

The title "IRISH SME BANKING SURVEY 2018" is displayed in a large, bold, black, sans-serif font. The text is positioned on the left side of the page, partially overlapping a blue geometric shape that consists of two overlapping triangles pointing towards the top right. The background of the entire page features a faint, blue, wireframe grid pattern that forms a large, abstract shape resembling a gear or a stylized 'E' on the right side.

IRISH SME BANKING SURVEY 2018

**Capitalise on a sector
in recovery and stay
ahead of disruptive
new entrants**



73%

of SMEs are satisfied with the level of service they receive from their bank, but 76% feel their bank falls short in at least one area, and 25% expect to switch provider over the next 12 months.

80%

of SMEs are interested in using new services driven by new technology

35%

of SMEs are willing to use webchat as a means of communication

40%

would take non-banking services from banks

24%

are using non-bank lending services

All statistics are taken from the Accenture survey of 200 SMEs across Northern Ireland and the Republic of Ireland in July, 2017.

CHALLENGES & OPPORTUNITIES

There are big challenges as well as opportunities for Irish banks as they try to address the needs of the Small and Medium Enterprise (SME) sector beyond 2017. Badly hit by the 2008 crash, SMEs are now enjoying a resurgence in activity part-fuelled by joint venture investment schemes from governments and banks. Perhaps it's unsurprising that our survey reveals a relationship with banks that is often confused and contradictory.

At the same time, new regulations are expected to trigger an 'open banking' revolution with new players coming in that may tempt SMEs out of the inertia that has stopped them switching providers in the past. The scale of the disruption is uncertain, but change is inevitable.

What hasn't changed is the significance of SMEs to the banking sector. They represent nearly 70% of the active workforce across Ireland, North and South, and account for 99% of registered businesses. Economic recovery and new types of activity –

like the thriving SME technology sector in the Republic of Ireland (RoI) – should encourage banks to revisit relationships that they can no longer take for granted.

Banks have to address the needs of SMEs that increasingly want more tailored offerings at more differentiated price-points. Despite high barriers to switching, they are increasingly willing to go outside their main provider and engage with new technologies to obtain the banking services they need. 76% of SMEs surveyed believe their bank fails to deliver in at least one aspect of their relationship; 25% expect to switch provider over the next 12 months.

Our survey offers clues as to how to offset potential disruption. By offering differentiated propositions while continuing to leverage existing assets, by putting themselves at the centre of a financial ecosystem, Irish banks have an opportunity to maintain and grow their position as the primary financial services provider to SMEs.

FOUR STRATEGIC PRIORITIES TO ADVANCE SME RELATIONSHIPS

1. Align to different SME expectations
2. Become a digital relationship bank
3. Differentiate or risk disruption
4. Get on the front foot for Brexit

01. ALIGN TO **DIFFERENT SME EXPECTATIONS**

SMEs are used to accessing feature-rich digital services from other providers, so the bar is raised on banking and what constitutes a minimum viable service. This has led to a misalignment between what the bank provides and what the customer expects. Banks, for example, are moving towards making a dedicated relationship manager a premium product for certain sub segments, but our research shows that many SMEs still see it as a core service and are unhappy if it is unavailable.



In the survey, 76% of SMEs believed their bank failing is to provide a satisfactory service in at least one aspect of their relationship; 29% said there was an inability to provide a low cost service and 23% said a lack of access to a relationship manager was a problem.

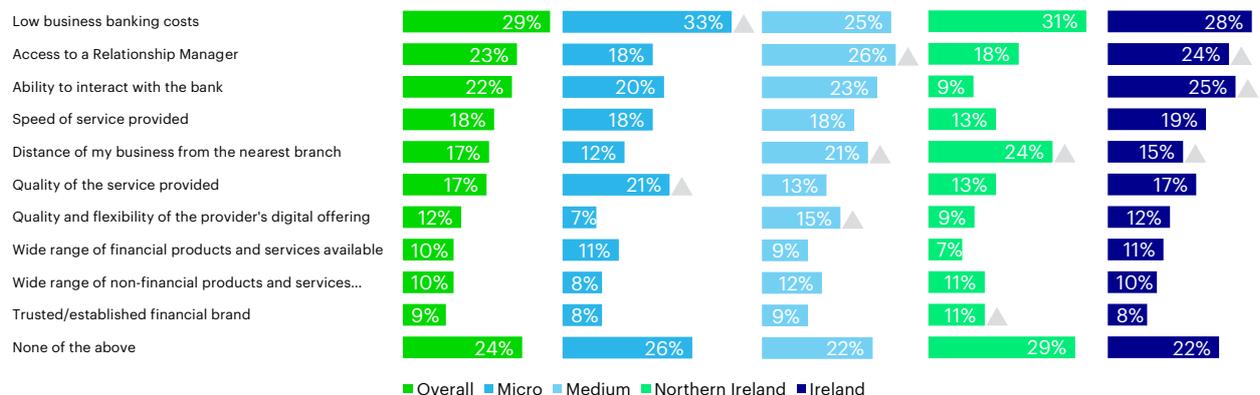
Redefining and clarifying service offerings could help bank's address the misalignment with customer expectations. Key to this is more differentiated and customised propositions at different price points, leveraging new technologies instead of the 'one size fits all' model. Our survey indicates that customers are willing to pay for such services if they are convinced of their value and comfortable with the new technologies that enable them.

