the SME banking market in 2016.

4 KEY FINDINGS

Our research reveals four top-line findings that—in combination—illustrate how the underlying forces are playing out and creating tensions in the SME banking market. They are:

1. The market won't change through switching alone
Only 15% of SME customers intend to switch bank within the next 12 months.

2. SME customers' fundamental needs haven't changed radically
Furthermore, 55% consider their own banking needs to be 'simple'.

3. SMEs' expectations about how their needs will be met are changing
Over 60% of SMEs now see some clear advantages in AI compared to traditional human service.

4. SME banking can't afford to lose the human touch completely
Only around 26% of SMEs would give up their RM for a 'digital-only' alternative, even if it were cheaper.

1 THE MARKET WON'T CHANGE THROUGH SWITCHING ALONE

Our 2019 survey suggests that SME customers' satisfaction with their banking providers has improved, with the proportion saying they're 'satisfied' rising to 72% from 67% in 2016, and just 8% professing themselves 'dissatisfied' (see Figure 1).

However, to put this increase in context, these satisfaction levels are still relatively low compared to high-performing industries and the GAFA companies (Google, Amazon, Facebook, and Apple). It's also important to remember that being 'satisfied' is not the same as being an advocate, with the current low switching rates appearing to be at least partly driven by a feeling that 'all banks are the same'.

That said, the fact remains that our research does reveal a positive trend in terms of satisfaction among banking customers—and this has been led by the challenger banks, whose dissatisfaction level is just 5% compared to 10% for the 'traditional' banks.

With the share of challenger banks in our study having risen from 21% in 2016 to 31% in 2019, this means they've had a disproportionate effect on the overall rise in satisfaction levels. As for the customers who profess themselves 'dissatisfied', they say their three main gripes are poor quality service, fees being 'too high', and limited access to a named and trusted RM.

As well as satisfaction, SMEs' loyalty is also seemingly high. According to the Financial Conduct Authority, only 4% of SMEs switch bank each year, and their reluctance to change provider shines through in our study.

However, what could look like loyalty at first sight is arguably more a case of inertia, again reflecting the view that there's little differentiation between SME banking providers. Whatever the case, only 15% of SMEs overall—and just 14% of smaller ones—say they're likely to switch their main business bank account provider in the coming year (see Figure 2), despite the process having been made easier by Bacs' Current Account Switch Service. What's more, fewer than 25% of customers would switch to a smaller new bank even if it could meet their needs better than their current provider.

Figure 1: Customer satisfaction[1]

Are you satisfied or dissatisfied with your current banking provider? ("Don't know" responses omitted.)

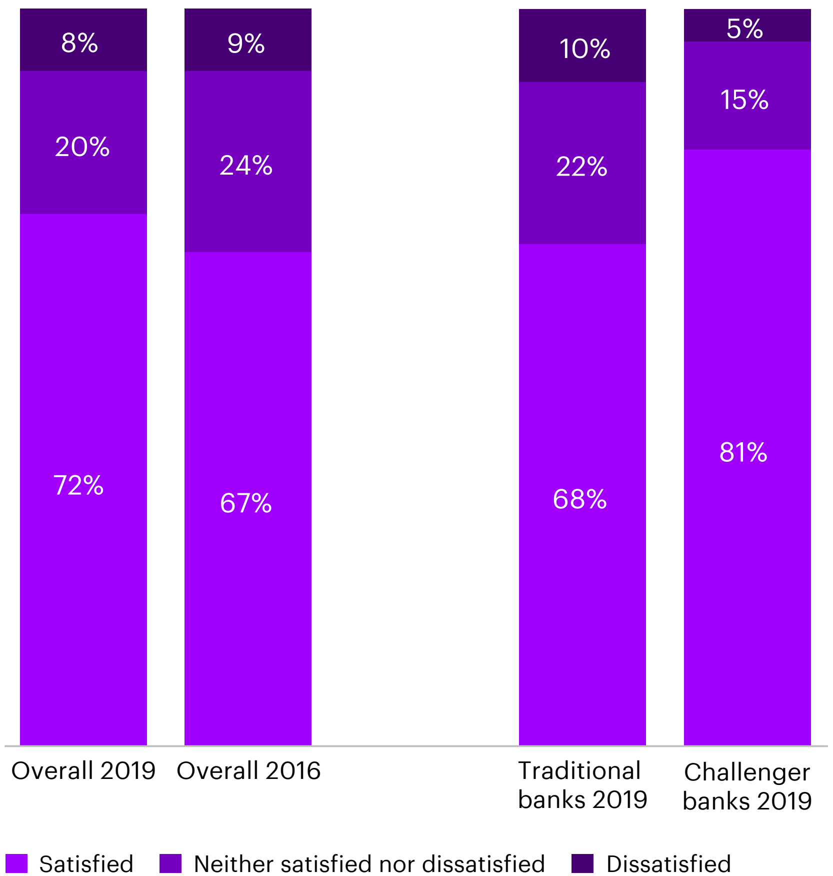
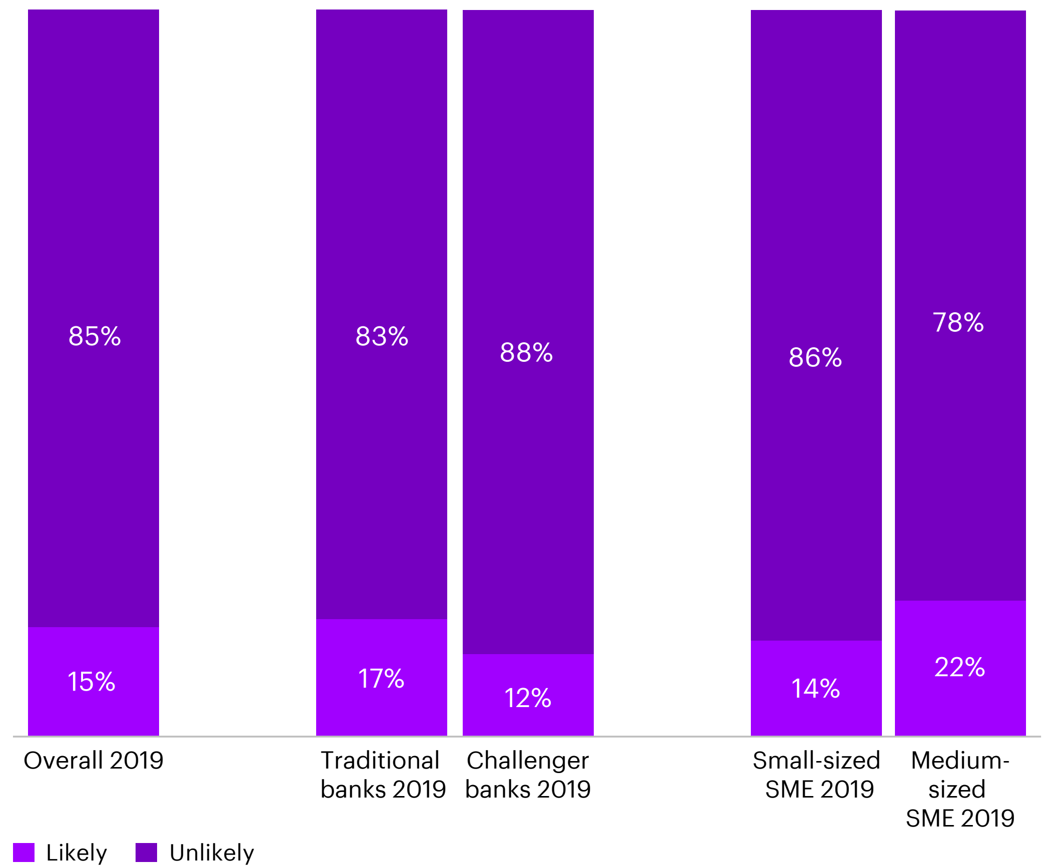


