Survey of SME Banking

Research Report

prepared for

Office of Fair Trading

by

IFF Research Ltd

July 2006

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1 Executive summary

1.1 In March 2002 the Competition Commission (CC) published the findings of their inquiry; *A report on the supply of banking services by clearing banks to small and medium-sized enterprises within the UK*.[1]

1.2 The CC found there to be a complex monopoly situation which was against the public interest and recommended a number of behavioural remedies to enhance price competition, reduce the barriers to entry, make switching quicker and easier and to make the market more transparent.

1.3 Transitional undertakings were also sought, from the four main clearing banks operating in England and Wales,[2] to provide either current accounts paying interest (base rate minus 2.5%) or accounts free of money transmission charges. This requirement was aimed at giving prices a decisive and significant shift toward what the CC considered more competitive levels.

1.4 The OFT is currently reviewing the effectiveness of these undertakings (which came into effect between 2002 and 2003[3]) to advise the CC if it considers the undertakings should be varied or superseded in any way, or that parties should be released from them.

1.5 IFF Research Ltd was commissioned to undertake a survey of small and medium sized enterprises (SMEs) to determine the nature and extent of changes in the market and overall competitiveness of banking services for SME businesses, resulting from the CC recommendations.

1.6 In examining changes in behaviour, this research drew on the findings of an earlier study of SME Banking conducted in 2000 by BMRB, on the CC's behalf.

[1] Cm 5319.
[2] Barclays Bank plc, HSBC Bank plc, Lloyds TSB Bank plc and The Royal Bank of Scotland Group plc.
[3] Sections of the behavioural undertakings came into effect in November 2002. The remainder of the behavioural undertakings (including the switching undertakings), along with the entirety of the transitional undertakings came into effect in 2003 (see http://www.oft.gov.uk/NR/rdonlyres/971F1E40-A0C3-4AA5-84DE-F388C7D29CB1/0/SMEBankingundertakingsdateofeffect.pdf for further details of the specific dates that the undertakings took effect).

Methodology

1.7 In 2006, 1222 interviews were conducted by telephone with small and medium sized enterprises in the UK with a business bank account, including 201 interviews with businesses that had switched banks in the last three years[4].

1.8 The survey covered all sizes and types of businesses with a turnover of up to £25 million operating in the private sector. (Public sector and not for profit organisations were excluded).

Main findings

1.9 Use of the four main clearing banks has fallen slightly (but significantly) since 2000 (83% cf. 86% in 2000) although they do continue to have the majority of the market. This fall is due to businesses which had switched banks in the last three years – they were less likely to hold their account with one of the main four banks (67% cf. 83% overall).

1.10 Most new businesses (those that had been trading for less than two years) still chose to bank with one of the four main clearing banks. This was because the key factors driving the choice of businesses' main bank account remained having a personal account with the bank and the location (proximity) of the bank to the business. As was the case in 2000, the majority of new businesses did not shop around when choosing their business account (42% cf. 43% in 2000). Of those that did shop around the majority approached the main four banks, although in 2006 almost half also approached one or more smaller banks.

1.11 The factors considered most important in a businesses' relationship with their main bank remain;

- Obtaining reasonable charges/rates of interest;
- The quality of the relationship with their bank manager;
- The bank being conveniently located.

[4] Switchers were defined as those businesses which had moved their main (business) account to another bank or building society in the last three years

1.12 Whilst the majority of businesses (78%) remain satisfied with the overall performance of their bank, this proportion has decreased significantly since 2000. In 2006, 78% of businesses were very or quite satisfied overall with their bank's performance compared with 83% of businesses in 2000 and there has been a commensurate increase in the proportion who were dissatisfied (up from 9% to 13%). The larger the business the higher the satisfaction. Those using smaller banks were also more likely to be satisfied (84% cf. 78% using the main four banks).

1.13 Charges and interest rates were still the main cause of dissatisfaction (as they were in 2000) and although satisfaction with the level of charges has shown a small but significant increase (up from 52% to 56%), the proportion dissatisfied remained at 29%.

1.14 Smaller businesses were the most likely to be dissatisfied with their bank, particularly in terms of the level of charges and knowledge of their business and its requirements. The higher overall satisfaction of those using the smaller banks was driven by higher satisfaction with the level of charges and rates of interest. They were less likely to be satisfied with other aspects of the banks services than those using the main four banks.

1.15 Despite the drop in overall satisfaction between the two surveys, when asked directly, most businesses felt that the quality of service has remained the same over the last few years (67%). Only 14% felt it had got worse, but this included almost half the (mainly smaller) firms who were dissatisfied with the overall performance of their bank, suggesting that views are becoming more polarised.

1.16 A fifth of businesses (20%) used more than one financial institution to provide banking services. These were more likely to be the larger businesses and those that had switched their main banking relationship in the last three years. Twelve per cent had another business account (down from 16% in 2000), but a further 9% of businesses used the services of another bank (primarily for funding), but did not have an account with them.

Bundling

1.17 In 2006, just under a fifth (17%) of all businesses had any experience of bundling, with those using the main four banks and those who have switched bank in the last three years being more likely to have experienced it.

1.18 Generally, the incidence of bundling has decreased or remained the same since 2000. The incidence of banks requiring businesses to take out services as a condition of taking out other services or pushing for exclusive arrangement was down significantly since 2000 (down from 6% to 3% and 10% to 6% respectively). The incidence of banks limiting a firms' ability to obtain funding from another source remained at 3%.

1.19 However, the incidence of banks offering services at reduced price as a result of taking out another service increased significantly (9% cf. 5% in 2000). This increase was most notable among new businesses (14%).

Price competition

1.20 In 2000 and 2006 all businesses were asked what their annual banking costs were, including charges, fees and rates of interest for their main bank. In 2006, if businesses were unable to give an exact figure, they were prompted with ranges. This option was not available to respondents in 2000.

1.21 Therefore, in 2006 (unlike 2000) there were two ways of estimating average charges, either by taking only the exact figures offered by respondents or by also including the subsequent prompted ranges.

1.22 The median average cost of banking when the range information is excluded from the data (so it is therefore comparable with 2000) appears to have decreased from £799 in 2000 to £500 in 2006. As there are no data on confidence intervals in 2000 it is not possible to say whether this change represents a significant decrease in the costs of banking.

1.23 However, businesses' perception of changes in the level of charges over the last three years, since the transitional undertakings were introduced, was split with similar proportions thinking that the level of charges has remained the same (41%) or increased (43%). Only 7% felt charges had decreased. Smaller businesses were more likely to think that charges had increased. Most businesses also felt that all banks and building societies charged about the same as their own bank. Customers of smaller banks and switchers were the most likely to feel they were getting a better deal.

1.24 The lack of impact of the transitional arrangements, particularly on businesses' perceptions of charges reflects the fact that:

- Only just over half (58%) of businesses in England and Wales were aware that they were receiving either interest on their current account (50%) or free money transmission (8%);
- Customers of smaller banks in England and Wales were more likely to be receiving interest on their currents accounts (68% cf. 47% for the main four banks); similar proportion were getting free money transmission;
- Awareness of the transitional remedy was low. Only a quarter of businesses in England and Wales were aware of its introduction.

1.25 Furthermore, only a third of businesses (32%) surveyed in 2006 had tried to negotiate prices with their main bank and these were most likely to be the larger businesses. The comparable figure in 2000 was significantly higher at 49%. The charges most frequently negotiated remained overdrafts and bank charges and most firms that negotiated were successful.

1.26 The majority of businesses felt charges were suitably transparent (83%), although 15% did not. Similarly, most businesses who had switched or at least considered switching provider in the last three years had found it easy to compare pricing information between banks (65%), although a fifth had not. However, it is of note that those who considered but did not switch were more likely to express negative views on both counts.

1.27 Half of businesses felt they received sufficient information on unauthorised overdrafts, but 15% did not, whilst the remainder could not comment as they had no experience on this issue.

Switching

1.28 There has been no significant change in switching activity since 2000. Just under two-fifths (38%) surveyed in 2006 had undertaken any switching activity (switched or considered switching any of their banking services) in the last three years, compared to 39% in 2000.

1.29 The proportion of businesses which had switched their main business account in the last three years remained at one in eight (13% cf. 12% in 2000). A quarter of businesses considered switching the provider of their main business account (25% cf. 27% in 2000).

1.30 Smaller businesses and those in the manufacturing and business services sectors were the most likely to have switched in the last three years.

1.31 Charges, interest rates and service issues remain the main reasons for (considering) switching.

1.32 Businesses were more likely to switch, or at least consider switching, to the smaller banks than in 2000. However, this change in behaviour was already evidenced in the 2000 survey (albeit at lower levels).

1.33 Only a quarter (26%) of businesses were aware of the new procedures and this proportion was lower amongst firms that had switched in the last three years (18%). Furthermore most businesses (68%) felt that knowing about the new procedures would not make them more likely to consider switching in future. Only just over a quarter felt it would make them more likely to switch, although this was significantly higher amongst those who were currently more predisposed to switching.

1.34 Two in five businesses (42%) were currently considering switching banks or would do so if approached and amongst these businesses half would be more encouraged to switch by awareness of the new procedures. However, the primary factor driving their predisposition to switch was higher dissatisfaction with their bank (25% of these business were dissatisfied with the overall performance of their bank cf. 13% overall).

1.35 Three-quarters (76%) of businesses which switched claimed it took longer than seven days and a quarter (25%) of those who switched encountered problems in doing so (mainly the time taken and the transfer of direct debits/standing).

Barriers to entry and expansion

1.36 The use of internet banking has increased significantly since 2000. Almost half (48%) of SMEs had made use of computer/internet banking in the last 12 months, compared with only a third (32%) in 2000 and the proportion using it for at least half their banking business has also risen from 8% to 18%. Use of telephone and postal banking has remained broadly the same.

1.37 Notwithstanding the growth in use of internet banking, a lack of branch network still presents significant barriers to entry and expansion for smaller banks, as the majority of businesses (79%) still conduct some or all of their banking business in person through the branch; with two fifths (notably the smaller businesses) conducting over half their banking by this method. Furthermore, as discussed earlier, branch location is still a key characteristic of importance to businesses and factor in choice of provider.

2 Introduction

2.1 In March 2002 the Competition Commission (CC) published the findings of their inquiry; *A report on the supply of banking services by clearing banks to small and medium-sized enterprises within the UK*.[5]

2.2 The CC found there to be a complex monopoly situation which was against the public interest and recommended a number of behavioural remedies to enhance price competition, reduce the barriers to entry, make switching easier and more effective and to make the market more transparent.

2.3 A number of behavioural undertakings were given by nine banks.[6] These undertakings were aimed at increasing competition in banking services for small and medium sized enterprises (SMEs) by:

- making switching easier and faster;
- limiting bundling of services;
- improving price information and transparency for customers.

2.4 In addition, the signatory banks were required to investigate and report on the feasibility of branch sharing.

2.5 Transitional undertakings were also sought from the four main clearing banks operating in England and Wales.[7] These undertakings required the four banks to provide either current accounts paying interest (base rate minus 2.5%) or accounts free of money transmission charges. This requirement was aimed at giving prices a decisive and significant shift toward what the CC considered more competitive levels.

2.6 These undertakings came into effect in 2002 and 2003.

2.7 The OFT is currently reviewing the effectiveness of these undertakings to advise the CC if it considers the undertakings should be varied or superseded in any way, or that parties should be released from them.

2.8 IFF Research Ltd was commissioned to undertake a survey of SME businesses to determine the nature and extent of changes in the market and overall competitiveness of banking services for SMEs, resulting from the CC recommendations.

[5] Cm 5319.
[6] AIB Group (UK) Plc, Bank of Ireland, Barclays Bank Plc, Clydesdale Bank Limited, HBOS Plc, HSBC Bank Plc, Lloyds TSB Bank Plc, Northern Bank Ltd and The Royal Bank of Scotland Group Plc.
[7] Barclays Bank Plc, HSBC Bank Plc, Lloyds TSB Bank Plc and The Royal Bank of Scotland Group Plc.

2.9 More specifically the research examined:

- **Use of banks and other financial institutions** - whether SMEs use a wider range of banks and financial institutions and the extent to which increased price sensitivity and the unbundling of services has facilitated this;
- **Price competition** - awareness and uptake of the provision of credit interest on business current accounts or free money transmission services (resulting from the transitional undertakings) and its impact on bank charges and price sensitivity more generally;
- **Switching** - whether there has been an increase in the amount of switching activity and SMEs' views of the ease of switching and how this can be further enhanced;
- **Barriers to entry and expansion** - whether there have been any changes in the level of importance of branch networks, their location and the relationship manager in SMEs' choice of providers and whether the growth in internet and telephone banking has reduced reliance on the branch network and thus the barriers to market entry and expansion.

2.10 In examining changes in behaviour, this research drew on the findings of an earlier study of SME Banking conducted in 2000 by BMRB on behalf of the CC.

Methodology

2.11 As the main purpose of the study was to examine changes in SMEs' attitudes and banking behaviour, the survey methodology was designed to be as similar as possible to the 2000 survey to maximise comparability of results. Where possible the wording of the questions asked was the same as the questions used in the previous survey.

2.12 In total, 1222 interviews were conducted by telephone with small and medium sized enterprises in the UK with a business bank account.

2.13 The survey covered all sizes and types of businesses with a turnover of up to £25 million operating in the private sector. (Public sector and not for profit organisations were excluded).

2.14 The sample of achieved interviews was structured and weighted to match the previous survey and allow analysis by turnover, sector and age of business[8]. The current survey also included interviews with 201 businesses who had switched banks in the last three years[9].

2.15 The fieldwork was conducted between 24th April and 2nd June 2006. Interviews were conducted with the person responsible for the financial services of the business, typically the owner/manager of the business or finance director.

2.16 Further details of the methodology and sample profile are provided in the technical appendix to this report.

2.17 A copy of the questionnaire is also appended.

Report structure

2.18 The remainder of this report presents the main findings of the 2006 survey and is structured as follows. Where possible, comparisons have been made with the 2000 survey and results analysed by key sub-groups.

- Chapter 3 **Profile of SME businesses** - briefly describes the demographic profile of the businesses surveyed;

- Chapter 4 **Current banking services** – examines the number and nature of providers used, the factors which determined their choice of their main financial institution and satisfaction with the services provided;

- Chapter 5 **Bundling** – examines the incidence and nature of bundling of services;

- Chapter 6 **Price competition** – examines the level of bank charges and whether these are perceived to have changed over the last three years. It also examines awareness of the transitional remedy and receipt of interest on current accounts or free money transmission and the availability and transparency of pricing information;

[8] The 2000 survey covered a cross-section of SMEs by size, sector and age of business but was not weighted to reflect the overall business population and thus slightly under represented smaller businesses. This study adopted a similar approach to the 2000 survey as the primary requirement was to maximise comparability of results. The results are therefore not wholly representative of the SME business population

[9] Switchers were defined as those businesses which had moved their main (business) account to another bank or building society in the last three years

- Chapter 7 **Switching** – examines the extent to which businesses have switched or considered switching providers of banking services, their reasons for switching (or not) and views of the switching process;

- Chapter 8 **Barriers to entry and expansion** – examines changes in the way businesses conduct their banking and awareness of the Inter Bank Agency Agreement.

2.19 The results presented in this report are based on weighted data and presented in graphical and tabular format. In some cases tables may add to 99% or 101% due to rounding. Base sizes for some sub-groups are low (under 100). In these case results should be treated as indicative only.

2.20 All comparisons within this report described as significant have been tested at the 95% confidence level.

3 Profile of small and medium sized business

3.1 This chapter briefly describes the profile of businesses surveyed. It covers the size and activities of the businesses surveyed together with their age, location and legal status.

3.2 As noted in chapter 2 all results presented (including the profile in this chapter) are based on weighted data to reflect the sample achieved in 2000. It is therefore not fully representative of the profile of SME's.

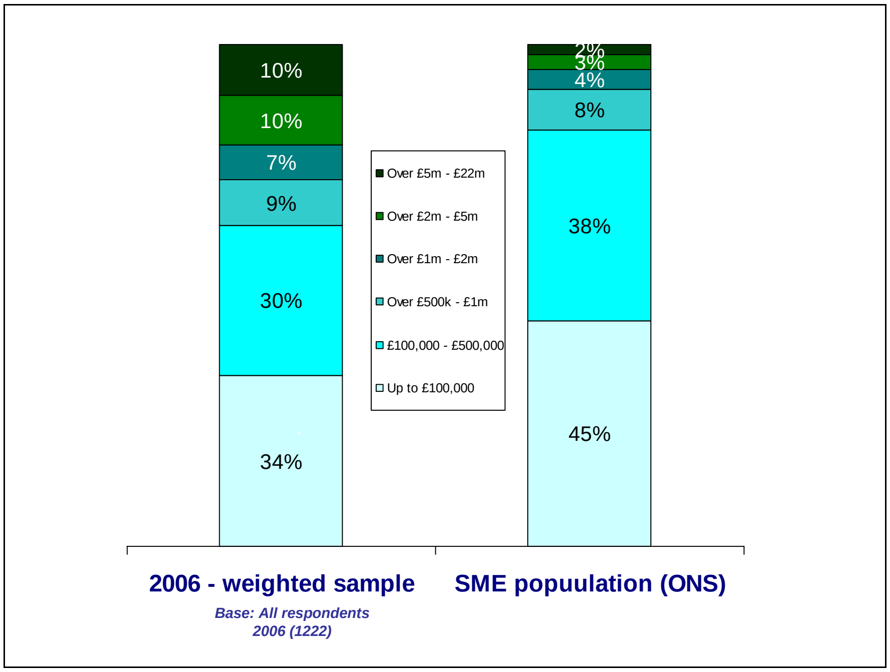
3.3 As discussed in the introduction of this report, the primary requirement of this study was to examine changes in behaviour since the 2000 survey. This survey was thus designed to replicate as closely as possible the approach used in the 2000 survey. Quotas were set and the results weighted by turnover, sector and age of business to match the sample profile obtained on the 2000 survey.

3.4 Whilst the 2000 survey covered a cross-section of businesses in the target market (private sector enterprises with a turnover of up to £25m with a business bank account) the results were not weighted and so do not wholly reflect the population of SME businesses. The 2000 profile (and therefore the 2006 weighted profile) slightly under-represent smaller businesses[10].