SIZE AND REGIONAL DIFFERENCES

Our survey results suggest the size of an SME business and its location influence the sort of banking service the customer expects. 70% of micro businesses would describe themselves as having very simple banking needs, compared to only 47% of medium-sized enterprises. The amount of interaction customers expect is also size related, with 38% of micro businesses preferring a closer relationship with their bank compared to 50% of small and medium sized firms.

There's also a stark difference between North and South, with 49% of RoI SMEs preferring to maintain a closer relationship, compared to only 31% in Northern Ireland. Customer satisfaction also varies, with 62% of respondents from Northern Ireland satisfied with their service, compared to 77% in the RoI.

And do you feel your current business bank consistently fails to deliver on any of these factors to a satisfactory level?



02 . BECOME A DIGITAL RELATIONSHIP BANK

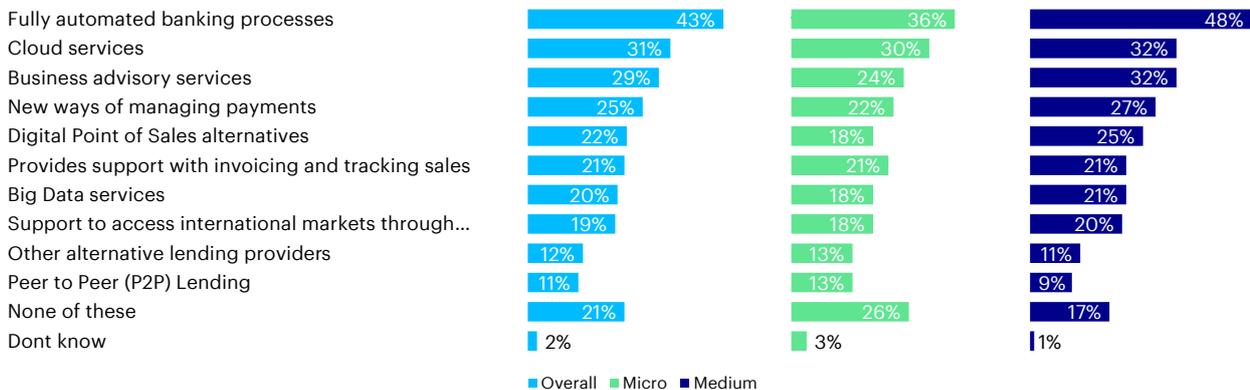
Our survey highlights the importance of having a local branch and dedicated relationship managers for a high number of SME customers. It also shows that 80% of Irish SMEs are interested in using new services driven by new technology provided by their banks. A potential strategy for Irish banks, therefore, should be to use digital technologies to re-imagine the role of the relationship manager and underpin new propositions that differentiate.

Automated banking services, such as robo-advisors and self-service AI tools, came out as the top-ranking technology at 43%. Like the retail banking customers in our annual

Banking Consumer Survey, Irish SMEs are looking for a 'phygital' banking relationship that seamlessly combines physical and digital contact for convenience, speed and cost efficiencies.

Cloud services came second at 31%. With many SMEs now using hosted office applications and infrastructure services, it's perhaps unsurprising that they are ready to take more banking services from the cloud. Making scalable solutions available for customers, perhaps in partnership with specialist providers, may become essential for banks competing with new entrants.