Figure 2: Switching intentions[3]

How likely are you to switch your current main banking provider in the next 12 months? ("Don't know" responses omitted.)



2 SME CUSTOMERS' FUNDAMENTAL NEEDS HAVEN'T CHANGED RADICALLY...

Whilst it's widely perceived that SMEs have become more demanding, their wish-list of what they want from a bank contains no surprises: their first three priorities are low fees, good quality service, and a good interface through which to interact with their bank (see Figure 3).

Indeed, the weighting given to traditional criteria such as low fees is increasing, with the proportion citing this as important rising to 71% from 58% in 2016. Other important criteria are service quality (63%), user interface (53%), speed (47%) and a trusted financial brand (41%).

Interestingly, while there's been a lot of talk about banks expanding beyond meeting customers' financial needs, only 7% of SMEs cite the ability to offer a wide range of non-financial products and services as a reason for choosing a bank.

Also, the importance placed on having a trusted financial brand has increased since 2016—perhaps contributing to SMEs' reluctance to switch to smaller banks—while that attached to having access to a trusted and named RM has fallen back.

When asked about the kind of relationship they want with their bank, our research suggests—perhaps surprisingly—that SME customers' banking requirements may actually be becoming simpler and more basic. As Figure 4 shows, in comparison with 2016, a much higher proportion of SMEs now decribe themselves as having 'simple banking needs', and just over half—53%—prefer their banks to 'leave them be' in terms of the relationship. However, this desire to be left alone is much stronger among smaller SMEs, with their medium-sized counterparts more likely to describe their own banking needs as 'slightly or moderately complex', and half seeking 'a bank to help us succeed or excel.'