3.5 Figure 3.1 shows how the 2006 weighted sample compares with the SME population (based on the ONS figures).

[10] It is possible to compare the sample with the SME population (from ONS data) using the following bands, under £100k, £100k to £500k, over £500k to £1m, over £1m to £2m, over £2m to £5m, over £5m to £25m. In the 2000 survey, 65% of interviews conducted were with businesses with a turnover of up to £0.5m (64% 2006). The ONS data 'UK Businesses: Activity, Size and Location 2005' indicates that 83% of businesses with a turnover of up to £25m have a turnover of up to £0.5m

Figure 3.1 Profile of 2006 (weighted) sample vs. SME population



3.6 Businesses which had switched were also over sampled in this survey. Full details about how these were weighted is included in the technical appendix.

Size of business

3.7 Table 3.1 overleaf shows the profile of the businesses surveyed by turnover. Almost two thirds (64%) of the businesses surveyed in 2006 had a turnover of up to £0.5m. Businesses with a turnover of £5-25 million accounted for only one in ten of the businesses surveyed.

Table 3.1 Profile of businesses surveyed by turnover

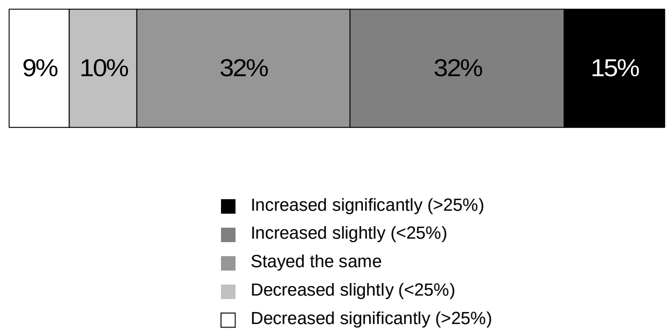
	2000	2006
Base: All respondents	*1211*	*1222*
	%	%
Up to £100,000	34	34
£100,000 - £500,000	31	30
£500,001 - £1m	9	9
Over £1m - £2m	7	7
Over £2m - £5m	9	10
Over £5m - £25m	10	10

Note: The results of the 2006 survey were weighted by turnover to match the 2000 survey

3.8 In the 2006 survey businesses which had been trading for more than two years were also asked whether their turnover had changed in the last three years. This question was included to help examine any changes in banking services used and charges (i.e. to help examine whether changes were in line with what might be expected of a businesses whose turnover had altered significantly rather than real changes in behaviour).

3.9 As shown in Figure 3.2, almost half (47%) of businesses that had been trading for more than 2 years had seen an increase in their turnover over the last three years; with 15% having experienced significant growth of more than 25%. A fifth (19%) of businesses reported a fall in turnover; with 9% having experienced a significant fall in turnover of more than 25%. A third of businesses reported that their turnover had not changed over the last three years.

Figure 3.2 Change in turnover in last 3 years



Base: All whose business over 2 years old
2006 (unweighted 1017, weighted 868)

3.10 The higher the current turnover of the business the more likely they were to have seen an increase in turnover over the last three years. Over half (58%) of businesses with a turnover of over £2m reported that their turnover had increased in the last three years compared with 43% of businesses with a turnover of up to £0.5m.

3.11 The other measure of business size obtained in the survey was the number of employees. Table 3.2 shows the profile of businesses surveyed by number of employees and how this varies by turnover. In the 2006 survey, about two thirds (68%) of businesses employed fewer than 10 staff, a similar proportion to that found in the 2000 survey (62%); only 5% employed 100 or more people (7% in 2000 survey). As would be expected, the size of businesses in terms of number of employees was closely correlated with turnover. The majority (94%) of businesses with a turnover of up to £0.5m employed fewer than 10 staff. It was only amongst businesses with a turnover of £5-25m that a significant proportion employed 100 or more staff (46%).

Table 3.2 Profile of businesses by number of employees

Number of employees	Year		Turnover					
	2000	2006	up to £100,000	£100,001 - £500,000	£500,000 - £1 million	£1 -£2 million	£2 - £5 million	£5 - £25 million
Unweighted base: All respondents	*1211*	*1222*	*423*	*386*	*120*	*91†*	*115*	*87†*
Weighted base: All respondents	*1211*	*1222*	*414*	*370*	*114*	*84*	*121*	*118*
	%	%	%	%	%	%	%	%
0 – 5	49	57	92	70	30	8	13	*
6 – 9	13	11	5	20	19	9	7	3
10 – 19	13	10	2	7	34	31	15	4
20 – 49	12	10	*	2	16	50	24	19
50 – 99	6	6	-	1	-	1	32	28
100 – 250	5	4	-	-	1	1	7	37
Over 250	2	1	-	-	-	-	1	9
Not stated	*	*	*	-	-	-	-	-

*Note: * denotes result of <0.5%*
† denotes low base of <100, results should be treated as indicative only

Business sector

3.12 Sixty per cent of the businesses surveyed were in business services, manufacturing or wholesale and retail distribution. The larger businesses with a turnover of more than £2m were more likely to be in the business services, manufacturing and wholesale distribution sectors (71% were operating in one of these three sectors, cf. 46% overall). Smaller businesses (turnover of up to £0.5m) were more evenly spread but most likely to be in the retail, business and other services sectors (47% were operating in one of these three sectors cf. 42% overall).

Table 3.3 Profile of businesses by sector

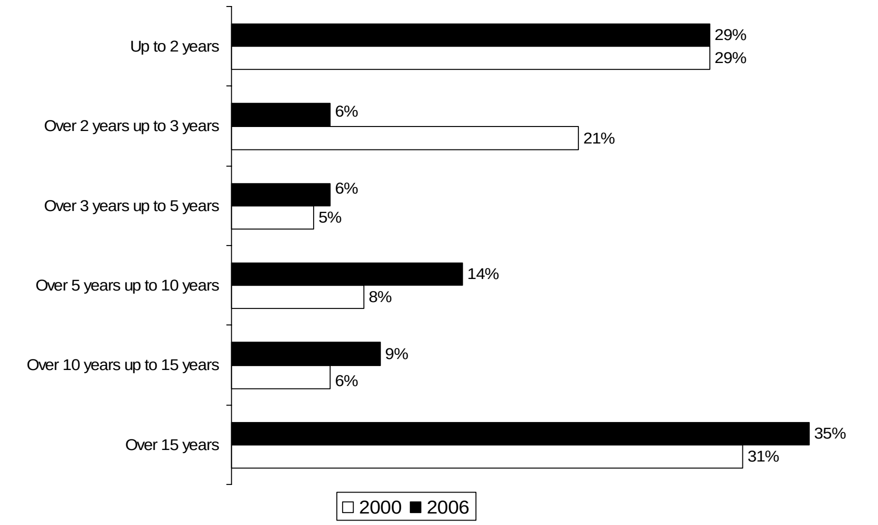
Sector	Year		Turnover					
	2000	2006	up to £100,000	£100,001 - £500,000	£500,000 - £1 million	£1 -£2 million	£2 - £5 million	£5 - £25 million
Unweighted base: All respondents	*1211*	*1222*	*423*	*386*	*120*	*91*†	*115*	*87*†
Weighted base: All respondents	*1211*	*1222*	*414*	*370*	*114*	*84*	*121*	*118*
	%	%	%	%	%	%	%	%
Business services	16	16	15	16	12	12	20	22
Manufacturing	15	15	9	14	18	17	20	29
Wholesale	15	15	11	13	15	16	24	27
Retail	14	14	16	17	10	13	6	4
Construction	7	7	6	6	13	9	6	6
IT	5	5	6	6	3	8	4	2
Transport	3	3	2	2	9	2	5	1
Other services	12	12	16	13	11	10	3	4
Other	14	14	19	13	10	13	9	5

Note: The results of the 2006 survey were weighted by sector to match the 2000 survey
† denotes low base of <100, results should be treated as indicative only

Age of business

3.13 Just under a third (29%) of businesses surveyed had been trading for up to two years. As would be expected there was a correlation between age of business and turnover. Forty per cent of businesses which started trading in the last two years had a turnover of up to £100,000 compared with 30% of older businesses. New businesses which had been trading for up two years, were also more likely to be in the retail and other services sector, 41% of new businesses were in these two sectors compared with 19% of older businesses.

Figure 3.3 Age of business

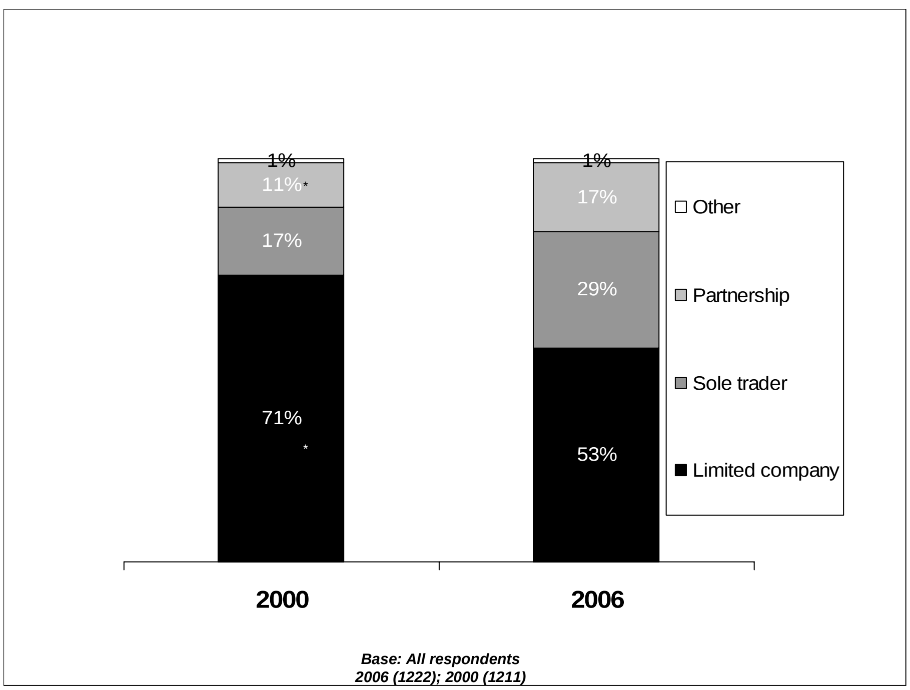


Base: All respondents
2006 (1222); 2000 (1211)
Note: The results of the 2006 survey were weighted to match the 2000 survey by whether the business was up to 2 years old or more than 2 years old

Legal status

3.14 In 2006, over half (53%) of the businesses surveyed were limited companies. This was lower than the proportion found in the 2000 survey, where 71% were limited companies. Again as would be expected, the limited companies were more likely to be larger businesses (79% of larger businesses with a turnover of over £2m were limited companies, compared with 39% of smaller businesses). Businesses in the manufacturing and wholesale distribution sectors were also more likely to be limited companies (71% and 75% respectively) reflecting their size profile. However, within the business services sector which also accounted for a significant proportion of larger businesses only about half (51%) were limited companies. This reflects that this sector includes professional services firms which are more likely to be partnerships (18% of businesses in this sector are partnerships). Sole traders were most likely to be found in the retail sector (44%).

Figure 3.4 Legal status of business



Region

3.15 In 2006, the majority (89%) of businesses surveyed were located in England and Wales. This is on par with the 2000 survey (93%). Businesses in Scotland and Northern Ireland were more likely to be larger businesses (20% of businesses with a turnover of £5-25m were located in Scotland and Northern Ireland cf. 11% overall).

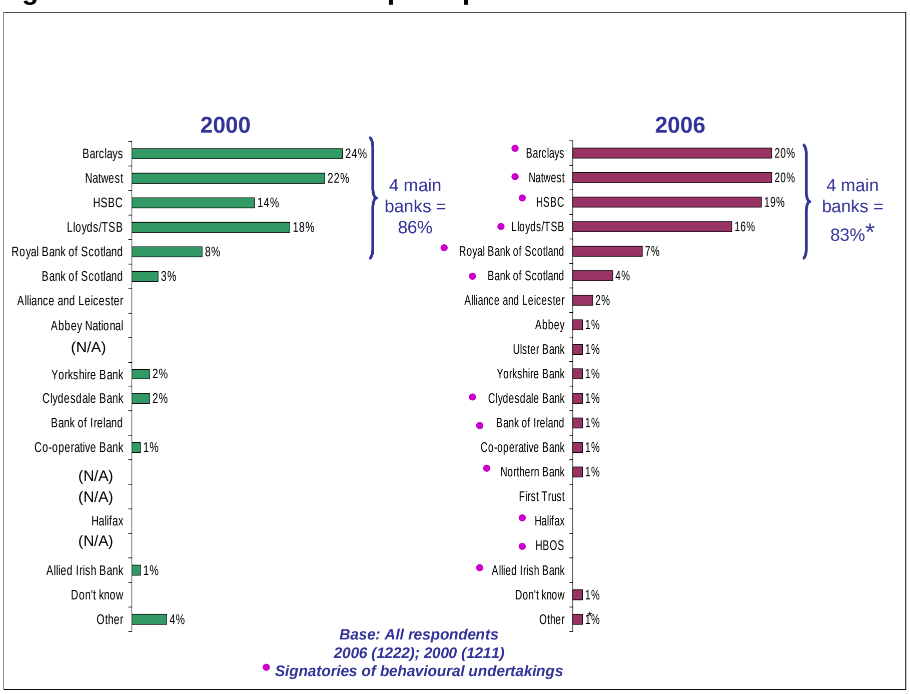
4 Current banking services

4.1 This chapter examines the banking services used by SMEs currently. It looks at which banks hold the principal business account of the business and why the bank was chosen. It then profiles other services used by SMEs (both through their principal bank and through other providers). The chapter also examines customer satisfaction with their principal bank and their perceptions as to whether the quality of service has improved over the last few years.

Principal business account

4.2 In both the 2000 and 2006 surveys all SMEs were asked which bank held their principal business account. As Figure 4.1 shows, use of the main four clearing banks has fallen slightly (but significantly)[11] since 2000 (83% cf. 86%) although they do continue to have the majority of the market. It should be noted that Natwest is now part of the Royal Bank of Scotland Group, but is shown separately for comparative purposes. Similarly, Bank of Scotland and Halifax are now HBOS.

Figure 4.1: Bank which holds principal business account



11 At 95% confidence level

4.3 Use of the four main banks did not vary significantly by turnover or age of the business. However, as Table 4.1 shows, businesses which had switched banks in the last 3 years were less likely to hold their principal account with one of the main four clearing banks (67%) suggesting that the proportion switching to smaller banks has increased. This is an issue which is examined in more detail in chapter 7.

4.4 Businesses in the retail sector were also significantly less likely to hold their main current account with one of the four main clearing banks (74%).

Table 4.1: Bank which holds principal business account by switching activity and sector

		Switching activity		Sector								
	All	Switcher	Non switcher	Bus services	Manufacturing	Wholesale	Retail	Construction	IT	Transport	Other services	Other
Unweighted base: All respondents	*1222*	*201*	*1021*	*201*	*203*	*190*	*168*	*66†*	*61†*	*33†*	*146*	*154*
Weighted base: All respondents	*1222*	*159*	*1063*	*194*	*185*	*183*	*166*	*83*	*62*	*33*	*148*	*167*
	%	%	%	%	%	%	%	%	%	%	%	%
Any 4 main banks	83	67	85	82	82	88	74	89	88	88	80	88
Other	16	31	14	15	16	12	24	11	12	20	12	20

Note: † denotes low base of <100, results should be treated as indicative only

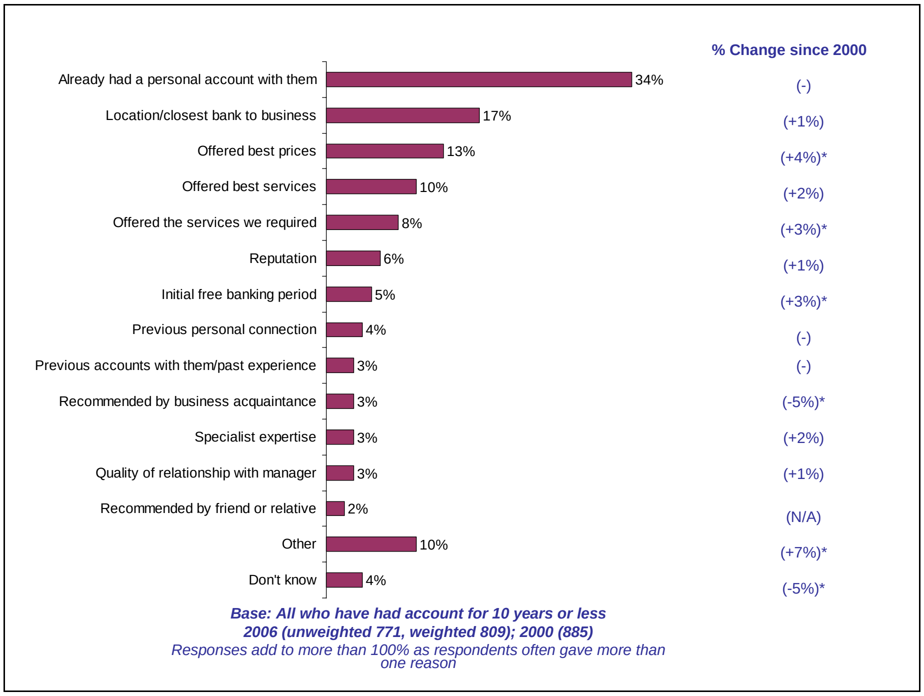
4.5 Those SMEs who had their bank account for up to 10 years were also asked why they chose the bank they did (they were able to give more than one reason). As Figure 4.2 shows there were few significant differences between 2000 and 2006. Having a personal account with the bank remained the most frequently given reason for choosing to hold their main business account at the bank. A third (34%) of businesses surveyed spontaneously stated they chose the bank as they already had a personal account with them. One in six (17%) said it was the closest bank to their business. Around one in eight (13%) also mentioned that the bank offered the best prices, one of the few areas where there has been a significant change since 2000 (an increase of four percentage points).

4.6 There were no significant differences in the reasons for choosing a particular bank between new businesses started in the last two years and those who had been trading for longer.

4.7 Respondents were prompted with a check question about whether they had a personal account with the bank and what impact this had on their decision to open their business account. In total, almost two thirds (61%) of businesses that had opened an account in the last 10 years had a personal account with the same bank, although after prompting only 40% claimed this was one of the reasons for choosing their business bank.

4.8 Similarly respondents were prompted with a check question on how important the location and distance of the bank was on their decision in choosing a bank. After prompting a third (35%) claimed this played a part in their decision to choose the bank.