Which, if any, of the following innovations would you/your business be MOST interested in using? TOP 3



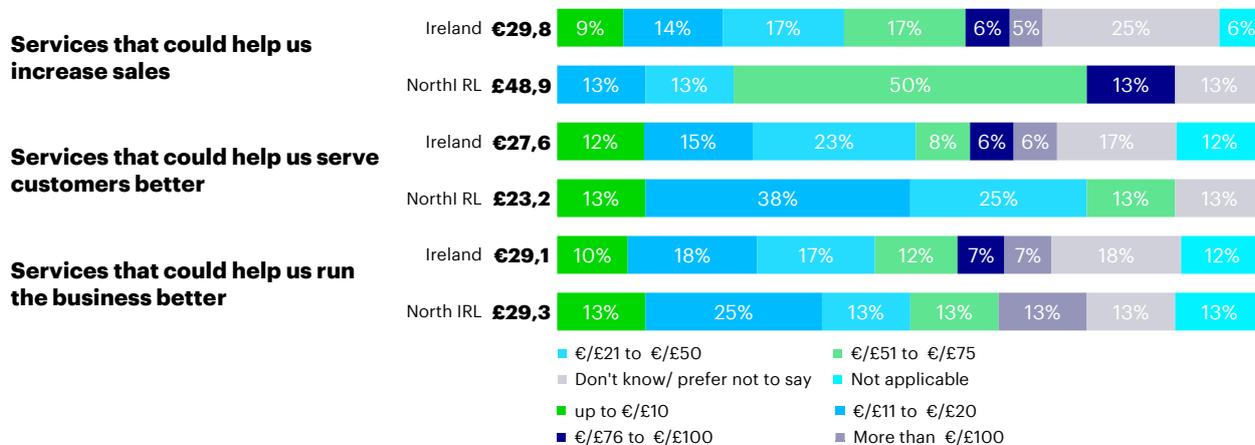
OPPORTUNITIES FOR SELLING NON-BANKING SERVICES

What's clear from the survey is that SMEs still consider their bank to be a trusted advisor, albeit with some caveats. By leveraging digital technologies, there's an opportunity to build on the trust and create an ecosystem that delivers non-banking services to customers.

Technology holds the key to becoming a better and more versatile bank, but hard-earned financial acumen is the core competency that will always help differentiate. In the area of alternative lending and financing, for example, SMEs are more likely to engage with a finance specialist they trust than a technology company, with only 3%

likely to consider a simple loan with a technology firm compared to 59% preferring this type of funding from their own bank. Interestingly though 35% of SMEs currently have a peer to peer business loan. There is, therefore, an opportunity for banks to do it alone or act as middlemen connecting customers with new finance providers.

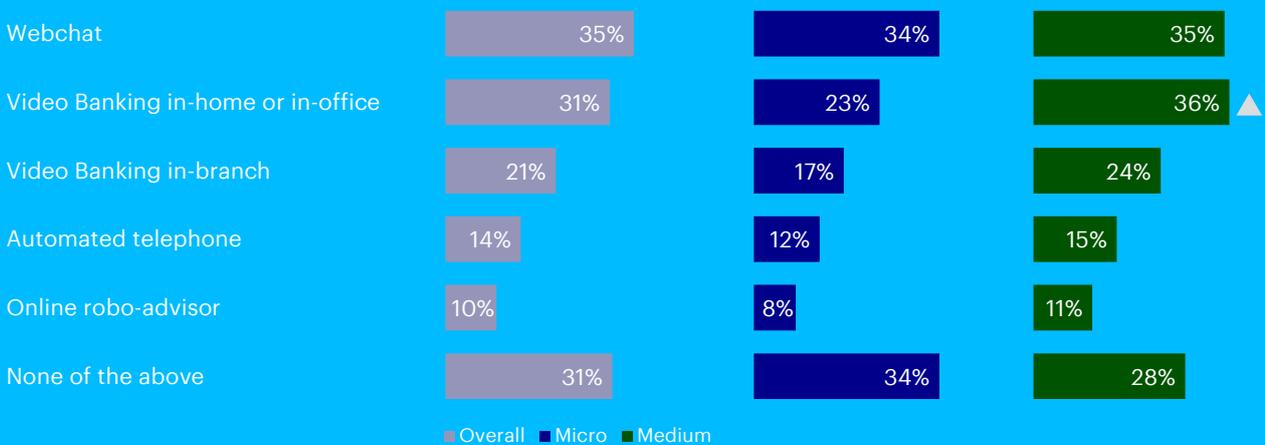
The survey shows real revenue opportunities. Over 40% of respondents indicate a readiness among Irish SMEs to take non-banking services from banks. For example, 28% of ROI SMEs and 63% of Northern Irish firms are willing to spend £/€50+ per month for digital services that would help them increase sales.



COMMUNICATION CHANNELS THAT BLEND DIGITAL & PHYSICAL

While most Irish SMEs prefer direct contact with bank advisors for bigger ticket items, such as advice on funding, a third are open to interacting via webchat. There is a general acceptance of digital and automated communication channels, which suggests banks need to explore the best blend for different products and services.