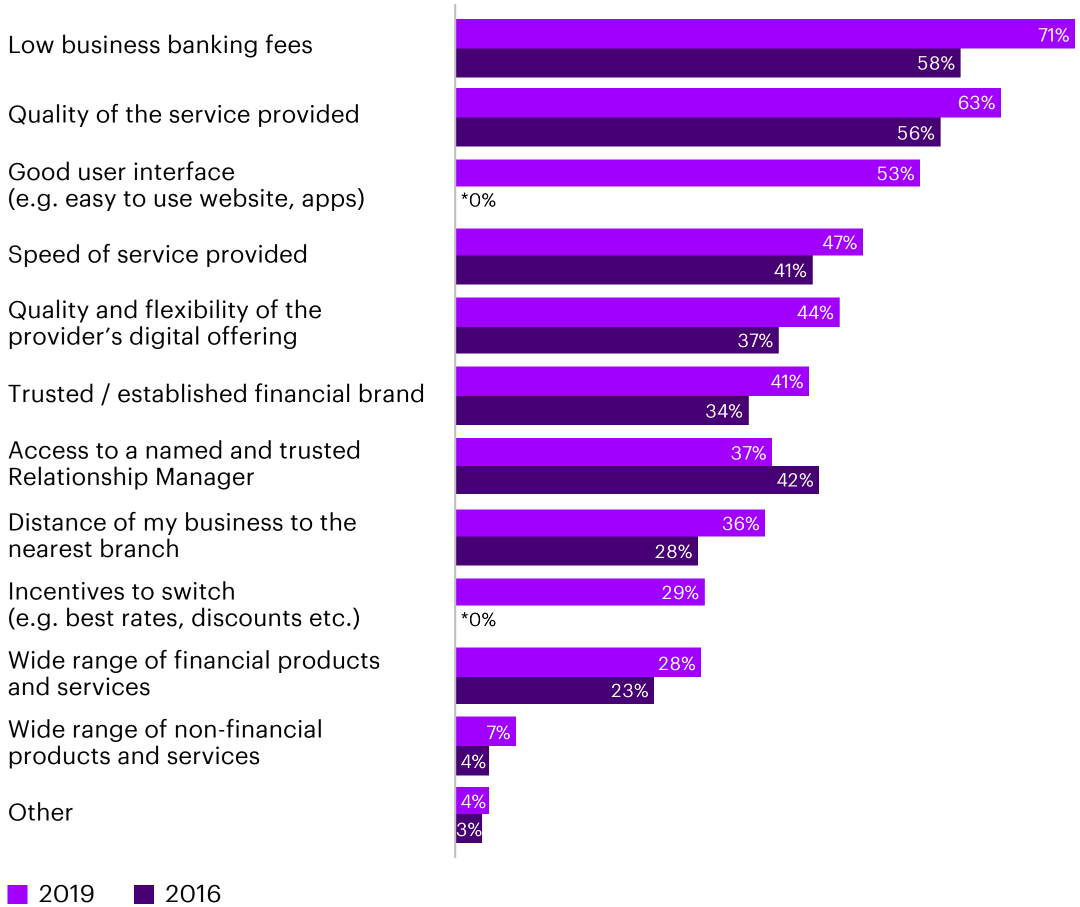
These findings are especially significant at a time when banks are trying to build closer relationships with SME customers through more frequent engagement. SMEs' increasing desire to be left alone suggests that at least some SME customers are being overserved and feel 'hassled'. In combination, our findings underline that banks need to do the basics well, engaging with clients at the moments that matter from the customer's perspective.

When asked about the kind of relationship they want with their bank, our research suggests—perhaps surprisingly—that SME customers' banking requirements may actually be becoming simpler and more basic.

Figure 3: Bank selection criteria

What are your main reasons for choosing a bank?

(Select all that apply. "Don't know" responses omitted.)

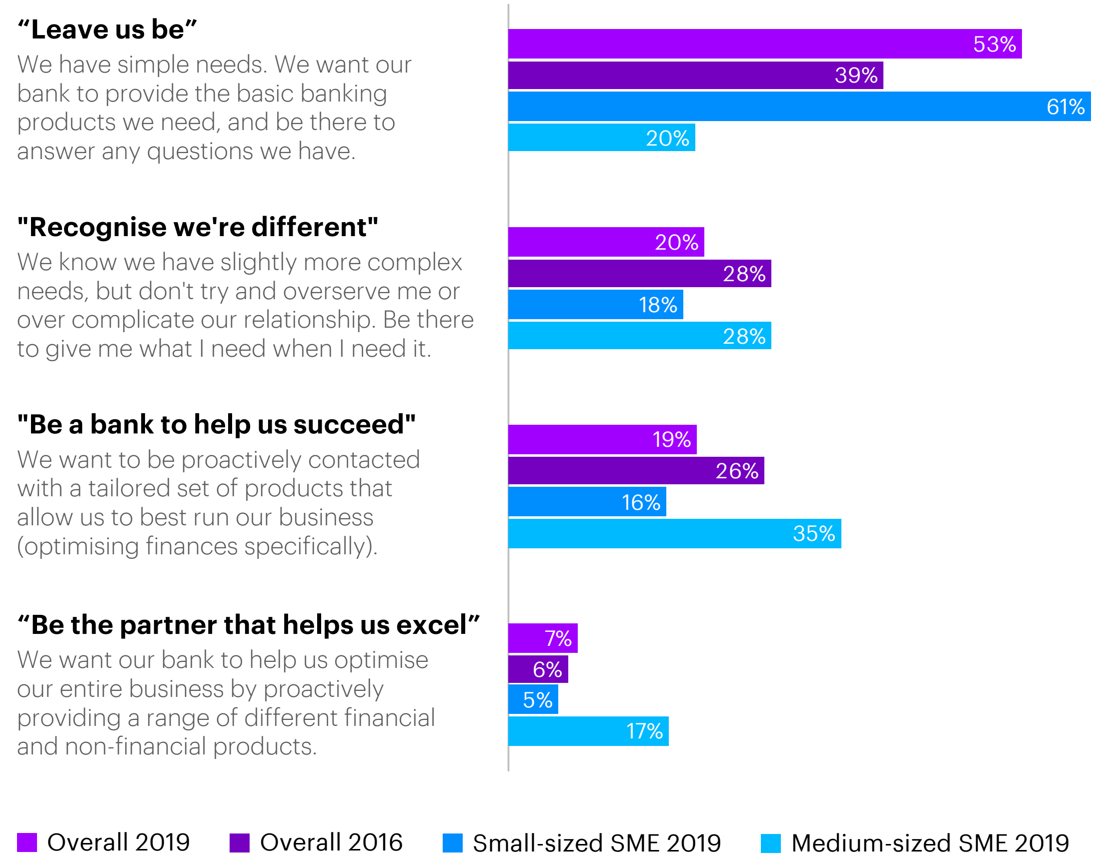


* Note: Criteria not included in 2016 survey options.