Figure 4.2: Why chose bank for main business account (spontaneous reasons)



4.9 The smaller the business, the more likely they were to choose their bank based on where they held their personal account[12]. As Table 4.2 shows, just under half (46%) of all SMEs with a turnover of under £100K chose their bank because they already had a personal account and although the base size is small and should be treated with caution, this compares to only 7% of SME's with a turnover between £5m and £25m. It is therefore of no surprise that two fifths (43%) of sole traders also stated that they chose their bank because they already had a personal account with them.

[12] Personal account could include any type of account held with bank (not necessarily a current account)

4.10 New start ups were also more likely than businesses over two years old to have chosen their bank because they already had a personal account (39% cf. 30%).

Table 4.2: Why chose bank for main business account by turnover

		Turnover					
	All	**up to £100,000**	**£100,001 - £500,000**	**£500,001 - £1,000,000**	**£1 -£2 million**	**£2 - £5 million**	**£5 - £25 million**
Unweighted base: All who have had bank account for up to10 years	*771*	*309*	*248*	*80†*	*49†*	*54†*	*31†*
Weighted base: All who have had bank account for up to10 years	*809*	*321*	*257*	*82*	*50*	*58*	*41*
	%	%	%	%	%	%	%
Already had a personal account with them	34	46	31	18	31	29	7
Location / closest bank to business	17	17	18	11	11	7	26
Offered best prices	13	11	12	14	18	14	18
Offered best services	10	7	8	17	16	10	22
Offered the services we require	8	5	11	6	7	5	13
Reputation	6	6	5	9	3	9	3
Initial free banking period	5	6	5	4	-	4	-
Previous personal connection	4	3	4	5	9	6	-
Recommended by business acquaintance	3	2	5	3	1	1	8
Specialist expertise	3	2	3	6	2	1	7
Quality of relationship with manager	3	4	2	2	-	8	-
Recommended by friend or relative	2	1	2	2	4	2	10
Other	10	7	14	16	14	11	3
Don't know	4	2	4	7	2	6	6

Note: Responses add to more than 100% as respondents often gave more than one reason
† denotes low base of <100, results should be treated as indicative only

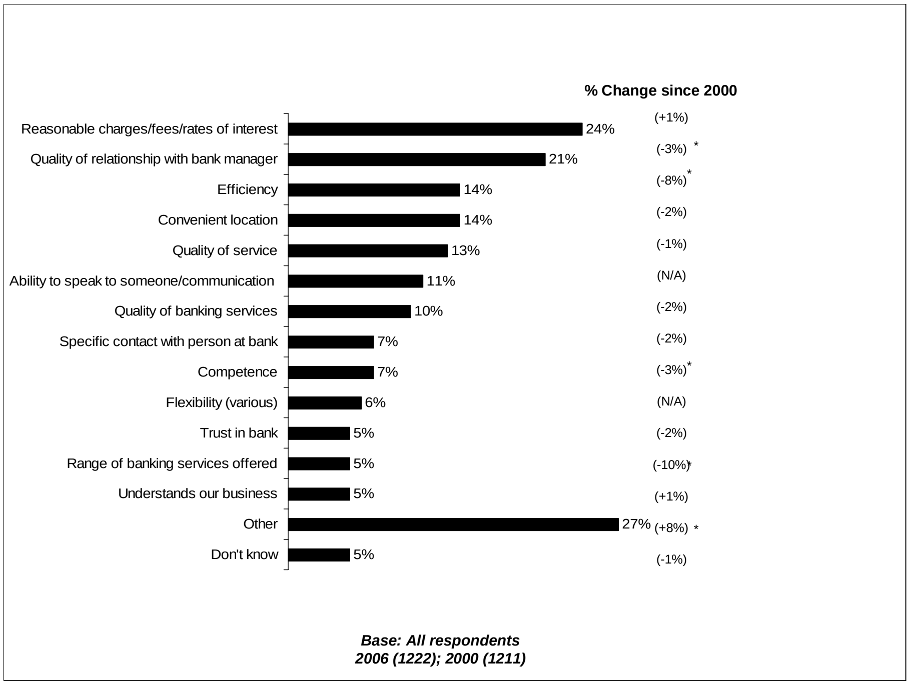
Characteristics important in a bank

4.11 All SMEs were asked which characteristics they considered to be most important in a bank and in 2006 they were also asked to specify which of the characteristics were the three most important. As Figure 4.3 shows, a wide range of characteristics were mentioned and the proportions mentioning them were broadly similar to the proportions mentioning them in the 2000 survey.

4.12 Most commonly mentioned (as it was in 2000) was a reasonable rate of charges and fees (24% 2006 cf. 23% 2000). The quality of the relationship with their manager was mentioned by a fifth (21%) which is down only slightly yet significantly since 2000 (24%).

4.13 Efficiency and location of bank was mentioned by one in seven (14%) and while the proportion who mentioned location has not changed significantly since 2000 (down two percentage points), the proportion who mentioned efficiency has decreased significantly (from 22% in 2000).

Figure 4.3: Characteristics most important in a bank



4.14 As shown by the following table (4.3), the characteristics considered most important in a bank did not vary widely by the different types of businesses, but there were some interesting variations. Retail businesses were the most likely to mention a reasonable rate of charges and fees (32% cf. 24% overall) as were businesses which did not bank with any of the four main clearing banks (37%). The latter group, as noted earlier in this chapter, were more likely to be switchers and (as discussed more fully in chapter 7) obtaining better interest rates/charges is one of the key reasons for switching bank.

4.15 A convenient location was most likely to be mentioned by the smallest businesses (18% of businesses with a turnover of up to £100K said a convenient location was an important characteristic cf. 13% of businesses with a turnover of between £100K - £1m and 4% with a turnover of £5 -25m).

4.16 When asked to rate only the three most important characteristics in a bank the picture remained the same[13]. Just over a fifth rated the level of charges and fees (22%) and the quality of relationship with the bank manager (21%) as most important. A further one in eight rated convenient location (13%) as most important.

[13] Only those businesses that spontaneously mentioned more than three characteristics they considered to be important in a bank were asked which three were the most important, but the results of the two questions have been combined to provide an overall picture

Table 4.3 Characteristics important by sector, turnover and main bank

		Main Bank		Sector									Turnover					
	All	Main 4	Other	Bus services	Manufacturing	Whole sale	Retail	Construction	IT	Trans port	Other services	Other	up to £100,000	£100,001 - £500,000	£500,001 - £1,000,000	£1 -£2 million	£2 - £5 million	£5 - £25 million
Unweighted base: All respondents	*1222*	*996*	*204*	*201*	*203*	*190*	*168*	*66†*	*61†*	*33†*	*146*	*154*	*423*	*386*	*120*	*91†*	*115*	*87†*
Weighted base: All respondents	*1222*	*1010*	*194*	*194*	*185*	*183*	*166*	*83*	*62*	*33*	*148*	*167*	*414*	*370*	*114*	*84*	*121*	*118*
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Reasonable charges/ fees/rates of interest	24	21	37	23	19	18	32	15	27	28	28	26	21	26	36	25	31	15
Quality of relationship with task manager	21	22	17	18	20	21	20	29	18	17	20	28	19	19	27	28	31	18
Efficiency	14	13	21	14	14	18	14	7	20	23	11	11	13	12	11	19	22	15
Convenient location	14	14	15	12	11	16	16	13	11	6	17	15	18	14	13	11	10	4
Quality of service	13	12	19	11	11	14	13	13	12	18	15	13	13	11	14	10	18	17
Ability to speak to someone / communication with bank	11	12	7	13	10	7	12	15	20	8	9	10	10	10	11	10	13	16
Quality of banking services	10	10	13	7	9	14	11	6	7	17	10	10	10	9	9	8	14	10
Specific contact with person at bank	7	7	5	12	5	8	6	8	6	-	4	7	6	8	10	4	5	8
Competence	7	6	9	5	9	6	7	9	3	17	5	6	5	5	12	11	6	10

Note: Responses add to more than 100% as respondents often gave more than one reason
† denotes low base of <100, results should be treated as indicative only

Shopping around

4.17 As was the case in 2000, most SMEs under 2 years old did not shop around when choosing a bank to hold their main business account. Only two fifths (42%) claimed to have sought information from other banks and building societies when choosing a bank, a proportion that has not changed since 2000 (43%).

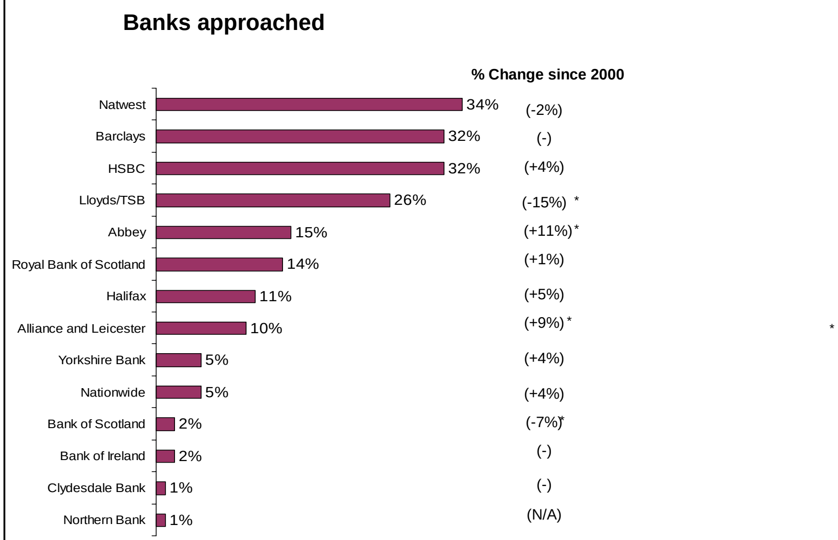
4.18 The majority of new businesses were smaller (turnover under £500K) and as discussed earlier in this chapter, smaller organisations were more likely to either go to the bank where they currently hold a personal account (indeed 39% of new businesses went with the bank where they had a current account) or go with the bank that was the most conveniently located. This goes some way to explaining why such a relatively small proportion of new businesses shop around when choosing a bank.

4.19 This is backed up further by the fact that a fifth (18%) of those who did not shop around stated the reason was because they already had a bank account with or they had past experience of using the bank they eventually chose to open a business account with. This is comparable with 2000 (also 18%).

4.20 A further fifth (22%) claimed that the reason they did not shop around was because they simply had no need to as they were happy with the bank where they had an existing personal account. Linked with this, the other main reason for not shopping around, mentioned by one in six (16%), was being impressed with what the bank initially approached had to offer. Again this is comparable with 2000 (also 16%). Other reasons for not shopping around included a lack of time (13%, up significantly from 8% in the 2000 survey) and that they felt that all banks were the same (12% cf. 7% in 2000).

4.21 As Figure 4.4 shows, of the two fifths of new businesses who did shop around, the majority approached the four main clearing banks. The base sizes are low and should be treated with caution, but on the whole this is comparable with the findings from the 2000 survey. That said, significantly fewer approached Lloyds TSB (26% cf. 41% in 2000) and significantly more approached Abbey (15% cf. 4% in 2000) and Alliance and Leicester (10% cf. 1% in 2000). It also interesting to note that in the 2006 survey, almost half (48%) of those businesses that did shop around approached one or more of the smaller banks. (No comparable analysis is available for the 2000 survey.)

Figure 4.4: Banks approached



Base: All whose business is new and got info on other banks 2006 (89); 2000 (136)

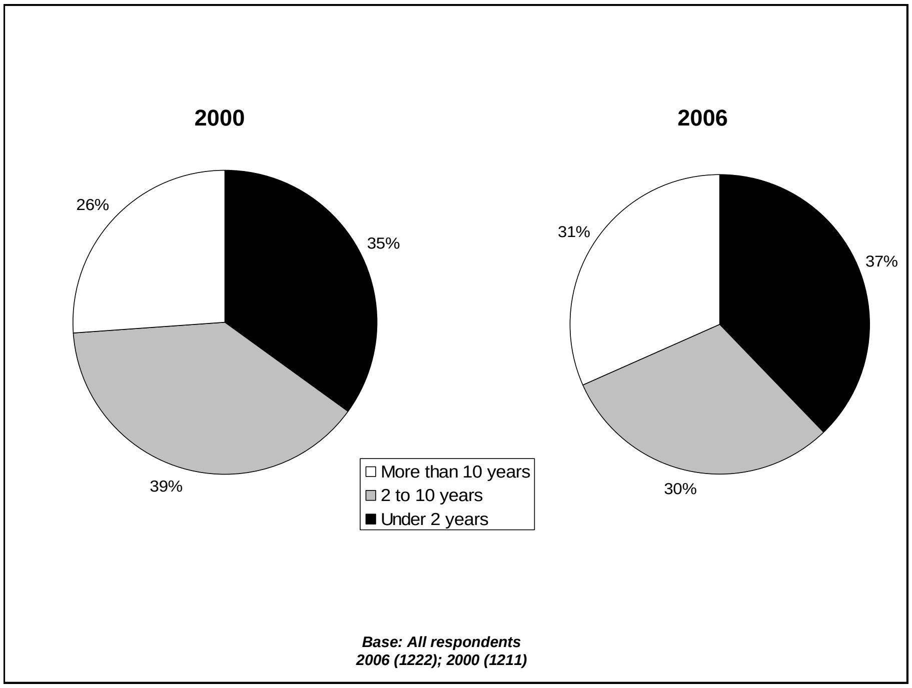
NB 2006 – Low base size

Responses add to more than 100% as some respondents gave more than one reason

Length of relationship with current bank

4.22 As Figure 4.5 shows, the proportion of SMEs who have been with their current business bank for more than 10 years has risen slightly but significantly (31% cf. 26% in 2000). The proportion of SMEs who had been with their bank for less than 2 years has remained relatively static between 2000 and 2006 (37% cf. 35% 2000).

Figure 4.5: Length of relationship with main business bank



4.23 Larger organisations were the most likely to have been with their bank over 10 years (60% with a turnover of over £5m cf. 31% overall) as were businesses in the wholesale sector (46%).

4.24 It is the smaller SMEs (turnover of under £100K) who were more likely to have been with their bank for less than two years (45% cf. 37%) as were businesses in the retail sector (60%). This is to be expected given a higher proportion of new start up businesses are both smaller and in the retail sector.

Table 4.4 Length of relationship by turnover and sector

		Sector										Turnover					
	All	Bus services	Manufacturing	Wholesale	Retail	Construction	IT	Transport	Other services	Other	up to £100,000	£100,001 - £500,000	£500,001 - £1,000,000	£1 -£2 million	£2 - £5 million	£5 - £25 million
Unweighted base: All respondents	*1222*	*201*	*203*	*190*	*168*	*66†*	*61†*	*33†*	*146*	*154*	*423*	*386*	*120*	*91†*	*115*	*87†*
Weighted base: All respondents	*1222*	*194*	*185*	*183*	*166*	*83*	*62*	*33*	*148*	*167*	*414*	*370*	*114*	*84*	*121*	*118*
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Up to 1 year	15	14	18	19	21	7	13	19	22	9	*17*	*14*	*16*	*19*	*10*	*11*
Over 1 year, up to 2 years	22	23	21	11	38	30	25	18	27	8	28	25	23	17	15	2
Over 2 years, up to 3 years	7	7	7	7	6	5	5	6	13	8	11	8	6	5	2	1
Over 3 years, up to 5 years	6	7	7	4	4	6	11	13	6	6	5	7	6	6	14	1
Over 5 years, up to 10 years	17	18	15	20	10	11	24	24	15	24	17	17	19	16	12	23
Over 10 years, up to 15 years	9	8	12	11	6	7	7	-	-	18	8	9	7	9	13	16
Over 15 years	22	23	19	35	15	34	16	20	12	27	14	20	23	27	33	44

Note: † denotes low base of <100, results should be treated as indicative only

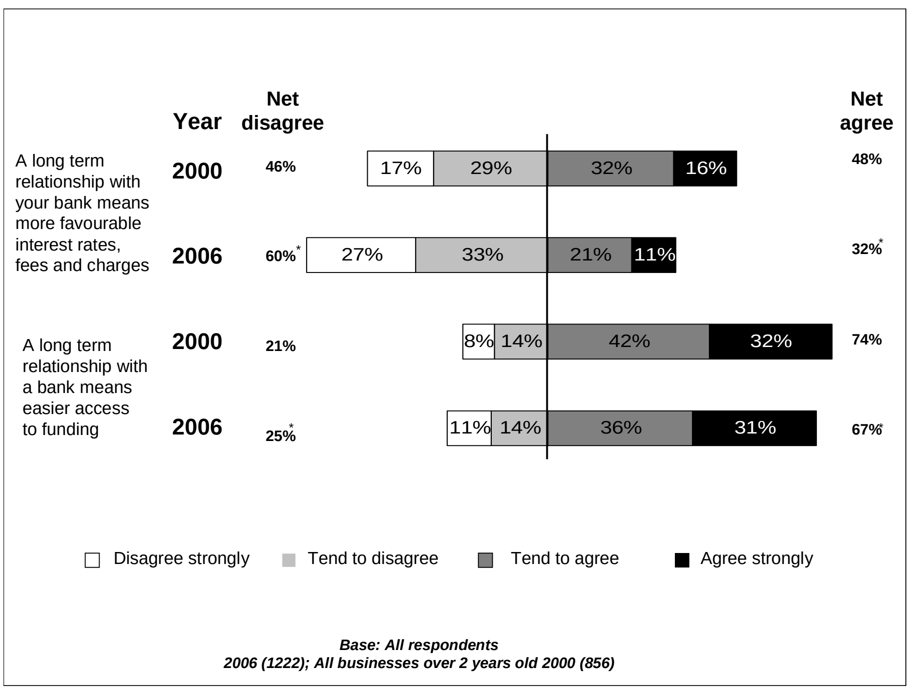
4.25 All SMEs who had been trading for two years or more were asked to what extent they agreed or disagreed with the following two statements about the importance of long term relationships with their banks:

- *a long term relationship with your bank means more favourable interest rates, fees and charges;*

- *a long relationship with a bank means easier access to funding*.

4.26 As the following figure shows, despite the majority of SMEs having a relationship for a number of years with their bank, the proportion agreeing that a long relationship means you can obtain more favourable rates has significantly decreased since 2000 (from 48% to 32% in 2000). The length of the relationship is still seen to be important in securing access to funding, although the proportion of businesses agreeing with this statement has also fallen slightly (but significantly) since the 2000 survey (from 74% to 67%).