In which of the following ways would you be willing to interact with your bank?





03 DIFFERENTIATE OR RISK DISRUPTION

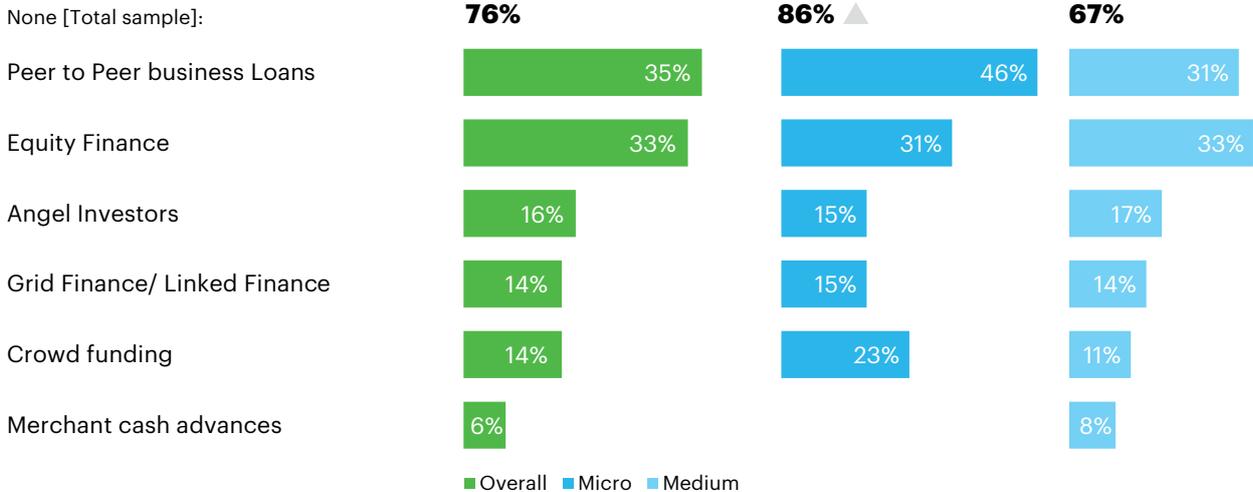
With 25% of SMEs indicating that they intend to switch their banks in the next 12 months, and the emergence of new players in open banking that will offer disruptive new services, banks can't afford to do nothing. Our survey shows that many SMEs believe banking propositions are too expensive with too little differentiation. If they don't change, there's a growing risk that other financial institutions or non-traditional players will get there first.

Currently, the switching rate remains low, driven by apathy and lack of differentiation. If other choices are available, evidence suggests Irish SMEs are willing to take them – 24% are already using non-bank lending services. More than half of respondents have considered borrowing from a non-financial services provider – a figure likely to grow as more innovative forms of funding become mainstream.

The potential for the alternative lending market to quadruple in size is a threat to banks, but also an opportunity. This 24% figure could be the start of a trend as attitudes towards alternative providers evolves. With 84% of surveyed SMEs experiencing



Which, if any, of the following alternative finance loans is your business currently using?

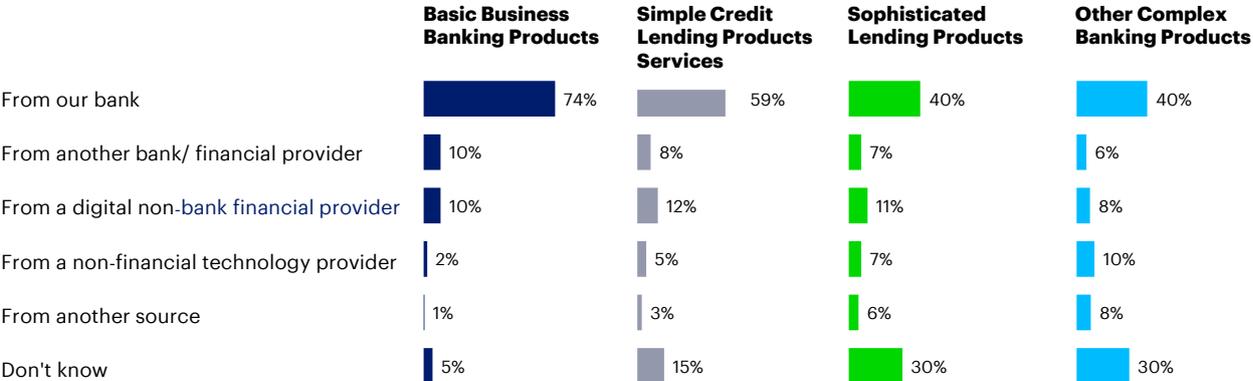


challenges in accessing funding through traditional channels, banks that leverage technology to speed up the process have a real chance to differentiate. More automation, easier online access and aggressive loan rates could see off the competition and reassert the bank’s role as the trusted partner of SMEs.