Figure 4: Preferred relationship[4]

Which of these kinds of relationship would you prefer to have with your bank?

(Select one. "None of these" responses omitted.)



3 ...BUT SMES' EXPECTATIONS ABOUT HOW THEIR NEEDS WILL BE MET ARE CHANGING

Inspired by convenient and tailored digital experiences in their personal lives, SMEs' attitudes towards the use of AI in banking services—and indeed towards digital banking in general—are very positive.

As Figure 5 shows, over 60% of SMEs see some advantages in AI as compared to traditional human service, with speed, convenience, impartiality and cost cited as reasons. This may point to a fundamental shift in how they expect to be served in the future.

Also changing are the ways in which SME customers prefer to interact with their bank, no doubt driven by investments that banks have made in the past three years. A comparison between the 2019 and 2016 results reveals a noticeable drop in actual use of RMs for various interactions, and a corresponding increase in the use of websites as SMEs' main channel for accessing banking services.

Given these trends, it's unsurprising that when SMEs are asked to select from a menu of advantages of digital banking, 77% say their business positively needs digital banking services (see Figure 6). Other top benefits include speed, ease of use, reliability and flexibility.

These findings demonstrate that banks are generating a return on their digital investments by fostering a move among SME customers to less costly digital channels. However, this isn't necessarily being reflected in higher profitability or lower cost/income ratios. And it also doesn't appear that these investments are changing the fundamental customer-bank relationship to something more akin to what customers are looking for. While making things more operationally efficient, digital banking isn't (yet) generating significant new propositions or engagements that will help banks become closer to their customers.

What's more, while SMEs' usage of their banks' websites is high, their use of chatbots and other digital services remains fairly limited—and most SMEs don't want to entirely give up the old channels and human touch. Our findings suggest that SMEs much prefer their main bank to combine physical and digital rather than being digital-only, although around a quarter of SMEs are interested in using digital-only banking providers for certain services. Overall, the balance ('likely' minus 'unlikely') expecting to use banks that blend branches and digital is +36%, compared to -12% for digital-only banks.

Again, the implication of these findings is that investments in digital are not yet enabling banks to fundamentally change their customer relationships and business model. One could speculate this is because banks have not yet acted boldly enough to create a compelling digital proposition for SMEs —but rather have been tinkering around the edges of their existing services.

Figure 5: Advantages of AI over human service

What advantages do you think AI-enabled services have compared to traditional human service?

(Select all that apply. "Don't know" responses omitted.)

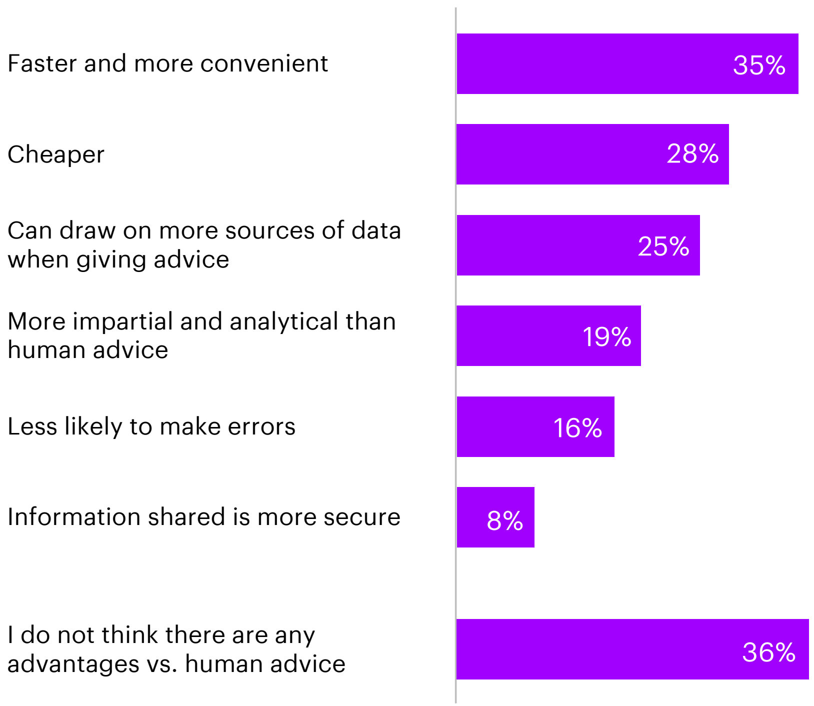
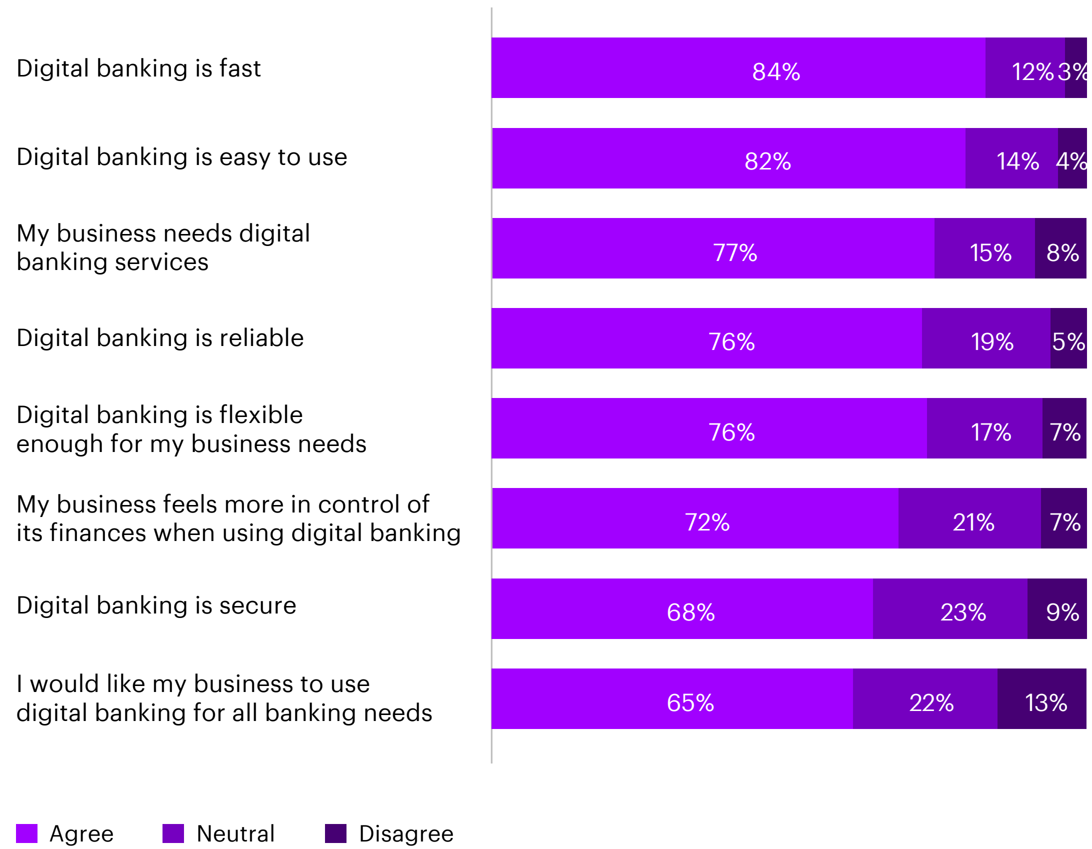