Figure 4.6: Perception of importance of long term relationships



4.27 Possibly reflecting the fact that larger SMEs were more likely to have been with their bank longer, the largest SMEs were more likely to agree that a long term relationship with a bank both leads to more favourable rates and charges (55% cf. 32% overall) and easier access to funding (94% cf. 67%).

4.28 The only significant differences by sector were among SMEs in manufacturing industries who were significantly more likely to agree that the length of relationship can have a positive influence on the level of rates and charges (41% cf. 32% overall) and on the ease of access to funding (77% cf. 67% overall).

4.29 As Table 4.5 shows, businesses who were dissatisfied with the overall service at their main bank were more sceptical about the advantages a lengthy relationship with a bank can bring. They were significantly more likely to disagree that a lengthy relationship can lead to better rates of interest (83% cf. 61% overall) and that it can mean easier access to funding (62% cf. 25% overall).

4.30 There were also differences by likelihood to switch in future which is of no surprise given the fact that this group were more likely to be dissatisfied with their current bank – an issue which will be explored in further detail in chapter 7. SMEs who were currently considering switching bank accounts were more likely to disagree that a long term relationship means favourable rates of interest (80% cf. 61% overall) and businesses that were unlikely to switch were significantly more likely to agree that a long term relationship can mean better access to funding (74% cf. 67% overall).

Table 4.5 Perception of importance by likelihood to switch in future and overall satisfaction

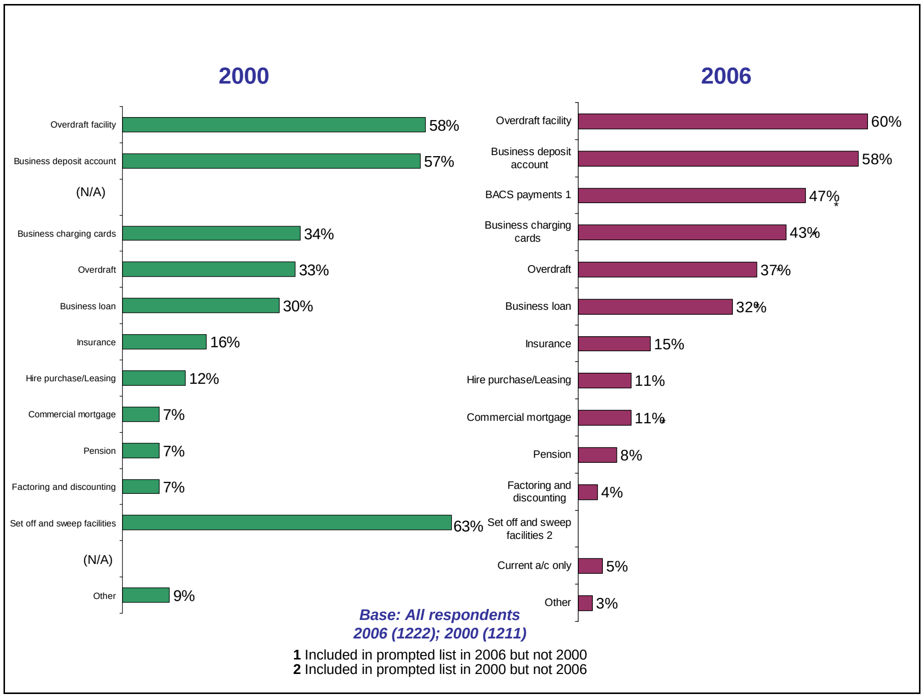
		Likelihood to switch in future			Satisfaction with main bank	
	All	**Unlikely**	**Possibly if approached**	**Already considering**	**Satisfied**	**Dissatisfied**
Unweighted base: All respondents	*1222*	*707*	*382*	*129*	*955*	*162*
Weighted base: All respondents	*1222*	*716*	*374*	*130*	*960*	*153*
	%	%	%	%	%	%
A long term relationship with your bank means easier access to funding						
Agree	67	74	64	36	74	32
Disagree	25	18	29	58	18	62
A long term relationship with your bank means more favourable interest rates / fees and charges						
Agree	12	38	28	18	37	15
Disagree	61	54	66	80	55	83

Range of banking services at main bank

4.31 In both the 2006 and 2000 surveys all businesses were asked to detail the range of banking services that they currently have with their principal bank. As Figure 4.7 shows there has been no significant change in the top two services used by SMEs; overdraft facility (60% cf. 58% 2000) and a business deposit account (58% cf. 57%).

4.32 In both the 2006 and 2000 surveys a list of the main services was read out to respondents; however a change was made to the list of services read out between the two surveys. In 2000 the list did not include BACS Payments but did include set off and sweep facilities. In 2006 a decision was made to drop set off and sweep facilities from the list and include BACS payments (as this was mentioned by over half of pilot respondents whereas sweep facilities were not mentioned at all). This explains the differences seen in figure 4.7. It should be noted that in both 2000 and 2006 all respondents were offered the opportunity to mention any other services that were not on the list that was read out to them.

Figure 4.7 Range of banking services provided by principal bank



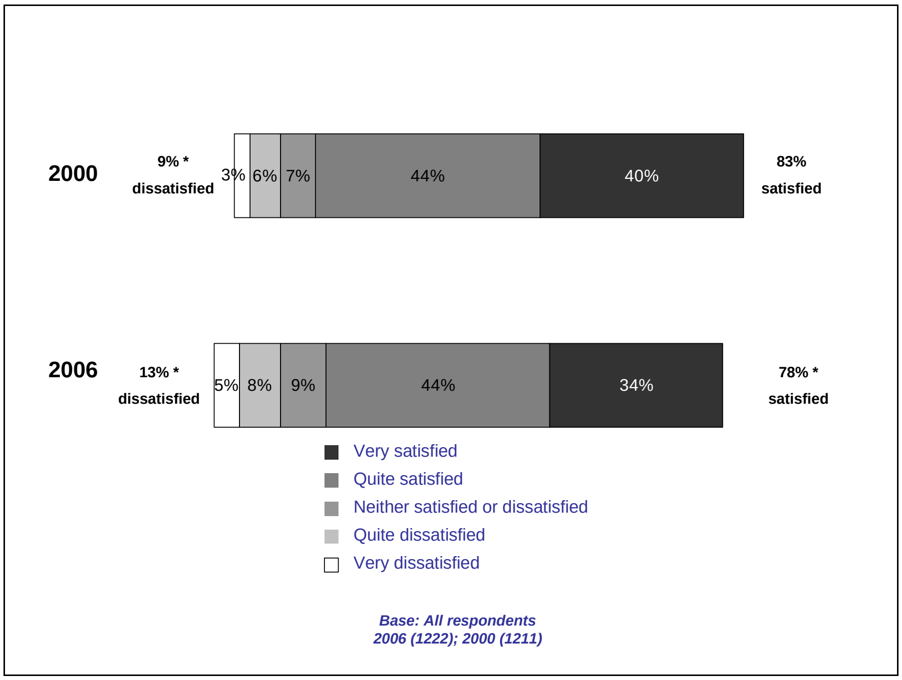
4.33 Aside from the difference accounted for by the change in methodology there were few other variations between 2000 and 2006. Businesses still typically used about three services from their main bank (in addition to their current account). The most notable change was the proportion using business charge cards which has increased by nine percent (43% cf. 34% in 2000).

4.34 There were also few variations by size and sector. The largest businesses (turnover £5m - £25m) were the most likely to have an overdraft facility (71% cf. 60% overall) and BACS payments (83% cf. 47%). Businesses in the manufacturing sector were also more likely to mention that they have BACS payments (65%).

Overall customer satisfaction

4.35 As Figure 4.8 shows the majority of businesses remained satisfied with the overall quality of the service provided by their main banks. However, the proportion that were satisfied has decreased slightly from 83% in 2000 to 78% in 2006. Although this represents only a small drop in satisfaction it is still statistically significant and there has been a commensurate increase in the proportion stating they were dissatisfied (up from 9% in 2000 to 13% in 2006). The fall in satisfaction has been mainly in the proportion who said they were '*very* satisfied' with their bank.

Figure 4.8: Overall customer satisfaction with principal bank



4.36 The larger businesses were the most likely be satisfied with the overall service of their bank (94% of businesses with a turnover of £5-25m and 84% with a turnover of £2 - £5m were satisfied with the overall service obtained from their main bank cf. 76% of smaller businesses with a turnover of under £2m).

4.37 Perhaps unsurprisingly, businesses which were currently considering switching were the most likely to be dissatisfied with their bank overall (33% cf. 16%) as were businesses who perceived their cost of banking to have increased over the last three years (20%).

4.38 As Table 4.6 shows businesses which did not bank with any of the four main banks were slightly, but significantly more likely to be satisfied with their bank (84% cf. 78% of those who banked with the main 4); in particular they were more likely to be *very* satisfied (44% cf. 33% of those who banked with the main 4). Indeed customers of smaller banks were more likely to have switched (26% cf. 11% customers of larger banks) suggesting they were moving for better service. By the individual banks used, there was no significant difference in the proportion who were at all satisfied.

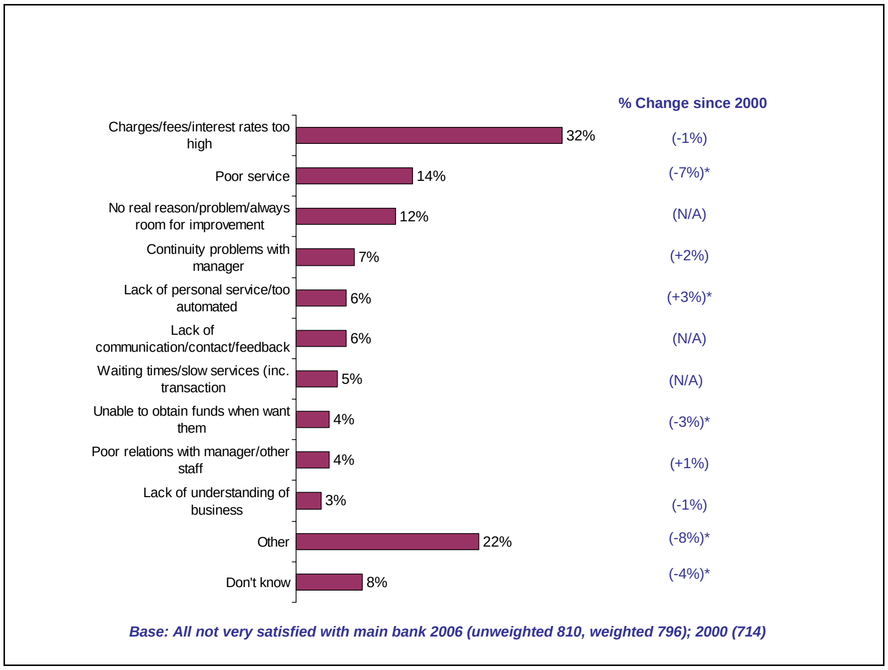
Table 4.6 Overall satisfaction by banks used

	All	Main 4	Other	RBS group	Barclays	Lloyds TSB	HSBC
Unweighted base: All respondents	*1222*	*996*	*204*	*320*	*250*	*193*	*233*
Weighted base: All respondents	*1222*	*1010*	*194*	*243*	*244*	*200*	*234*
	%	%	%	%	%	%	%
Very satisfied	34	33	44	37	30	37	26
Quite satisfied	44	45	40	41	47	46	47
Neither satisfied nor dissatisfied	9	9	5	10	8	7	12
Quite dissatisfied	8	7	8	8	8	3	10
Very dissatisfied	5	5	4	4	6	7	5
Total satisfied	78	78	84	78	77	83	72
Total dissatisfied	13	13	12	11	15	10	15
Don't know	*	*	-	*	*	1	1

*Note: * denotes result of <0.5%*

4.39 All SMEs who were not 'very satisfied' with their main bank were asked why they were not fully satisfied. As the following figure shows the main reason remains because businesses felt the charges (including all fees and interest rates) were too high (32% cf. 33% in 2000).

Figure 4.9 Reasons for not being fully satisfied with main bank



4.40 Other key reasons for SMEs not being fully satisfied with their main bank included poor service (14%, down from 21% in 2000) and the perception that there is always room for improvement from a provider (12% but not mentioned in 2000).

4.41 The smallest SMEs (under 100K turnover) were the most likely to state that higher charges and fees was the reason for not being fully satisfied (38% cf. 32%), as were businesses from the other services sector (43%).

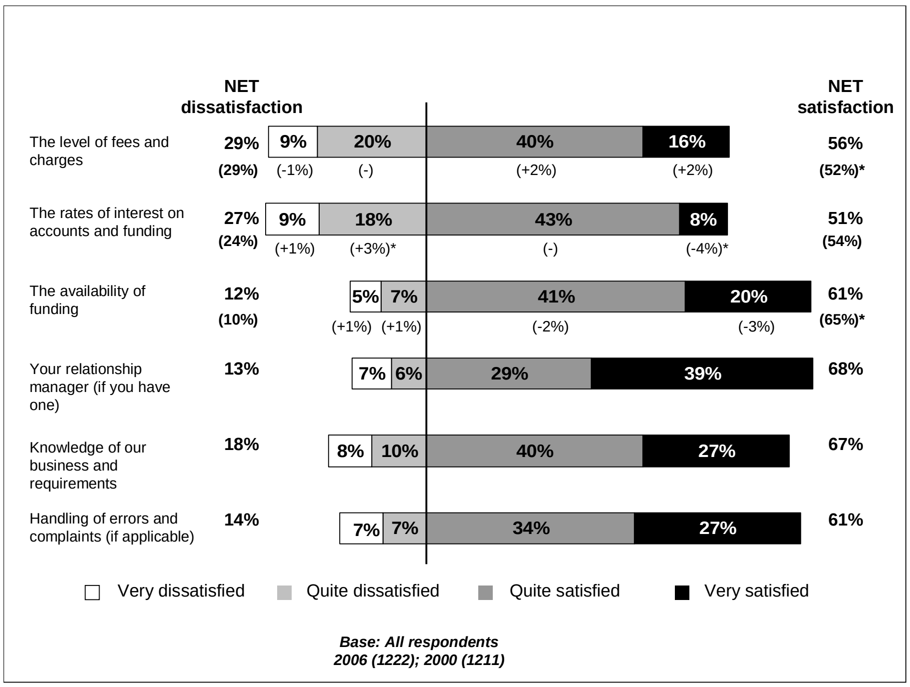
Customer satisfaction with specific areas

4.42 As well as overall satisfaction with their main bank, businesses were asked about satisfaction with specific areas of service as follows:

- Satisfaction with level of fees and charges
- Satisfaction with rates of interest and funding
- Satisfaction with the availability of funding
- Satisfaction with relationship manager (if applicable) – asked in 2006 only
- Satisfaction with knowledge of business needs and requirements – asked in 2006 only
- Satisfaction with handling of complaints (if applicable) – asked in 2006 only

4.43 As highlighted by Figure 4.10, satisfaction with the level of charges and interest rates were lower (and dissatisfaction higher) than with other aspects of the service they received from their main bank. However, there has been a slight but significant increase in satisfaction with the level of charges since the 2000 survey (the proportion that was satisfied with this aspect has increased from 52% to 56% in 2006, although levels of dissatisfaction remain the same). Satisfaction and dissatisfaction with rates of interest on accounts and funding have not changed significantly. This might indicate that it is dissatisfaction with interest rates rather than charges which has caused the slight fall in overall satisfaction since 2000. However, there is no other evidence to corroborate this. As discussed in more detail later in this report, when asked directly if they felt the level of charges had changed over the last three years, most businesses (85%) felt they had stayed the same or increased; only 7% felt they had fallen.

Figure 4.10: Customer satisfaction with specific areas



4.44 There has also been a slight but significant decrease in the proportion of SMEs satisfied with the access to availability of funding (61% satisfied cf. 65% in 2000), although the proportion who expressed dissatisfaction did not change significantly (up from 10% in 2000 to 12%). Further, as discussed more fully later in this section, when asked directly if it had got easier or harder to obtain funding over the last three years, most (60%) felt it had stayed the same or got easier whilst only 16% felt it had got harder.

4.45 Two thirds of businesses were satisfied with the banks' knowledge of their business and its requirements, although almost a fifth (18%) were dissatisfied with this aspect of their banks performance. Two thirds of all businesses were also satisfied with the performance of their relationship manager (68%), but amongst those who felt they had a relationship manager, over three quarters (78%) were satisfied with their performance, with 45% being very satisfied. Similarly, 61% of all businesses were satisfied with the banks handling of complaints and errors, but amongst those who had direct experience of this aspect of their service, the proportion satisfied rose to 74%, whilst 17% were dissatisfied. These specific areas were only asked about in the 2006 survey, so no comparisons can be made with 2000.

4.46 Amongst these specific service areas there were variations by size of business (as highlighted in Table 4.7). As was the case at an overall level, the larger the turnover of the business the more likely they were to be satisfied with each of the service areas. Indeed, the difference was most marked among the SME's with a turnover of under £100k particularly for level of fees and charges (36% dissatisfied cf. 29% overall) and knowledge of business requirements (22% cf. 18%).

4.47 As would be expected, businesses currently considering switching were the most likely to be dissatisfied with the level of fees and charges (68% cf. 29% overall) and the level of interest rates (50% cf. 27% overall).

4.48 The findings in this survey are also broadly consistent with the Warwick Business School "Finance for Small and Medium-Sized Enterprises"[14] report. In the latter study, 61% were satisfied with their bank charges, 63% with the availability of finance and 72% with their bank's understanding of their business.