GENERAL BANKING SERVICES ARE SAFE (FOR NOW)

Loyalty prevails when it comes to general banking services. Only 10% of respondents are currently willing to take basic banking services from a non-bank financial provider, but it remains to be seen if a new wave of digital providers in the open banking space can disrupt the status quo.

In general, how would you prefer to access each of the following types of BANKING products and services listed below?





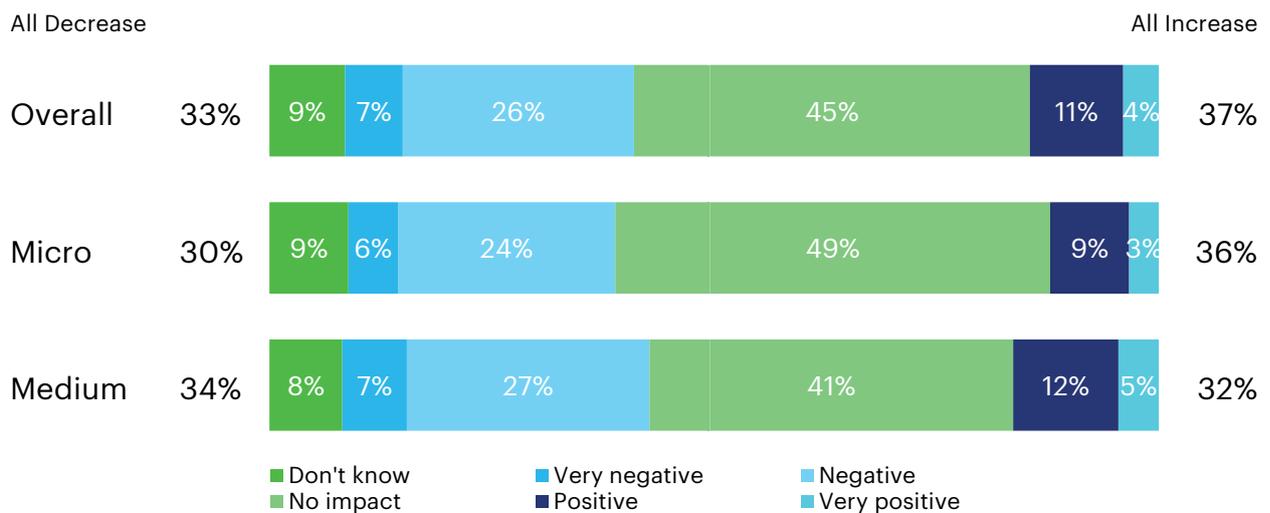
04 GET ON THE FRONT FOOT FOR BREXIT

Mixed messages from the survey point to a high degree of uncertainty among Irish SMEs about how Brexit will impact their businesses. Given the current lack of clarity over the exact terms of the Brexit 'divorce', this is not surprising. As the trusted financial advisor to SMEs, Irish banks should be proactive and advise their customers as the implications become clearer.

Some of the contradictory results can be part explained by the North/South

split. Only 33% expect Brexit to have a negative impact on their business, but nearly 40% think import and export costs will increase. Northern Irish businesses have the most negative outlook, particularly in the event of a 'hard' Brexit. Only a fifth of overall respondents believe hard Brexit would prompt them to switch banks. The majority of these were from the Republic, where there may be concerns about restrictions on cross-border funding once the UK has left the EU.

What impact, if any, would you expect a 'hard Brexit' to have on the following aspects of your business?



CONCLUSION

Financial services companies across the world see the increased adoption of digital technology as a way of getting closer to customers, differentiating with new products and propositions, and opening up new revenue streams. This survey suggests, however, that as far as Irish SMEs are concerned, banks are stuck in a model where the only serious attempt at differentiation is cost.

A high 'hassle factor' has so far prevented SMEs from switching providers in large numbers, but the survey suggests banks would be unwise to count on continued customer inertia if open banking gathers momentum. As more competitive, technology-enabled products and services become available from traditional and non-traditional players, the ability of Irish banks to attract and retain SME customers will be increasingly challenged.

Doing nothing is not an option; true market differentiation is becoming essential.





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