Figure 6: Opinions on digital banking

What advantages do you think digital banking brings to your business?

("Don't know" responses omitted.)



4 SME BANKING CAN'T COMPLETELY LOSE THE HUMAN TOUCH

As we noted above, there's been a shift among SMEs away from using RMs. But this doesn't mean the RM is dead: far from it. Many more SMEs say their RM provides good rather than poor value for money, with the balance ('good' minus 'bad') of how SMEs view their RM's value-for-money at +26%.

Also, as Figure 7 shows, only 26% of SMEs would give up their RM for a digital-only alternative, even if the bank incentivised the move by offering a cheaper service or lower fees in return.

Asked to pinpoint the valuable aspects of the services provided by RMs, more than 60% of SMEs point to the practical advantages such as providing access to banking services and advice, ensuring requests and complaints are dealt with promptly, and understanding their business needs.

Providing general business advice (valued by 48%) and facilitating local business networks (36%) rate lower overall, but matter to certain niches.

For example, more than 60% of medium-sized SMEs (those with over 50 employees) value general business advice, and over 50% value the role of their RM in facilitating local business networks. SMEs in their first year of trading also show above-average ratings for the value of these services.

And around 25% of larger SMEs want their RM to become an advisor on new banking innovations and a closer business partner, pointing to opportunities to expand RM services.

Taken together, these findings suggest that even the operational aspects of digitisation aren't yet mature enough to change the relationship between banks and their SME customers. The top three service areas they use their RM for are arguably not especially highly skilled tasks, and are more about helping them navigate the bank's own complexity.

In contrast, the activities lower down the ranking—such as providing general business advice, facilitating local business networks and advising on banking innovations—are more closely linked to the aspects around which banks could be looking to build their RM model. The message is that there is more for banks to do in both operational and 'value-add' digitisation, and that SMEs are ready and willing to buy the new RM offerings they would create as a result.

What is clear is that a world without RM does not appear to be the right one—in today's SMEs' minds—a fact that creates a conundrum for banks serving the SME segment. Why? Well, at a minimum, SMEs value the presence of their RM as someone to call on in the event something goes wrong. Even if they don't have cause to use their RM in the course of a year, they still feel paying a couple of thousand pounds as 'insurance' is worthwhile.
(Continued on page 14.)

Figure 7: Reasons to go digital-only

What would convince you to move to digital-only banking services?

(Select all that apply. "Don't know" responses omitted.)