[14] Finance for Small and Medium sized Enterprises (2004 UK survey on SME Finances) – Warwick Business school

Table 4.7: – Satisfaction by turnover and likelihood to switch and main bank used

		Turnover						Likelihood to switch in future			Main Bank		Main Bank				
	All	up to £100,000	£100,001 - £500,000	£500,001 - £1,000,000	£1 -£2 million	£2 - £5 million	£5 - £25 million	Unlikely	Already approached	Already considering	Main 4	Other	Natwest	Baclays	Lloyds TSB	HSBC	RBS
Unweighted base: All respondents	*1272*	*423*	*386*	*120*	*91†*	*115*	*87†*	*701*	*382*	*129*	*996*	*204*	*230*	*250*	*193*	*233*	*90†*
Base weighted: All respondents	*1222*	*414*	*370*	*114*	*84*	*121*	*118*	*716*	*374*	*130*	*1010*	*194*	*243*	*244*	*200*	*234*	*89*
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Satisfaction with level of fees and charges																	
Satisfied	56	51	52	51	62	68	77	73	38	17	54	67	51	49	65	55	49
Dissatisfied	29	36	33	32	24	18	8	15	43	68	30	22	30	35	25	30	31
Satisfaction with the rates of interest on accounts and funding																	
Satisfied	51	47	45	50	55	59	76	64	39	20	49	64	50	39	55	51	60
Dissatisfied	28	30	31	33	20	23	13	18	37	50	29	20	25	38	25	27	25
Satisfaction with availability of funding																	
Satisfied	62	56	60	65	58	67	84	71	57	23	63	55	65	54	66	64	72
Dissatisfied	13	15	13	11	15	11	4	5	17	42	13	10	13	17	10	13	10
Satisfaction with your relationship manager (if you have one)																	
Satisfied	68	59	65	67	77	83	93	80	60	27	71	54	70	68	72	69	82
Dissatisfied	12	15	15	15	9	4	3	4	16	45	13	10	11	18	12	13	8
Satisfaction with knowledge of business and requirements																	
Satisfied	66	58	65	70	62	74	94	78	59	25	68	58	72	64	65	67	78
Dissatisfied	18	22	21	16	18	12	6	8	24	58	19	14	16	24	18	21	11
Satisfaction with handling of errors and complaints (if applicable)																	
Satisfied	60	54	59	68	54	65	79	69	54	33	62	55	63	65	60	55	70
Dissatisfied	14	16	15	10	17	10	7	6	19	39	13	15	12	14	12	15	11

Note: † denotes low base of <100, results should be treated as indicative only

4.49 As discussed earlier in (paragraph 4.38) businesses not using the main four banks were more likely to be satisfied with their banks' overall performance. The relatively higher satisfaction of those not using the main four banks is driven by the fact they were more likely to be satisfied with the level of fees and charges (62% cf. 54% using one of the four main banks and the levels of interest (64% and 49% respectively). However, perhaps reflecting the facilities available at smaller banks, businesses not using the big four were less likely to be satisfied with all other aspects of the service examined than those using the four main banks.

4.50 Of those using the main four banks, customers of Barclays were significantly more dissatisfied with the level the rates of interest (38% cf. 28% overall). Those with Lloyds TSB were the most likely to be satisfied with the level of fees and charges (65% cf. 56% overall).

Quality of service and access to funding

4.51 After stating how satisfied they were with their current bank both overall and on specific areas, all businesses surveyed in 2006 were also asked directly whether they felt the overall quality of service had improved over the last three years and whether it had become easier or harder to obtain funding over the last three years. Neither of these questions was asked in the 2000 survey and therefore no comparisons can be made.

4.52 As the following table shows, most firms felt that the service had remained the same over the last few years (67%). A fifth (19%) felt that the service had got better and the remainder (14%) felt it had got worse. Amongst those firms that have been in business for more than two years, the proportions were similar. Understandably those who had been in business under two years were more likely to state the quality of service had stayed the same (74% cf. 67%), having had less time to benchmark the service.

Table 4.8 Quality of service by likelihood to switch, age of business and overall satisfaction with main bank

		Age		Likelihood to switch in future			Satisfaction with main bank	
	All	Under 2 years	Over 2 years	Unlikely	Possible if approached	Already considering	Satisfied	Dissatisfied
Unweighted base: All respondents	*1222*	*205*	*1017*	*707*	*382*	*129*	*455*	*162*
Weighted base: All respondents	*1222*	*354*	*868*	*716*	*374*	*130*	*960*	*153*
	%	%	%	%	%	%	%	%
Got better	19	16	20	25	12	9	23	3
Stayed the same	67	74	64	66	74	49	70	49
Got worse	14	9	16	10	14	42	7	48

4.53 It is of no surprise that there was a strong correlation between overall satisfaction and perceptions of whether the quality of service had changed over the last three years. Almost half (48%) of those dissatisfied with their bank at an overall level felt that the quality of service had got worse over the last 3 years.

4.54 There was also a strong correlation between perceptions of the banks service and a businesses' propensity to switch in future, with those unlikely to switch more likely to feel the quality of service had got better (25% cf. 19% overall) and those currently considering switching more likely to feel that the quality of service had got worse (42% cf. 14% overall).

4.55 There was little variation by size or sector although the largest SMEs were the most likely to state that the service from their main bank had got better (27% cf. 19%).

4.56 In terms of whether businesses felt it had become easier to obtain funding over the last 3 years, as Table 4.9 shows, a quarter (26%) felt it had, a third (34%) felt it had stayed the same and 16% felt it had got harder. One in four (24%) were not sure.

Table 4.9 Whether funding easier to obtain by turnover, likelihood to switch and overall satisfaction

		Turnover last 3 years			Likelihood to switch in future			Satisfaction with main bank	
	All	Increased	Same	Decreased	Unlikely	Possible if approached	Already considering	Satisfied	Dissatisfied
Unweighted base: All respondents	*1222*	*486*	*322*	*197*	*707*	*382*	*129*	*455*	*162*
Weighted base: All respondents	*1222*	*410*	*281*	*164*	*716*	*374*	*130*	*960*	*153*
	%	%	%	%	%	%	%	%	%
Got easier	26	30	26	27	30	22	46	28	18
Stayed the same	34	34	38	37	34	37	29	36	23
Got harder	16	14	12	16	11	21	31	11	41
Don't know	24	22	23	20	25	20	24	25	19

4.57 SMEs dissatisfied with their bank at an overall level were the most likely to feel that it had got harder to obtain funding (41% cf. 16%).

4.58 As discussed earlier, overall satisfaction is correlated with propensity to switch, so therefore it comes as no surprise that SMEs who stated that they were unlikely to switch banks were also more likely to feel it had got easier to obtain funding (30%) and those already considering switching were more likely to feel it had got harder to obtain funding (31% cf. 16% overall).

4.59 There were few variations by sector, although businesses who stated that their turnover had increased in the last three years were the most likely to feel that it had become easier to obtain funding (30% cf. 26%), as were the very largest SMEs (31%).

Other providers used

4.60 The final section of this chapter looks at the proportion of businesses using other providers and the number of other providers used.

4.61 As the following table shows, a fifth (20%) had services with another bank (including another business account).

Table 4.10 Number of providers used by whether switched bank, age of business and turnover

Number of Providers		Switched last 3 years		Age of business		Turnover					
	All	Swicther	Non switcher	Under 2 years	Over 2 years	up to £100,000	£100,001 - £500,000	£500,001 - £1,000,000	£1 - £2 million	£2 - £5 million	£5 - £25 million
Unweighted base: All respondents	*1222*	*201*	*1021*	*205*	*1017*	*423*	*386*	*120*	*91†*	*115*	*87†*
Weighted base: All respondents	*1222*	*159*	*1063*	*354*	*868*	*414*	*370*	*114*	*84*	*121*	*118*
	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
One	80	70	81	88	77	85	81	80	79	75	62
Two	19	27	18	12	22	14	19	17	20	24	37
Three Plus	1	2	1	*	1	1	*	3	1	1	1

*Note: * denotes result of <0.5%*
† denotes low base of <100, results should be treated as indicative only

4.62 The larger SMEs were more likely to have more than one provider (37% of those with a turnover of over £5m compared to 20% overall). Reflecting the fact that new start ups are more likely to be smaller in size, businesses under 2 years old were more likely to have only one provider (88% cf. 80% overall).

4.63 SMEs which had switched accounts were also more likely to have more than one account, suggesting they kept some services with their old bank when they moved.

4.64 As shown in Table 4.11, 12% of businesses had another business account with another bank.

Table 4.11 Whether have business account with other banks by turnover and age of business

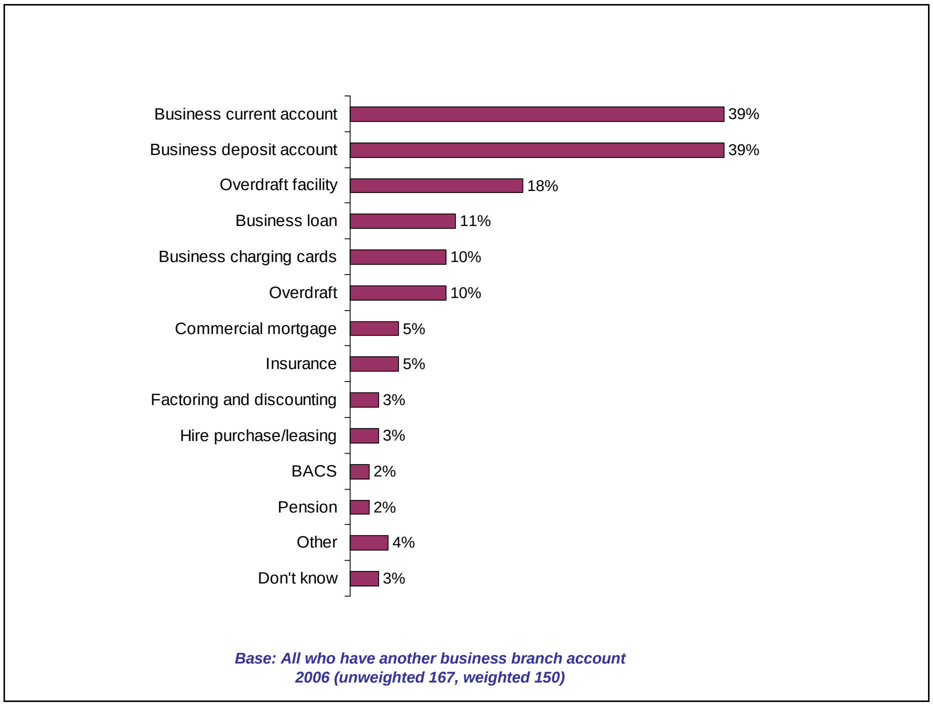
	All	Age of business		Turnover					
		Under 2 years	Over 2 years	up to £100,000	£100,001 - £500,000	£500,001 - £1,000,000	£1 -£2 million	£2 - £5 million	£5 - £25 million
Unweighted base: All respondents	*1222*	*205*	*1017*	*423*	*386*	*120*	*91†*	*115*	*87†*
Weighted base: All respondents	*1222*	*354*	*868*	*414*	*370*	*114*	*84*	*121*	*118*
	%	*%*	*%*	*%*	*%*	*%*	*%*	*%*	*%*
Yes	12	5	15	6	12	13	16	17	28
No	88	95	85	94	88	87	84	83	73
Don't know	*	-	*	-	*	-	-	-	-

*Note: * denotes result of <0.5%*
† denotes low base of <100, results should be treated as indicative only

4.65 Again, the larger SMEs (turnover £5m-£25m)were more likely to hold another business bank account with another provider (28% cf. 12% overall) whereas the smaller SMEs (up to £100k) and those that had been in business less than two years were less likely to have another account (6% and 5% respectively).

4.66 As Figure 4.11 overleaf shows, most businesses that had another business account with another provider had a current account (mainly used for deposits and funding) or had a business deposit account (39% respectively). A fifth (18%) had an overdraft facility. Smaller proportions had loans (11%), overdrafts (10%), business charging cards (10%) and commercial mortgages (5%).

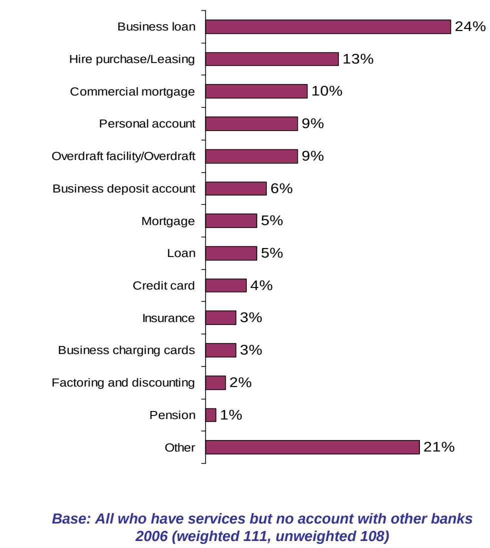
Figure 4.11 Banking service provided by other bank



4.67 One in ten businesses (9%) had services or products with banks with which they had no business current account.

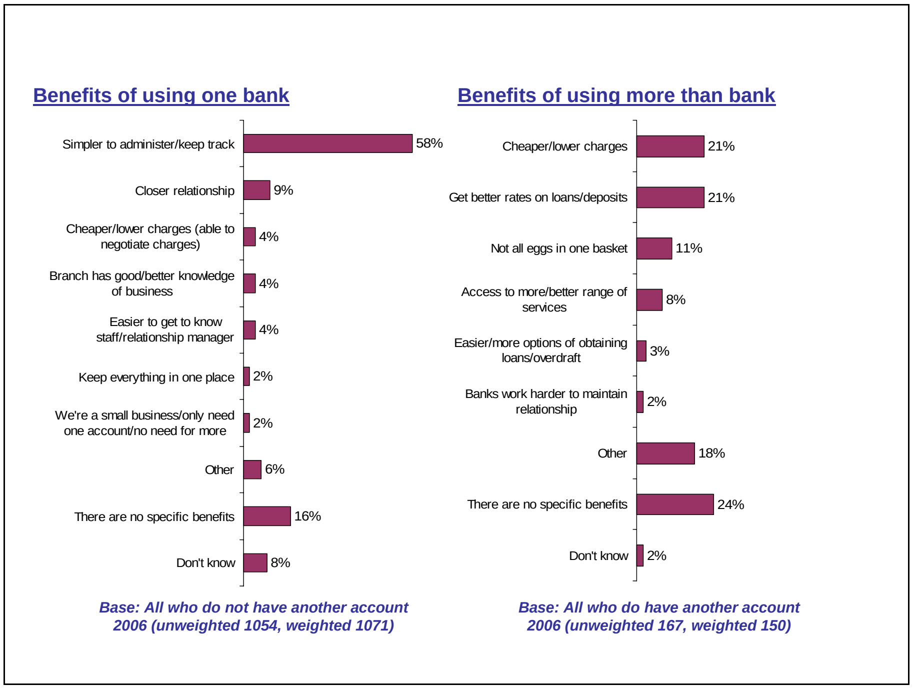
4.68 As Figure 4.12 shows, these providers were most commonly used for loans and other financing, although one in ten (9%) had a personal account. The most common service businesses had with banks where they hold no business account was a business loan (24%). Other commonly mentioned services included hire purchase/leasing (13%), commercial mortgages (10%) and overdraft/overdraft facilities (9%).

Figure 4.12 Services provided by other banks with which have no current account



4.69 Finally, all businesses which only used one bank were asked what the advantages were in doing so, whereas those with more than one provider were asked what the advantages of having more than one provider were. As Figure 4.13 overleaf shows, the majority who only had one provider said the main advantage was the simplicity i.e. finding it easier to administer and keep track of the account (58%).

Figure 4.13 Services provided by other banks with which have no current account



4.70 For those using more than one provider the advantages given were more wide ranging. The most common, mentioned by a fifth each (21%), were that it helped keep charges and costs lower and that it was easier to get better rates on loans and deposits. One in ten (11%) mentioned that it was better not to keep all eggs in one basket.

4.71 It should also be noted that a quarter (24%) didn't feel there were any particular advantages of using more than one provider and similarly 16% felt there were no particular benefits in just using one provider.

5 Bundling

5.1 One of the main aims of the behavioural undertakings introduced in 2002 and 2003 was to increase competition by limiting the bundling of services. This chapter therefore examines the incidence and nature of bundling of services in the SME banking market.

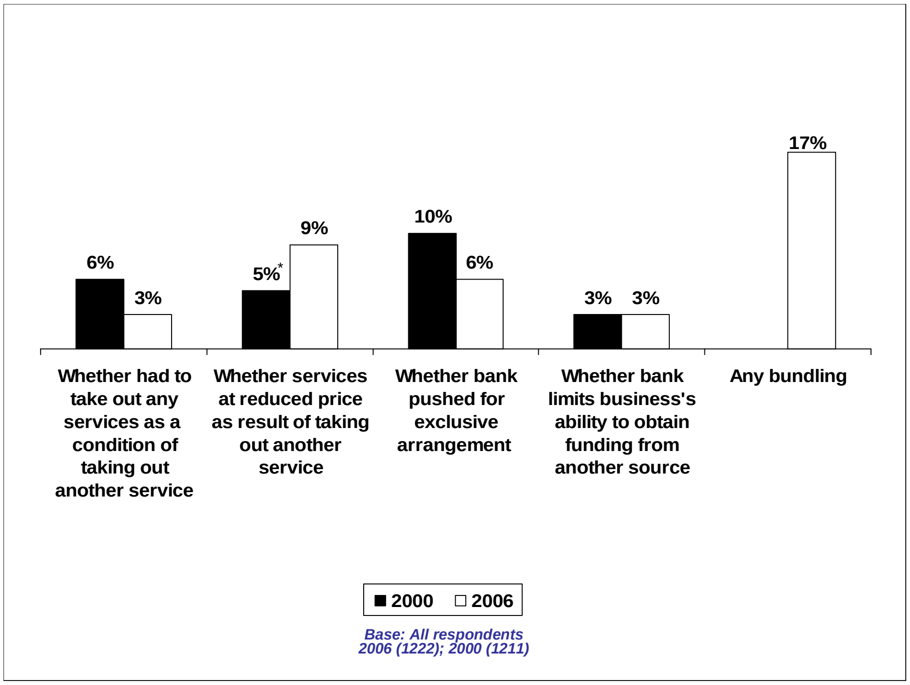
Incidence of bundling

5.2 In both the 2006 and 2000 surveys SMEs were asked about the incidence of bundling. More specifically, they were asked if they had experienced any of the following actions from their principal bank:

- Requirement to take out any services, including personal accounts, as a condition of taking out another service;
- Obtaining any services at a reduced price as a result of taking out another service;
- Requirement (or indication that it would be advantageous) to have an exclusive arrangement;
- Limits on ability to obtain funding from another institution.

5.3 Figure 5.1 shows that, generally, the incidence of bundling has decreased or remained the same since 2000, with the exception of banks offering reduced prices as a result of taking out another service, which increased significantly in 2006 (up from 5% in 2000 to 9% in 2006).

Figure 5.1: The incidence of bundling



5.4 In 2006, under a fifth of businesses had any experience of bundling (17%), with switchers being significantly more likely to have experienced bundling (24%) than non switchers (16%). The incidence was also slightly but significantly higher amongst businesses whose principal account was with one of the four main banks (18% cf. 12% amongst those using smaller banks) and businesses based in England and Wales (18% cf. 12% for businesses based in Scotland or Northern Ireland). No comparative data is available from the 2000 survey on the proportion of firms experiencing any bundling.

Table 5.1 Bundling by switching activity, main bank and region

		Switched last 3 years		Main Bank		Region	
	All	**Switcher**	**Non switcher**	**Main 4**	**Other**	**England/Wales**	**NI/Scotland**
Unweighted base: All respondents	*1222*	*201*	*1021*	*996*	*204*	*1085*	*137*
Weighted base: All respondents	*1222*	*159*	*1063*	*1010*	*194*	*1092*	*130*
	%	*%*	*%*	*%*	*%*	*%*	*%*
Any bundling	17	24	16	18	12	18	12
No bundling	83	76	84	82	88	82	88

Services required to take out as a condition of taking out another service

5.5 The remainder of this chapter discusses each of the different incidences of bundling in turn.

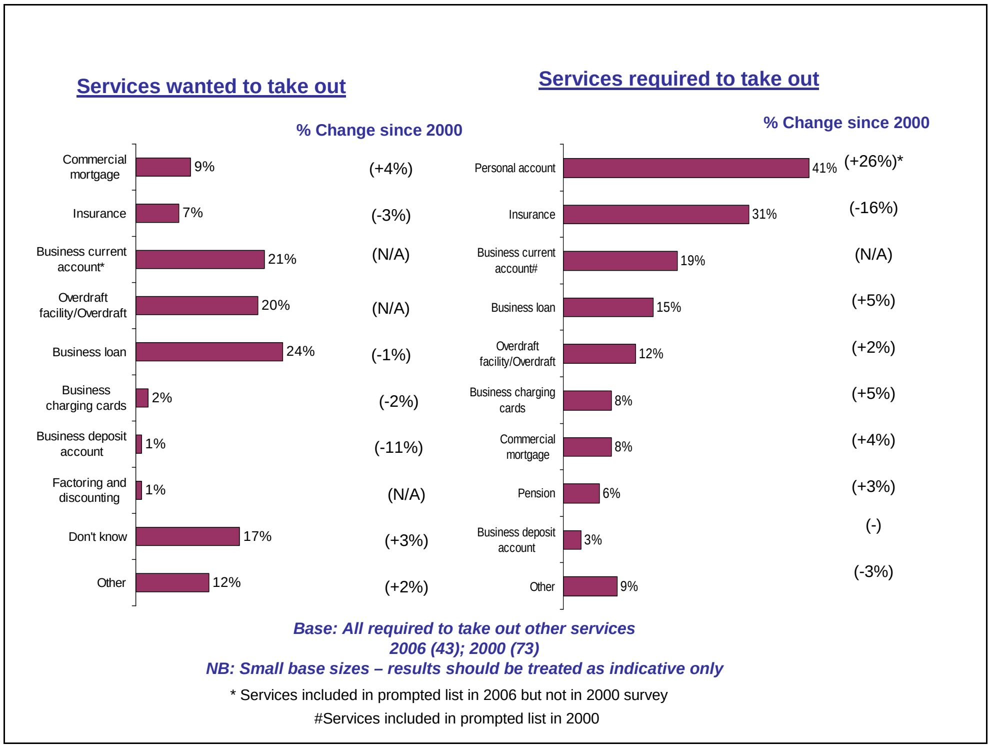
5.6 As Figure 5.1 shows, in 2006 3% of businesses stated that they had been required to take out any services as a condition of taking out another service. The incidence of this type of action has fallen significantly since 2000, when 6% of businesses claimed to have experienced it.

5.7 Figure 5.2 shows the services businesses actually wanted to take out and the services they were required to take out as a condition of taking out the service they wanted. As relatively few businesses had experienced this type of bundling, the sample base is low (43 for 2006 and 73 for 2000), so results should be treated as indicative only. It also precludes more detailed analysis by sub-groups or services required to take out against what they wanted to take out.

5.8 Of those businesses who were required to take other services in 2006, most wanted to set up another business current account (21%) or wanted funding; (20% wanted an overdraft or overdraft facility, 24% a business loan and 9% a commercial mortgage).

5.9 The service they were most frequently required to take out to obtain the service they actually wanted was a personal account (41%). This is a significant increase of 26% since 2000. It may reflect that a personal account was not included in the prompted list in the 2000 survey (despite being mentioned specifically in the question), although if businesses mentioned a personal account this was recorded. Other services businesses were required to take out included insurance (31%); business current accounts (19%) and business loans (15%).

Figure 5.2: Whether bank required you to take out any services as a condition of taking out another service



Reduced price services

5.10 One in ten (9%) businesses claimed to have obtained a service at a reduced price as a result of taking out another service, a significant increase of 4% since 2000. New businesses that had been trading for less than 2 years were more likely to have experienced this (14%); the comparative figure for 2000 was only 4%. Due to constraints on the length of the interview, it was not possible to ask additional questions to determine the nature of the services which had been obtained at a reduced price. However, it may be the case it includes free/reduced price access to internet and other electronic banking software, which will in turn help to minimise bank charges for these customers in the future. If this was the case the increase in the incidence of this type of activity might not be as negative as it appears.

Exclusive arrangements

5.11 In 2006, 6% of businesses said their bank pushed for an exclusive arrangement. For 3% of businesses the bank insisted on an exclusive arrangement (down 2% since 2000) and for the remaining 3% of businesses they indicated it would be advantageous, but did not insist (down 2% since 2000). Three per cent of businesses agreed to an exclusive arrangement (6% in 2000).

Table 5.2 Exclusive arrangements

	2000	2006
Unweighted base: All respondents	*1211*	*1222*
Weighted base: All respondents	*1211*	*1222*
	%	%
Bank pushed for exclusive arrangement (insisted or encouraged)	10	6
Bank insisted on exclusive arrangement	5	3
Bank indicated exclusive arrangement advantageous	5	3
Business agreed to exclusive arrangement	6	3

Obtaining funds

5.12 In 2006, 3% of businesses said that funding arrangements provided by their main bank, included conditions limiting their business's ability to obtain funding from another bank or financial institution; this is unchanged since 2000 (see Figure 5.1 page 51).

5.13 The number of respondents in the two surveys that had experienced this type of restriction was low (38 in 2006 and 41 in 2000), so results and comparisons should be treated as indicative, but they indicate that the main conditions imposed on businesses who were limited on obtaining funds were as follows and had not changed substantially since 2000: fixed charges (9 cf. 11 2000); having to seek bank's permission before applying elsewhere for funds (8 cf. 15 in 2000) and floating charges (4 cf. 6 2000).

5.14 In the 2006 survey, businesses were also asked if they had attempted to obtain funding from another bank in the last three years. Fewer than one in ten businesses (8%) had attempted to gain funding from another bank in the last 3 years. Of those businesses that had attempted to gain funding (sample base 98), 10% felt that the bank had prevented or dissuaded them from doing so. (This represents just under 1% of all businesses).

5.15 In the 2000 survey only those businesses whose bank had imposed any conditions on their ability to obtain funding from another institution were asked if they felt the bank had prevented them from actually obtaining funds from another provider. Of these 43 businesses, only 5 said the main bank had prevented them from obtaining funds. Any businesses which had not been prevented from obtaining funds from other providers were asked whether their main bank had tried to dissuade them from obtaining funding from other institutions in the last three years and 4% (42 respondents) felt they had been dissuaded. Due to the differences in the questioning between the two surveys the results are not wholly comparable, but seem to indicate that that the incidence of banks preventing or dissuading business from obtaining funding from other institutions has not increased and may have even decreased slightly.

6 Price competition

6.1 This chapter discusses SMEs' annual banking costs, services accounting for the largest proportion of these costs and perceptions of changes in the cost of banking over the last three years. Awareness of the transitional remedy (interest on current accounts or free money transmission) per se, as well as awareness that their business receives one of these is also covered. The chapter also explores the incidence of negotiating on charges and concludes by discussing transparency of prices and how businesses obtain information about charges.

Annual banking costs

6.2 In 2000 and 2006 all businesses were asked what their annual banking costs were, including charges, fees and rates of interest for their main bank. In 2006, if businesses were unable to give an exact figure, they were prompted with ranges. This option was not available to respondents in 2000.

6.3 Therefore, in 2006 (unlike 2000) there were two ways of estimating average charges, either by taking only the exact figures offered by respondents or by also including the subsequent prompted ranges.

6.4 Table 6.1 shows the average cost of banking when the range information is excluded from the data (so it is therefore comparable with 2000). The median average has been used (as it was in 2000) and appears to have decreased from £799[15] in 2000 to £500 in 2006[16].

6.5 Although this appears a large decrease, unfortunately there are no data on the confidence levels for 2000 and therefore it is not possible to say whether this change is significant.

6.6 The proportion saying they have no banking charges (10%) has remained constant however, the number of respondents saying that they didn't know what their banking costs was has increased by eight per cent between 2000 and 2006.

[15] Using the CPI index to convert the 2000 median cost to 2006 prices it would actually reduce from £799 to £717. (12.6 : financial services n.e.c (D7D4). Source: ONS website on 15/08/06 – last updated 10/08/06. Rebased from 2005=100 to 2001 Q4=100, equivalent price in July 2006 is at a factor of 0.9)

[16] In 2000 all zeros were included in the median score. Therefore in order to make comparisons all zeros have been included in the median calculation in 2006.

Table 6.1 Annual banking costs in 2006 and 2000

	2006	***2000***
Base: All respondents	*1222*	*1211*
	%	%
£1 - £249	10	10
£250 - £499	7	7
£500 - £999	8	8
£1,000 – £1,999	7	7
£2,000 - £4,999	7	8
£5,000 - £19,999	6	9
£20,000 - £99,999	3	5
£100,000+	1	3
No banking charges	10	10
Don't know	41	33
Median	£500	£799

6.7 However as Table 6.2 overleaf shows if the data collected after prompting with ranges is included in the 2006 data, then the results change quite markedly. When the two are compared, it can be seen that providing a range resulted in more data on banking costs being collected at the lower end (it would appear that many of those who claimed not to know their exact cost of banking in 2006 were more likely to have lower costs when prompted with ranges). For example, 15% indicated they paid under £250 (up from 10%) and 25% indicated they paid between £250 and £999 (up from 15%).

6.8 In terms of the median, it is £665 once the range data are included.[17] As with the median based on exact figures, zeros are included in this figure.

[17] There are a total of 1004 valid data entries including zeros. The median value is the $\frac{n+1}{2}th$ =502.5th value. This lies in the band between £500-£999 (the 450th and 608th values). Thus the median is estimated as £499+ $\frac{502.5-450}{608-450}$ *(999-500)=£665

6.9 Despite the differences in medians (£799 in 2000 cf. £665 in 2006 with range data and £500 excluding range data) it should be noted that all these values remain in or around the same size band (£500-£999) and it is therefore likely that there has been no significant change in the cost of banking since 2000.

Table 6.2 Annual banking costs in 2006 – with and without range data

	With range data	Actual values only
Base: All respondents	*1222*	*1222*
	%	%
£1 – £249	15	10
£250 - £499	12	7
£500 - £999	13	8
£1,000 – £1,999	10	7
£2,000 - £4,999	10	7
£5,000 - £19,999	8	6
£20,000 - £99,999	4	3
£100,000+	1	1
No banking charges	10	10
Don't know	17	41
Median	£665	£500

6.10 Both methods of collecting the cost of banking have their respective advantages. By using the data with ranges included there is a fuller response than in 2000 (after prompting only 17% did not know their cost of banking). However only when using the data excluding ranges can comparisons by made with 2000.

6.11 Thus, as discussed above, in order to ensure comparability with the 2000 survey, the main results presented in this section exclude this additional range information.

6.12 Table 6.3 overleaf shows annual banking costs in 2006 broken down by turnover. It also shows the median banking cost by turnover for 2006 and 2000. Not unexpectedly, there was a clear link between turnover of the business and level of banking costs. Businesses with under £100K turnover were most likely to pay less than £250 per year for banking. Businesses with £5m - £25m turnover were most likely to pay in excess of £20,000 for banking. Median banking costs also increased by turnover in both 2000 and 2006.

Table 6.3 Annual banking costs by turnover

	All	Turnover: up to £100,000	£100,001 - £500,000	£500,000 - £1 million	£1 -£2 million	£2 - £5 million	£5 - £25 million
Unweighted base: All respondents	*1222*	*423*	*386*	*120*	*91†*	*115*	*87†*
Weighted base: All respondents	*1222*	*414*	*370*	*114*	*84*	*121*	*118*
	%	%	%	%	%	%	%
£1 - 249	10	20	6	5	1	5	-
£250 - £499	7	11	7	8	4	4	-
£500 - £999	8	6	15	10	2	3	-
£1,000 – £1,999	7	5	12	6	7	8	-
£2,000 - £4,999	7	3	6	14	17	9	8
£5,000 - £19,999	6	-	3	14	9	11	21
£20,000 - £99,999	3	*	-	2	5	12	15
£100,000+	1	-	-	-	-	-	11
No banking charges	10	11	11	8	9	15	3
Don't know	41	44	40	33	48	33	41
Median (2006)	£500	£200	£600	£1,000	£2,000	£1,500	£10,430
Median (2000)	*£799*	*£184*	*£492*	*£1467*	*£2640*	*£5500*	*£19,250*

*Note: * denotes result of <0.5%*
† denotes low base of <100, results should be treated as indicative only

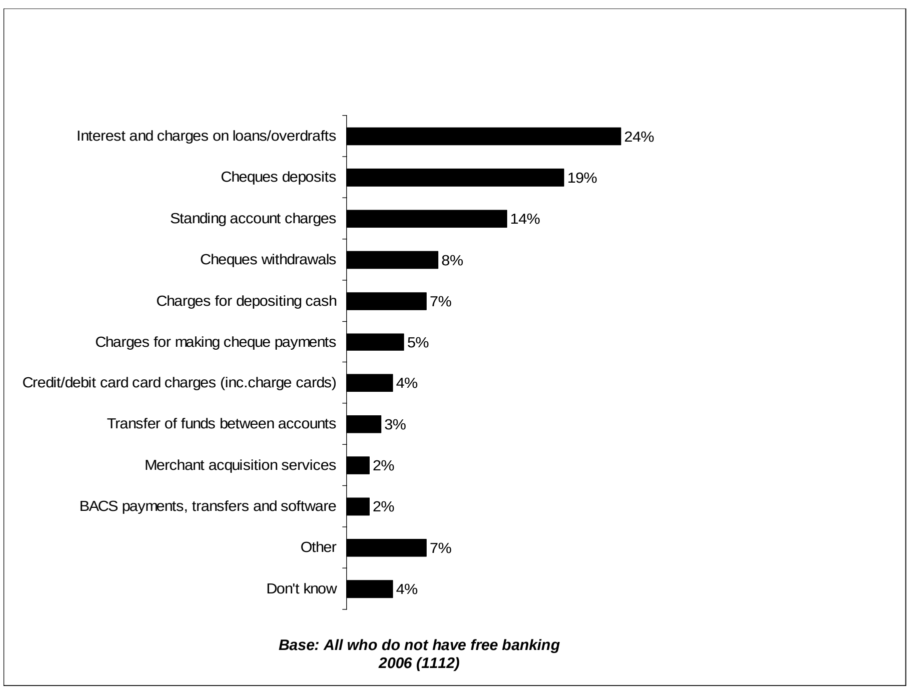
6.13 Businesses who had switched bank in the last 3 years and those who had been trading for less than two years were more likely to have no banking charges: this is linked to the tendency of banks to offer a free banking period to new customers.

6.14 To conclude on the issue of changes in banking costs between 2000 and 2006, it seems there has been little real change in banking costs during the period. Although the median appears to have decreased slightly, the proportion in each cost band has remained consistent, when actual figures are compared.

Services accounting for the largest proportion of businesses' total banking costs

6.15 As Figure 6.1 below shows, interest and charges on loans and overdrafts (24%) and cheque deposits (19%) were most likely to account for the largest proportion of businesses' banking costs.

Figure 6.1 Services which account for the largest proportion of business' total banking costs



6.16 There were some variations by size of business: for the largest businesses, those with £5m - 25m turnover[18], interest and charges on loans and overdrafts accounted for a greater proportion of charges (41%), as did standing account charges (22% cf. 14% average). The smallest businesses (under £100K turnover) were more likely to state that cheque deposits (26%) and charges for depositing cash accounted for the largest proportion of their total banking cost (10% cf. 7% average).

6.17 Businesses were also asked what proportion of their banking costs the most expensive service accounted for (see Table 6.5). Thirty per cent stated that it accounted for less than half of their overall banking costs, suggesting that a range of paid-for services were used by the business. Only 9% paid for only one service from their bank (their most expensive service accounted for 100% of their charges). This was most likely to be standing account charges, mentioned by 38% of those with only one paid for service. The smallest businesses (those with a turnover of less than £100K) and, linked to this, those with the lowest annual charges (£1-249) were the most likely to pay for only one service (46% and 43% of those with only one paid for service respectively).

6.18 A significant minority (17%) did not know what proportion of banking costs the most expensive service accounted for.