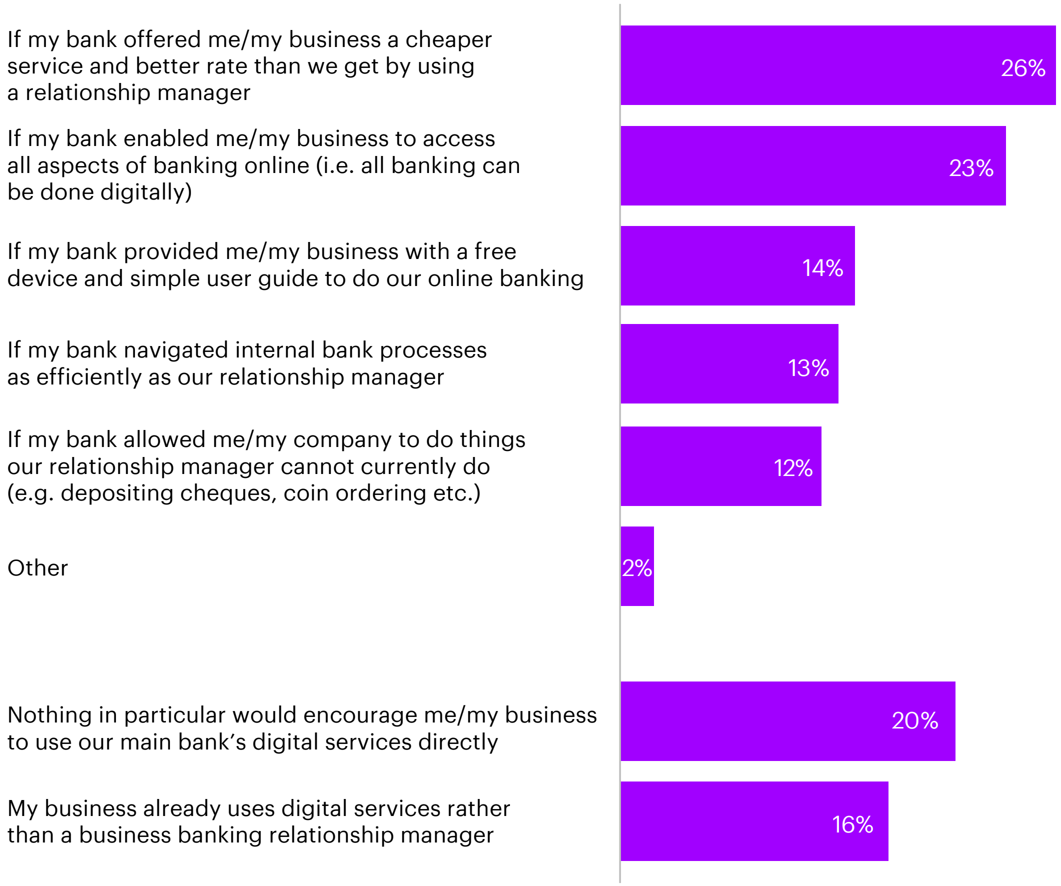
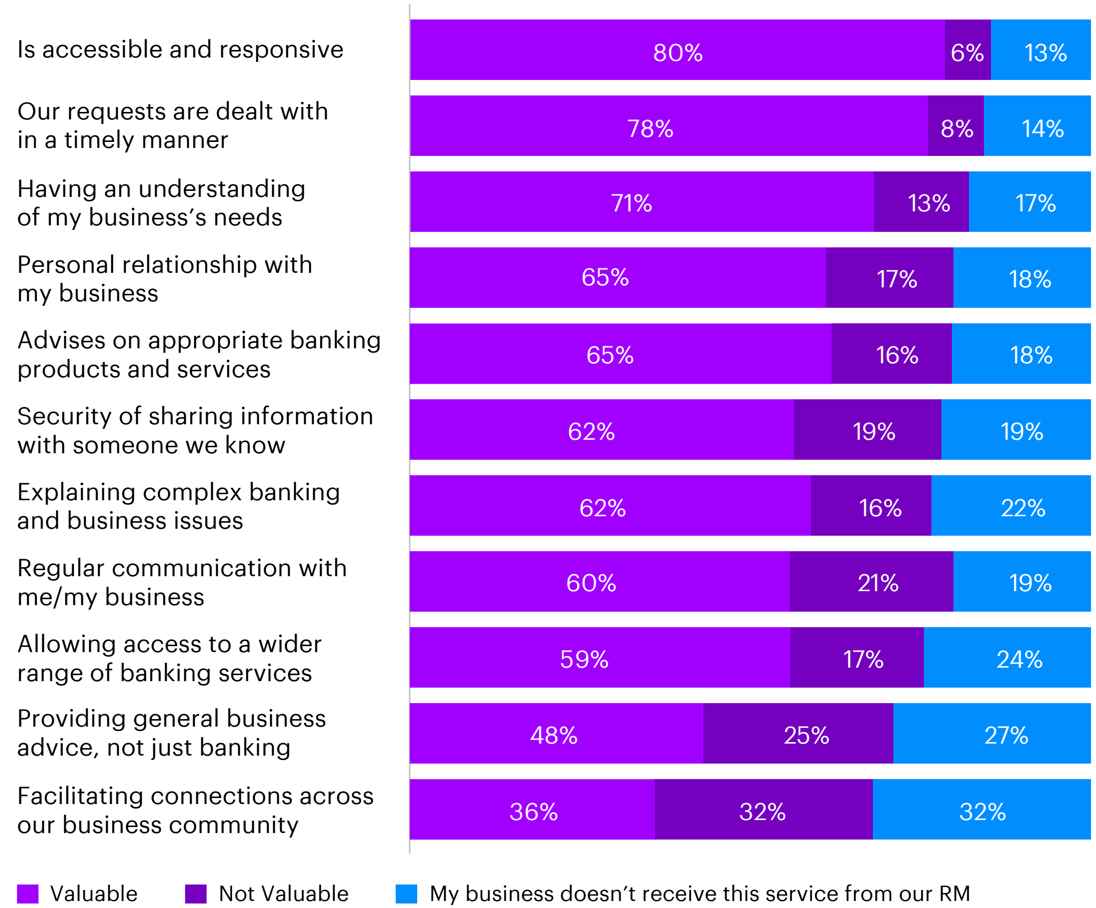


Figure 8: Value from RMs

How valuable are the services provided by RMs?

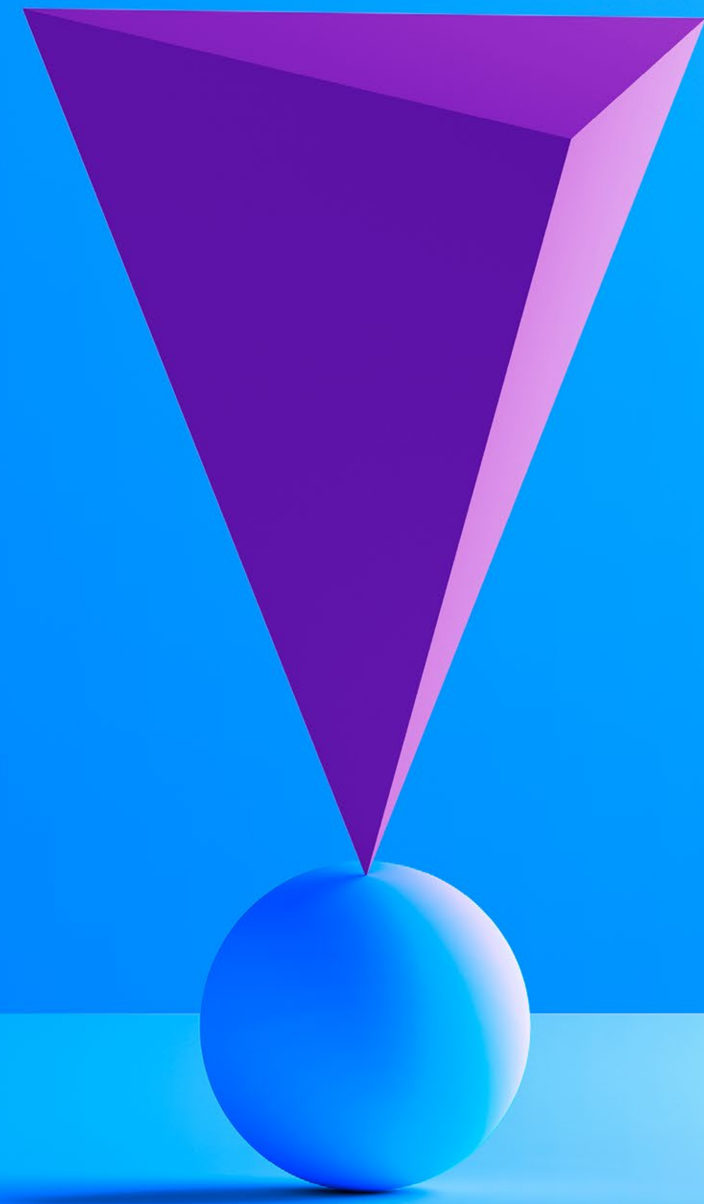
(Select one. "Don't know" responses omitted.)



However, from the banks' point of view, a couple of thousand pounds isn't enough—raising a significant cost/income challenge.

Even though SMEs' current use of their RM is often minimal and for low value-add services, banks must continue to pay the high costs of maintaining the RM network. There is therefore a tension between making the necessary digital investments, plus associated branch re-configurations and staff training, while simultaneously maintaining the 'old' RM model in a way that may be different but not necessarily cheaper. Hence, overall cost-to-serve—providing customers with the best of both old and new worlds—is expensive, unless banks can find ways of bearing down on costs in a surgical way that doesn't risk impacting customer satisfaction.

To tackle this challenge, banks need to strike a new balance between human and digital in their RM model. Fail to achieve this rebalancing, and banks may in the future be unable to afford the model that SMEs say they want and need.



WHAT DOES ALL THIS MEAN FOR BANKS?

The message from our survey is clear.

While SMEs have a positive attitude towards digital channels and rising use of AI, they don't want to entirely give up the old channels and the human touch. Essentially, they want—and increasingly expect—the best of both worlds.

The reality is that banking customers are used to receiving digital and all transactional services for 'free', with access to human service when required thrown in. Recouping investments and added cost-to-serve through higher revenues is a major challenge, especially with interest rates as low as they are now.

And the high costs of the 'corporate-minus' RM model means it's profitable only with larger and more complex SMEs, while the 'retail-plus' approach could alienate SMEs seeking a human touch. It's a conundrum—and one that incumbent banks must solve quickly, if they're to stay ahead of the disruptive new entrants in SME banking. On the following pages we set out four imperatives to strike the right balance.

FOUR IMPERATIVES TO STRIKE THE RIGHT BALANCE

The overarching challenge for banks is to get to know their SME customers in a more astute way that enables them to find the optimal blend between the new and the old—while also lowering cost to serve and providing customers with value for money. To do all this, we think banks must harness new technologies in new ways.

Accenture's Technology Vision 2019 highlights how, in a world where every business is investing in digital technologies, we're now entering the 'post-digital era'.

The trends pinpointed in our Vision apply across all industries—and, by capturing them in their SME business, banks can leapfrog to the next generation of technologies and realise their full value.

DOING THIS WILL REQUIRE FOUR STEPS.

1

Blend RMs and digital to change the defaults—creating the 'human + machine' colleague

Historically, large banks' default channel for serving SMEs has been the RM. For the business to remain profitable, that almost certainly has to change. So, having micro-segmented your customers, use a range of existing and emerging technologies to treat customers in different ways, with the right balance of frictionless digital experience, (including intelligent contact centres) and the human touch. At the same time, augment your RMs with new digital capabilities to make them more effective and customer-focused than ever. The RM need no longer be a costly default, but a value-adding option. Be aware that the RM and the back office are both going to need support in this shift: new technologies require investment in training and cultural change too.