[18] Note: Low base (87)

Table 6.4 Services accounting for largest proportion of banking costs

	All	Service							
		Standing account charges	Interest and charges on loans/overdrafts	Cheque deposits	Cheque withdrawals	Charges for depositing cash	Charges for making cheque payments	Credit/ debit card charges (inc. charge cards)	Other
Unweighted base: All who do not have free banking	*1112*	*144*	*273*	*216*	*86†*	*74†*	*54†*	*46†*	*176*
Weighted base: All who do not have free banking	*1096*	*149*	*260*	*207*	*82*	*78*	*52*	*46*	*179*
	%	%	%	%	%	%	%	%	%
1%-25%	9	10	10	10	15	10	4	3	8
26%-50%	21	13	21	21	30	25	28	16	24
51%-75%	29	20	30	34	24	39	40	36	28
76%-99%	16	12	20	15	14	11	12	23	19
100%	9	24	5	6	9	4	7	1	9
Don't know	17	21	15	14	8	11	10	21	11

Note: † denotes low base of <100, results should be treated as indicative only

Table 6.5 Proportion of total charges accounted for by most expensive service by annual banking costs

		Service							
	All	£1 - £249	£250 - £499	£500 - £999	£1000 -£1999	£2000 -£4999	£5000 - £19, 999	£20k+	Don't know
Unweighted base: All who do not have free banking	181	158	159	121	122	100	53†	218	181
Weighted base: All who do not have free banking	180	151	155	120	120	95	64	211	180
	%	%	%	%	%	%	%	%	%
1%-25%	14	11	10	4	5	6	10	10	14
26%-50%	15	25	31	22	27	19	24	11	15
51%-75%	25	30	33	40	34	38	27	15	25
76%-99%	15	18	11	17	18	26	32	6	15
100%	23	4	9	7	4	1	6	7	23
Don't know	9	12	6	10	11	10	1	51	9

Note: † denotes low base of <100, results should be treated as indicative only

Awareness of transitional remedy

6.19 In addition to the behavioural undertakings, transitional undertakings were also sought from the four main clearing banks operating in England and Wales to provide either current accounts paying interest (at base rate minus 2.5%) or accounts free of money transmission charges. This next section examines awareness of the transitional remedy and receipt of interest on current accounts or free money transmission amongst businesses located in England and Wales

6.20 As shown in Table 6.6, a quarter of SMEs in England and Wales were aware of the existence of the transitional remedy. In order to ascertain this in the survey, businesses were informed that “The largest banks in England and Wales now have to offer the choice of interest on business current accounts or free money transmission charges” and were asked if they were aware of these requirements.

6.21 Awareness in England and Wales was highest amongst the largest businesses with £5m - 25m turnover (35%). There were no significant differences in awareness between customers of the main four banks (23% of those with the main four banks were aware cf. 26% with smaller banks and 24% overall).

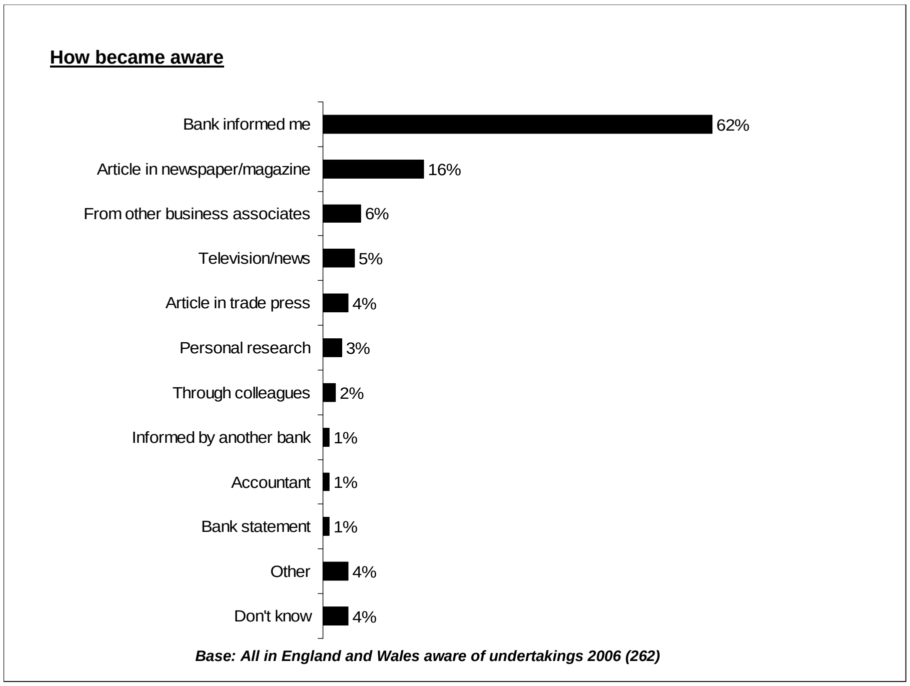
Table 6.6: Awareness of transitional remedy by turnover

		Turnover					
	All	**up to £100,000**	**£100,001 - £500,000**	**£500,001 - £1,000,000**	**£1 -£2 million**	**£2 - £5 million**	**£5 - £25 million**
Unweighted base: All respondents from England or Wales	*1085*	*370*	*344*	*112*	*83†*	*106*	*70†*
Weighted base: All respondents from England or Wales	*1092*	*364*	*333*	*108*	*77*	*116*	*94*
	%	*%*	*%*	*%*	*%*	*%*	*%*
Yes - aware	24	21	21	27	24	26	35
No - not aware	74	77	78	70	73	74	59
Don’t know	2	2	1	2	3	*	6

*Note: * denotes result of <0.5%*
† denotes low base of <100, results should be treated as indicative only

6.22 The main source of information on the transitional remedy was the banks themselves (62%), followed by an article in a newspaper or magazine (16%) (See Figure 6.2). Businesses who had switched or considered doing so were more likely to have found about it through an article in a newspaper or magazine (24% cf. 11% non-switchers), suggesting that this group may be more proactive in seeking information on business banking issues.

Figure 6.2 How became aware of transitional remedy



6.23 As Table 6.7 overleaf shows, half of businesses in England and Wales were aware they received interest on their current account and 8% knew they received free money transmission. While all customers of the main four banks in England and Wales should now receive one or other of these, a third (33%) of main four bank customers were not aware they received either. In fact, customers of other banks were more likely to be aware they received interest or free money transmissions (only 17% neither) – customers of other banks were significantly more likely to receive interest on their current account (68% cf. 47% four main banks), although the proportion receiving free money transmissions was the same.

6.24 Of the four main banks, Lloyds TSB and HSBC customers were most likely to be aware they were in receipt of interest on their current account (61% for both). Barclays customers were least likely to be aware of receiving one of these (44% neither).

6.25 Start up businesses (trading for less than two years) were more likely to be aware they received free money transmission (12% cf. 7% over 2 years).

Table 6.7 Whether receive interest or free money transmission charges on main business current account

		Age		Which bank have main account with	
	All	Under 2 years	Over 2 years	Main 4	Other
Unweighted base: All respondents from England or Wales	*1085*	*189*	*896*	*950*	*114*
Weighted base: All respondents from England or Wales	*1092*	*330*	*762*	*966*	*110*
	%	*%*	*%*	*%*	*%*
Interest on current account	50	54	48	47	68
Free money transmission charges	8	12	7	8	7
Neither	31	23	35	33	17
Don’t know	11	11	11	11	8

6.26 The rate of interest paid on current accounts was quite low. At current base rates[19], businesses should be receiving a rate of interest of 2%, however only 12% knew they were receiving this. It should be noted that half (50%) of businesses receiving interest were unable to say what rate they received.

Table 6.8 Rate of interest paid on main business current account

	All 2006
Unweighted base: All who receive interest	*525*
Weighted base: All who receive interest	*542*
	%
Under 0.5%	12
0.5% - 0.9%	12
1% to 1.4%	10
1.5% to 1.9%	3
2% to 2.4%	5
2.5 or over	7
Don't know	50

[19] Bank of England base rate is currently 4.5%.

SMEs' perception of charges

6.27 As well as comparing annual banking costs between the 2000 and 2006 surveys, the survey also sought to understand businesses' perceptions of changes in the level of charges paid on their main business account in the last three years.

6.28 Earlier in this chapter, annual banking costs were compared between 2000 and 2006. While the median banking cost had increased, the proportions in each band had remained similar. This suggested that there had been little, if any, change in the cost of banking in the period. When asked directly in the 2006 survey whether they felt the level of charges paid on their business current account had changed over the last three years, businesses' views were split – the same proportion felt charges had increased (43%) as had stayed the same (41%) (Table 6.9). Only a small minority (7%) felt charges had decreased. That said, the largest businesses (turnover of £5m - £25m) were more likely to feel that there had been a decrease (20%), as opposed to 5% among the smallest businesses (turnover of less than £100K).

6.29 It should be noted that growing businesses (those whose turnover had increased in last 3 years) were less likely than those whose turnover had decreased or stayed the same to feel their level of charges and fees they were paying had increased. This shows it is not simply a question of charges increasing in line with the size of business.

6.30 Businesses in England and Wales were slightly more likely to feel charges had decreased (8%) than those in Northern Ireland and Scotland (3%). However, customers of the main four banks in England and Wales were more likely to believe that charges had increased than customers of other banks (44% cf. 27%).

Table 6.9 Whether charges and fees have changed in last 3 years

		Turnover						Region	
	All	up to £100,000	£100,001 - £500,000	£500,001 - £1,000,000	£1 -£2 million	£2 - £5 million	£5 - £25 million	England/Wales	NI/ Scotland
Unweighted base: All respondents	*1222*	*423*	*386*	*120*	*91†*	*115*	*87†*	*1085*	*137*
Weighted base: All respondents	*1222*	*414*	*370*	*114*	*84*	*121*	*118*	*1092*	*130*
	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Increased significantly (>25%)	12	11	17	13	12	4	2	12	6
Increased slightly (<25%)	32	33	34	33	21	26	32	32	43
Stayed the same	41	40	38	43	43	47	41	41	41
Decreased slightly (<25%)	6	4	3	5	13	10	18	6	3
Decreased significantly (>25%)	1	1	1	-	2	2	2	1	1
Don't know	9	11	8	6	9	11	5	9	7
INCREASED	43	44	51	46	33	30	34	43	42
DECREASED	7	5	4	5	15	12	20	8	3

Note: † denotes low base of <100, results should be treated as indicative only

6.31 As Table 6.10 overleaf shows, around half of businesses felt other banks and building societies charged about the same as their own bank. Eleven per cent felt other banks would charge more and the same proportion felt other banks would charge less. Over a quarter could not say (27%).

6.32 Customers of other (non main four) banks were significantly more likely to believe they were getting a good deal: twenty-eight per cent believed that banks other than their own charged more, compared with 8% among main four customers. Switchers were also more likely to believe that other banks charged more (16% cf. 10% non switchers).

6.33 As discussed in the earlier chapter on customer satisfaction, (higher) charges appeared to be a significant source of dissatisfaction: those dissatisfied with their main bank were much more likely to believe that other banks charged less than their bank (34% cf. 7% satisfied). Similarly, those who were satisfied were more likely to believe that other banks charged more (13% cf. 3% dissatisfied) or the same (53% cf. 37% dissatisfied).

6.34 Those already considering switching were also more likely to believe that other banks charged less than their own bank (41% cf. 5% of those unlikely to switch).

Table 6.10 Whether perceive other banks to charge more or less than own bank

		Satisfaction with main bank		Which bank have main account with		Likelihood to switch		
	All	Satisfied	Dissatisfied	Other	Main 4	Unlikely	Would if approached	Considering
Unweighted base: All respondents	*1222*	*955*	*162*	*204*	*996*	*716*	*374*	*130*
Weighted base: All respondents	*1222*	*960*	*153*	*194*	*1010*	*707*	*382*	*129*
	%	*%*	*%*	*%*	*%*			
More	11	13	3	28	8	13	10	3
Same	51	53	37	34	54	53	51	36
Less	11	7	34	12	11	5	13	41
Don't know	27	28	26	27	27	29	26	21

6.35 The sample base is small so results need to be interpreted with caution; but when businesses who were aware they received interest on their current account or free money transmission and felt charges had decreased over the last three years (base 52) where asked what role the transitional remedy had played, only a quarter felt it had played any part.

Negotiating

6.36 A third of businesses had tried to negotiate prices with their main bank (32%) in 2006 (see Table 6.11 overleaf). The largest proportion indicated that they had not tried (64%), while a small number (2%) said their bank would not negotiate. The incidence of negotiating has dropped since 2000, when 49% said they had tried to negotiate.

6.37 In 2006, larger businesses were more likely to attempt to negotiate than smaller ones, reflecting the fact that they may be more likely to have finance specialists in house and to have more financial 'muscle'. Three-fifths of those with £5m - 25m turnover (62%) and nearly half (47%) of those with £2m - 5m turnover had tried to negotiate. Conversely, only 20% of those with less than £100K turnover had tried to do so.

6.38 Businesses who had been trading for more than two years were also more likely to have tried to negotiate charges (36% cf. 23% under 2 years): this may be linked to size, since newer businesses were more likely to be smaller but also to be receiving free banking.

6.39 In terms of sector, the business services (41%) and wholesale (39%) sectors were most likely to have tried to negotiate.

6.40 There is also evidence to suggest that businesses that are more active in the business banking market in other ways were also more likely to try to negotiate. This was the case for businesses with more than one current account (48% cf. 30% one account only) and those who had considered switching (47%).

6.41 Those who were dissatisfied with their bank showed signs that they had tried to do something about this by negotiating (41% tried cf. 31% satisfied).

Table 6.11 Whether business has tried to negotiate charges by turnover

	Year		Turnover					
	2000	2006	up to £100,000	£100,001 - £500,000	£500,001 - £1,000,000	£1 -£2 million	£2 - £5 million	£5 - £25 million
Unweighted base: All respondents	*1222*	*1222*	*423*	*386*	*120*	*91†*	*115*	*87†*
Weighted base: All respondents	*1222*	*1222*	*414*	*370*	*114*	*84*	*121*	*118*
	%	%	%	%	%	%	%	%
Yes	49	32	20	29	36	40	47	62
No – not tried	45	64	77	69	61	48	49	29
No – bank will not negotiate	2	2	3	1	3	-	2	3
Don't know	4	2	1	1	*	2	2	6

*Note: * denotes result of <0.5%*
† denotes low base of <100, results should be treated as indicative only

6.42 Around half of businesses (49%) felt that the bank's personnel had a free hand to negotiate, an increase of 8% since 2000 (see Table 6.12 overleaf). A further 48% felt they were constrained (no change since 2000).

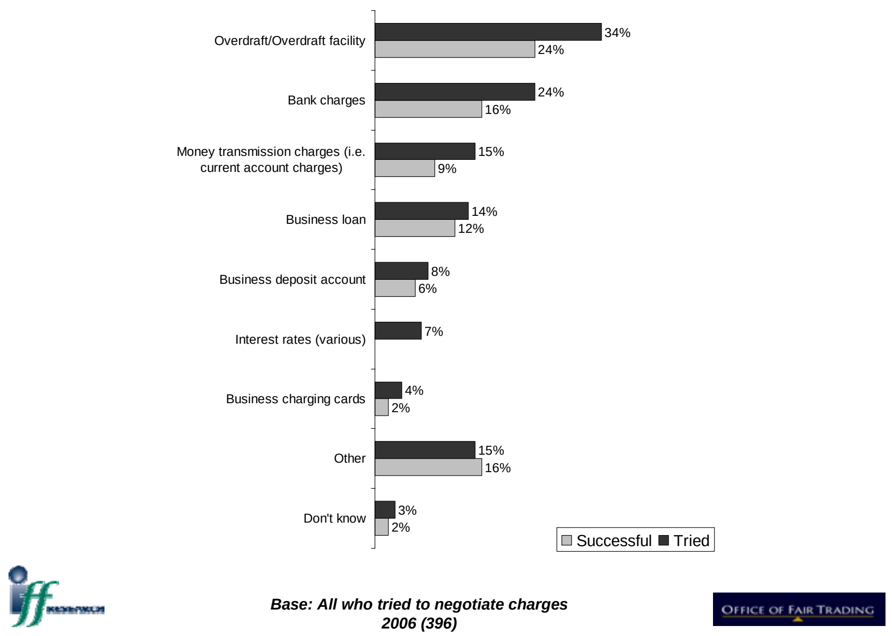
Table 6.12 Whether bank constrained in negotiations

	2000	2006
Unweighted base: All who tried to negotiate charges	*546*	*396*
Weighted base: All who tried to negotiate charges	*N/A*	*393*
	%	%
Freehand	41	49
Constrained	49	48
Don't know	9	3

6.43 Figure 6.3 and Figure 6.4 overleaf show the services businesses tried to negotiate and those for which they were successful in their negotiations in 2006 and 2000.

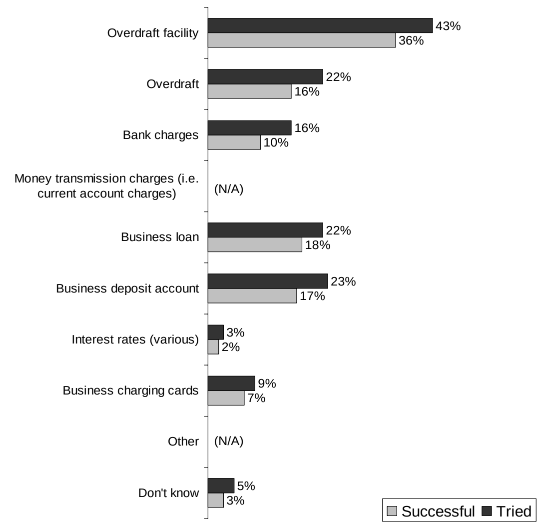
6.44 The services businesses most commonly tried to negotiate in 2006 were their overdraft or overdraft facility (34%) and bank charges (24%). Similarly, businesses were most likely to successfully negotiate their overdraft or overdraft facility (24%) and bank charges (16%). Twelve per cent successfully negotiated a business loan. These figures show that a substantial proportion of businesses were successful in their negotiations, across the different services.

Figure 6.3 Services tried to negotiate and successfully negotiated in 2006



Base: All who tried to negotiate charges 2006 (396)

Figure 6.4 Services tried to negotiate and successfully negotiated in 2000



Base: All who tried to negotiate charges 2000 (546)

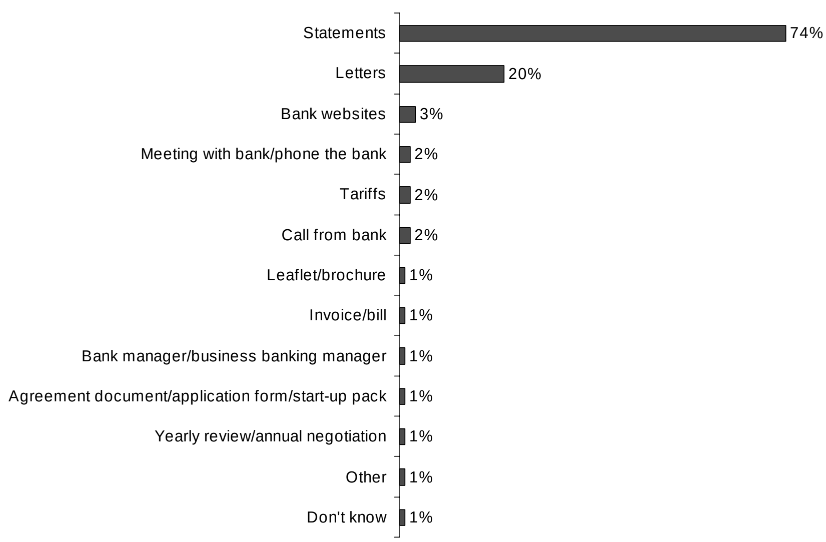
6.45 In 2000, the services businesses were most likely to try to negotiate were their overdraft facility (43%) and overdraft (22%)[20], business deposit accounts (23%) and business loans (22%). Businesses were most likely to successfully negotiate their overdraft facility (36%), business loans (19%) and business deposit accounts (16%). Again, many businesses were successful in their negotiations.