2

Get to know your existing and target customers' unique DNA

Extend the use of AI and advanced analytics from current point solutions like KYC (know your customer), credit risk and fraud to more parts of your SME business. Specifically, use these techniques to really understand your current and prospective customers in a new light. Understand their DNA beyond traditional factors like size and sector, and explore other vital characteristics like their behaviour, digital maturity, sensitivities and propensities. The result? You'll avoid 'underserving' and 'overserving'—and have a better view on what they want and what they will pay for. As our Global Financial Services Consumer Survey highlights, it's about serving a million markets of one.

3

Re-architect IT to develop compelling new propositions, delivered at pace

Accenture defines a 'wise pivot' as a strategy fit for the digital age that helps companies pursue new growth opportunities without abandoning their core business. Commercial banks are ripe to make such a pivot to a new and more flexible technology platform that has digital at its core, not as a set of bolt-ons around the edge, but that still can operate with existing infrastructure. This means using open APIs and selective adoption of new technologies to boost the agility of your core systems; furthermore apply a 'best-of-breed' approach to selecting digital partners, matching different FinTech providers to the needs and expectations of different elements of the proposition. This 'digitally decoupled' platform will enable you to continue to deliver excellence in traditional products, while also developing compelling new value propositions at pace where there's mutual value for you and your SME customers.

4

Embed data-driven intelligence throughout the BAU lifecycle

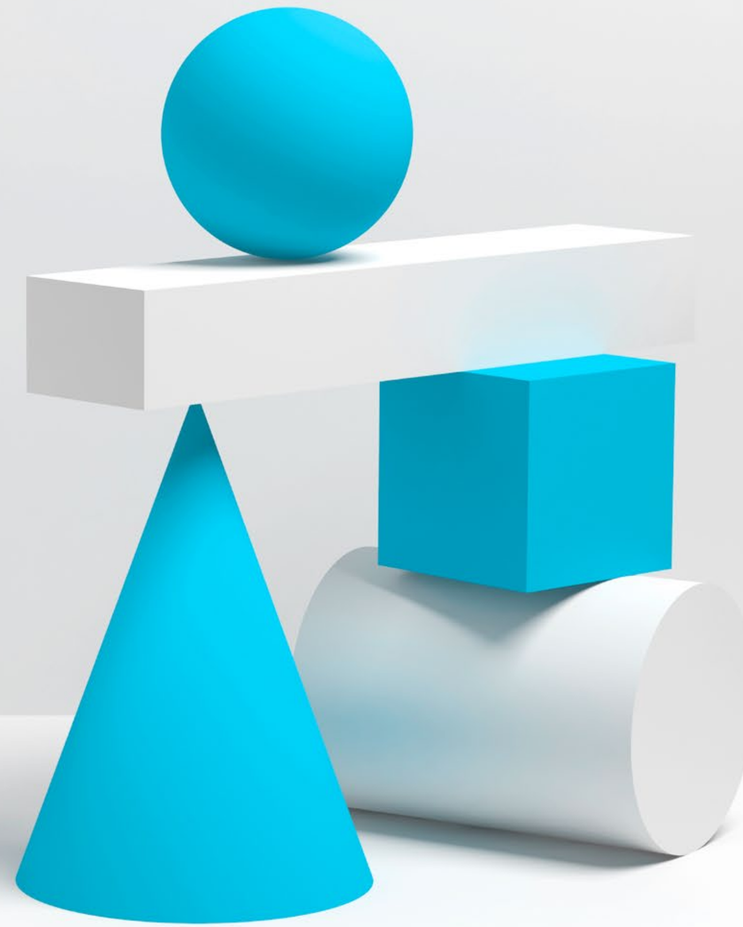
Complete your pivot to the post-digital world by creating a data-driven operating model powered by next-generation AI, big/dark data management and advanced analytics. Then apply this model to pinpoint 'hot-spots' of value across the full lifecycle. This may sound daunting, but in reality it needn't be. At almost every stage of the lifecycle —from prospecting to selling to servicing—small interventions can transform capability and drive value. Take a balanced view across value, cost, and architectural readiness, and keep on iterating and refining your AI and analytics capabilities to meet the evolving needs of your business.

TIME TO LAY FOUNDATIONS FOR THE FUTURE

For banks, the underlying challenge is that today's SME banking market straddles two worlds.

One is the new generation of digital services, whose rising take-up is being driven by their high levels of efficiency, convenience and accessibility. The other is traditional relationship banking centred around the RM. Customers are demanding the best of both of these worlds, with the result that tensions are gradually building up between them—tensions that will ultimately lead to some form of disruption.

The biggest risk for banks is that they fail to reconcile and respond to these tensions until it's too late. It's unlikely that any bank will be able to win at scale as a completely digital player; but nor will the answer be persisting as a high-touch relationship bank. In a marketplace where customers are demanding the best of both worlds, the way forward is to find a way to give it to them. Now is the time to lay down the right foundations to do that.



References

1,3,4. Note: We classified respondents' main bank type into traditional banks (NatWest, RBS, Lloyds Bank, Bank of Scotland or BOS, Barclays and HSBC) or challenger banks (First Direct, Santander, Nationwide, TSB, Aldermore, Shawbrook Bank, Clydesdale Bank, Yorkshire Bank or other).

2. https://www.fca.org.uk/publications/market-studies/joint-fca-cma-sme-banking-market-study

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Wise Pivot

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