Access to information on charges

6.46 One of the main aims of the behavioural undertakings was to increase the amount and transparency of information on charges. The final section of this chapter examines how businesses obtained information on charges on their business account and whether they felt they were transparent.

6.47 As Figure 6.5 shows, the most common source of information on charges was bank statements (74%), followed by a letter from the bank (20%).

Figure 6.5: How obtain information about charges on main business account



Base: All who do not have free banking 2006 (1112)

[20] Overdraft and overdraft facility were asked separately in 2000, but combined in 2006.

6.48 As shown in Table 6.13, the majority of businesses felt that charges relating to the main business account were suitably transparent, although 15% did not. Again, those who were dissatisfied with the overall performance of their bank (34% cf. 11% satisfied) and those who had considered switching (24% cf. 10% no switching activity) were most likely to feel it was not transparent. It is a concern that those who have considered switching were more likely to feel the charges were not transparent, as this group is more likely to have had direct experience of trying to compare prices, when shopping around. It should be noted however that the views of those that actually switched were in line with the average.

Table 6.13 Transparency of charges relating to main business account

		Satisfaction with main bank		Switching Activity		
	All	**Satisfied**	**Dissatisfied**	**Switched bank L3Y**	**Considered switching L3Y**	**No switching activity**
Unweighted base: All respondents	*1112*	*860*	*154*	*163*	*289*	*657*
Weighted base: All respondents	*1096*	*853*	*144*	*124*	*286*	*684*
	%	*%*	*%*	*%*	*%*	*%*
Yes	83	87	63	82	73	88
No	15	11	34	15	24	10
Don't know	2	2	4	3	3	2

6.49 As discussed more fully in the next chapter, when businesses which had switched or considered switching in last three years were asked how easy they found it to compare price information between banks, most (65%) felt it was easy, although a fifth felt it was not. However, in line with the above findings on transparency those who considered switching were more dissatisfied than those who actually switched in the last three years (25% of those who considered switching did not find pricing information easy to compare compared with 14% of businesses that actually switched).

6.50 As Table 6.14 overleaf shows, half of businesses felt they received sufficient information on unauthorised overdraft charges, but 15% did not, whilst the remainder could not comment as they had no experience of this issue. Those dissatisfied with the overall performance of their bank were more likely to state that they did not receive sufficient information on this (36% cf. 10% satisfied). This was also the case for those who had considered switching (26% cf. 10% no switching activity). This suggests that this is an area of contention for some businesses.

Table 6.14 Whether businesses receive sufficient information about unauthorised overdraft charges

		Satisfaction with main bank		Switching Activity		
	All	**Satisfied**	**Dissatis fied**	**Switched bank L3Y**	**Considered switching L3Y**	**No switching activity**
Unweighted base: All respondents	*1112*	*860*	*154*	*163*	*289*	*657*
Weighted base: All respondents	*1096*	*853*	*144*	*124*	*286*	*684*
	%	%	%	%	%	%
Yes	48	50	38	51	45	49
No	15	10	36	20	26	10
Not applicable	34	37	23	27	27	38
Don't know	3	3	2	2	1	3

7 Switching

7.1 This chapter discusses the switching behaviour of SMEs. It examines how many have switched their main business account provider or some services in the last three years and how many have considered or are currently considering switching. The chapter also explores the reasons for switching before examining awareness of the new switching procedures (which were part of the behavioural undertakings given by banks) and what impact (if any) the procedures are having on SMEs propensity to switch.

Switching behaviour

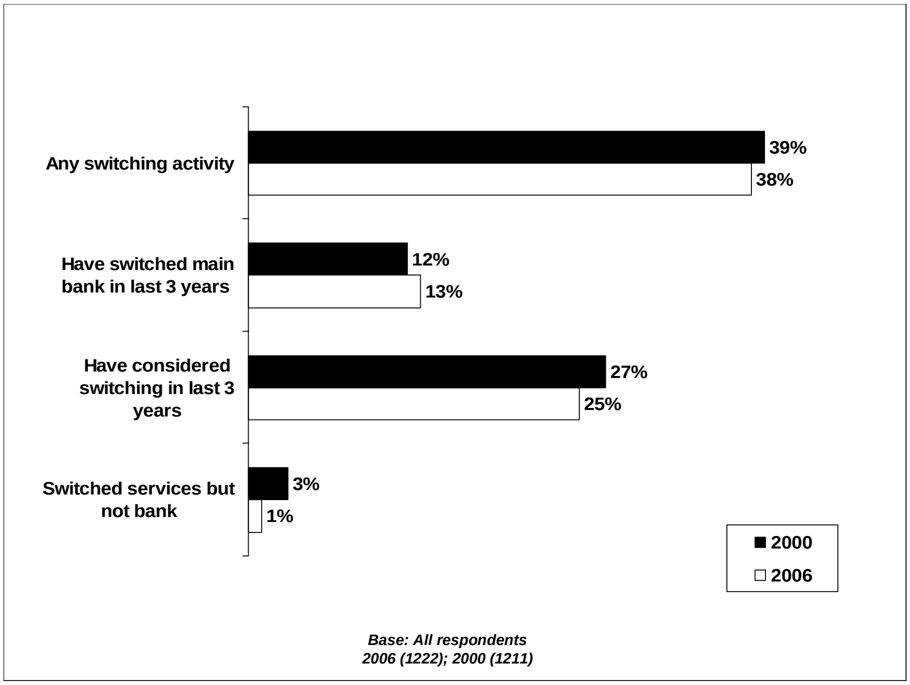
7.2 As shown by Figure 7.1 there has been no significant change in switching behaviour since 2000. Just under two fifths (38%) undertook any switching activity (defined as actually switching or considering switching any of their services in the last three years) compared to 39% in 2000.

7.3 The proportion of businesses which have switched their main business account provider in the last three years remained at one in eight businesses (13% 2006 cf. 12% 2000). Those that had considered switching the provider of their main business account over the last three years also did not change significantly between the two surveys (25% cf. 27% in 2000). Similarly the proportion of businesses which switched services only did not change significantly (3% cf. 1% in 2000).

7.4 The survey conducted by Warwick Business School on Finance for Small and Medium–Sized Enterprises[21] indicated that the annual switching rate was 2%. This is slightly lower than the annual rate in this survey (4%) although it should be noted that the two surveys are not wholly comparable due to differences in the definition of the population.[22]

[21] Finance for Small and Medium sized Enterprises (2004 UK survey on SME Finances) – Warwick Business school
[22] The Warwick study covered a representative cross section of businesses with up to 250 employers (this survey covered with a turnover of up to £25m)

Figure 7.1: Switching behaviour



7.5 As the following table shows, the SMEs that switched provider were more likely to be smaller businesses (14% of businesses with a turnover of up £1m had switched provider cf. 10% with a turnover of £1-25m). They were also more likely to be in the manufacturing and business services sectors (18% cf. 13% overall). As discussed in chapter 4, businesses which had switched were more likely to now be banking with one of the smaller banks (26% of business which are using smaller banks had switched provider cf. 13% overall).

7.6 Businesses in the wholesale sector were more likely to have considered switching (31% cf. 25%) as were businesses which perceived the cost of their banking to have increased over the last three years (31%). The largest businesses (turnover £5-25m) were the least likely to have considered switching (20%).

7.7 As discussed earlier in this report (paragraph 4.39) there is a strong correlation between overall satisfaction with main bank and propensity to switch. Of the businesses dissatisfied with the overall service from their main bank, two thirds (66%) had considered switching banks in the last in the last three years (and 71% of those very dissatisfied considered switching banks). Linked to this, businesses dissatisfied with level of fees and charges were also more likely to consider switching (81%).

Table 7.1 Proportion considered switching or switched by sector, turnover, satisfaction, main bank used and awareness of procedures

	All	Sector									Turnover						Satisfaction with main bank		Main Bank		Awareness of procedures	
		Bus services	Manufacturing	Wholesale	Retail	Construction	IT	Transport	Other services	Other	up to £100,000	£100,001 - £500,000	£500,001 - £1,000,000	£1 -£2 million	£2 - £5 million	£5 - £25 million	Satisfied	Dissatisfied	Main 4	Other	Aware	Not aware
Unweighted base: All respondents	*1222*	*201*	*203*	*190*	*168*	*66†*	*61†*	*33†*	*146*	*154*	*423*	*386*	*120*	*91†*	*115*	*87†*	*955*	*162*	*996*	*204*	*316*	*888*
Weighted base: All respondents	*1222*	*194*	*185*	*183*	*166*	*83*	*62*	*33*	*148*	*167*	414	370	114	84	121	118	*960*	*153*	*1010*	*194*	*315*	*888*
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Switched bank in last 3 years	13	18	18	13	11	8	17	9	10	11	17	10	19	13	8	11	13	9	11	26	9	15
Considered switching in last 3 years	25	18	25	31	25	16	15	25	26	32	24	28	19	30	28	20	16	66	26	20	27	24

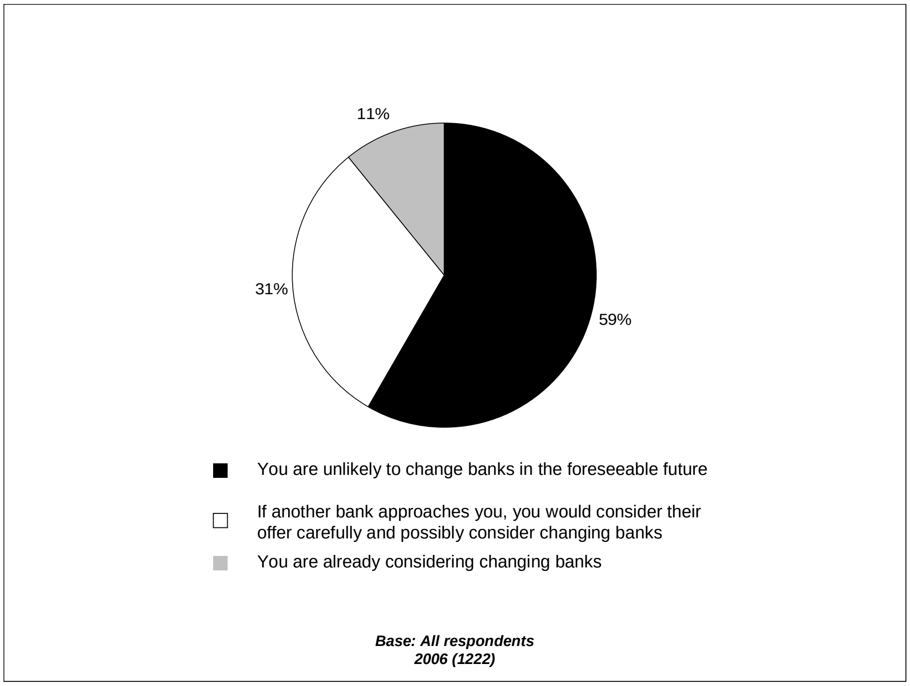
Note: † denotes low base of <100, results should be treated as indicative only

Current attitude to switching

7.8 Before examining the reasons why SMEs switched (or considered switching) it is important to look at the current loyalty of SMEs surveyed and their likelihood to switch in future. As well as being asked whether they had actually switched or not in the last three years, all respondents were asked what their current attitudes to switching were, i.e. whether they were already considering switching, whether they would consider switching if approached by another bank, or whether they were unlikely to change banks at all.

7.9 As Figure 7.2 shows, two in five (42%) businesses were currently considering switching or would consider if approached. That said, the majority (59%) of businesses were unlikely to change banks in the foreseeable future.

Figure 7.2: Current attitude to switching



7.10 The larger businesses were the least likely to consider switching in future whereas the smaller organisations were the most likely to consider switching. Three quarters (76%) of the largest businesses (turnover £5m-£25m) claimed to be unlikely to switch (cf. just 55% of the smallest with under £100k turnover).

7.11 As shown by Table 7.2 below, businesses with the smaller banks were less likely to consider switching in future whereas those with the big 4 banks were the most likely to consider switching. Two thirds (67%) of those with smaller banks claimed to be unlikely to switch compared to 57% of those with larger banks.

Table 7.2 Attitude to current switching by main bank used

		Main Bank	
	All	**Main 4**	**Other**
Unweighted base: All respondents	*1222*	*996*	*204*
Weighted base: All respondents	*1222*	*1011*	*193*
	%	*%*	*%*
Unlikely to switch banks	59	57	67
Would consider if another bank approached	31	32	27
Already considering	11	11	7

7.12 As would be expected, satisfaction with their current bank also played a major role in a business's likelihood to switch. Half (50%) of those currently dissatisfied with the overall performance of their bank were already considering changing banks compared to just 3% of those currently satisfied.

Willingness to switch if charges increased

7.13 The 2000 survey showed one of the key reasons for switching was the level of prices and charges. To test how sensitive businesses were to charges in 2006, all businesses were asked how likely they would be to switch should their current main bank increase its charges by between 5% and 10% and, if not, what level of increase would make them switch. As Table 7.3 shows, a fifth of all businesses (19%) said they would definitely switch if charges increased *between* 5% and 10%. A further 48% would seriously consider switching if charges increased by this amount and 16% would talk to another bank if approached. Only 13% said they would do nothing as an increase of between 5-10% was not enough to warrant switching.

7.14 Businesses which had been trading under 2 years were the most likely to state they would definitely switch with an increase of 5% to 10% in charges (25%) as were those who were dissatisfied with the overall provided by their main bank (48%).

Table 7.3 Likelihood to switch if charges increased by 5-10% by age and overall satisfaction

	All	Age of business		Satisfaction with main bank	
		Under 2 years	Over 2 years	Satisfied	Dissatisfied
Unweighted base: All respondents	*1222*	*205*	*1017*	*955*	*162*
Weighted base: All respondents	*1222*	*354*	*868*	*960*	*153*
	%	%	%	%	%
Definitely switch banks	19	25	17	13	48
Seriously consider switching banks	48	49	48	51	35
Would talk to another bank if approached	16	14	17	18	7
Do nothing (this is not enough to warrant switching)	13	8	15	13	10
Don't know	4	4	3	5	-

7.15 The majority of businesses would be more likely to switch if their charges increased by 10% or more. Only a small proportion (6%) would remain with their bank even if charges increased by over 40%.

Ease of comparing prices between banks

7.16 In 2006 only, businesses which switched or at least considered switching were asked how easy they found it to compare pricing information between the banks. As Table 7.4 shows, two thirds felt it was very or fairly easy (66%); but a fifth (21%) did not.

Table 7.4 Ease of comparing pricing information by switched in the last 3 years and main bank used

	All	Switching activity		Main Bank	
		Switcher	Considered	Main 4	Other
Unweighted base: All who have switched or considered switching	*507*	*201*	*306*	*390*	*107*
Weighted base: All who have switched or considered switching	*463*	*159*	*304*	*367*	*89*
	%	%	%	%	%
Very easy	32	35	39	29	42
Fairly easy	34	36	33	33	35
Not very easy	11	7	14	11	13
Not at all easy	10	7	11	10	6

7.17 Businesses which had switched were more likely to feel it was easy to compare pricing information (71% cf. 66% overall), as were those which did not bank with any of the main four clearing banks (77%). Similarly, these two groups reported a lower incidence of finding switching difficult.

Informing bank of decision

7.18 Around half (47%) of all businesses who switched or considered switching did inform their (old) bank that they were considering moving their account. As Table 7.5 overleaf shows, in general, the larger the business the more likely it was to inform the old of bank of its intentions.

7.19 In the 2000 survey only businesses which considered switching (but did not switch) were asked if they had informed the bank of their potential move. In 2000, two-fifths (39%) of businesses which considered switching told their bank. The comparable figure in 2006 was 43%, which is slightly, but not significantly, higher.

7.20 In 2006, of the businesses that did inform their bank (including switchers), the most common response from the bank was to do nothing (49%). In a quarter of cases (23%) the bank reduced prices and in 13% of cases businesses felt that the bank improved its service. A small minority of businesses were still in negotiation with their bank (5%).

7.21 As Table 7.6 below shows, although base sizes become small and should be treated with caution, the larger the business the more likely the bank was to have taken some action (81% cf. 51% overall) – most commonly to reduce prices.

Table 7.5 Whether informed bank were considered switching by turnover, main bank and switching activity

		Turnover						Main Bank		Switching last 3 years		2000
	All	**up to £100,000**	**£100,001 - £500,000**	**£500,001 - £1,000,000**	**£1 -£2 million**	**£2 - £5 million**	**£5 - £25 million**	**Main 4**	**Other**	**Switcher**	**Considered**	**All considering switching**
Unweighted base: All who have switched / considering switching	*507*	*184*	*151*	*52†*	*40†*	*43†*	*31†*	*390*	*107*	*201*	*306*	*287††*
Weighted base: All who have switched / considering switching	*463*	*167*	*138*	*43*	*36*	*73*	*36*	*367*	*89*	*169*	*304*	*NA*
	%	%	%	%	%	%	%	%	%	%	%	%
Yes	47	38	43	54	65	58	71	46	53	55	43	39
No	51	62	56	44	35	40	19	52	46	41	56	60
Don't know	2	1	1	2	-	2	9	2	1	4	1	1

Note: † denotes low base of <100, results should be treated as indicative only
†† 2000 based on all who considered switching but did not

Table 7.6 Banks response by turnover and switching activity

		Turnover						Main Bank		Switching last 3 years		2000
	All	up to £100,000	Main 4	Other	£1 -£2 million	£2 - £5 million	£5 - £25 million	Main 4	Other	Switcher	Considered	All considering switching and told bank
Unweighted base: All who told old bank	*242*	*74*†	*68*†	*27*†	*26*†	*25*†	*23*†	*178*	*57*†	*116*	*126*	*112*††
Weighted base: All who told old bank	*219*	*63*	*59*	*23*	*23*	*25*	*26*	*167*	*47*	*88*	*131*	*NA*
	%	%	%	%	%	%	%	%	%	%	%	%
Did nothing	49	72	56	41	37	29	19	45	65	67	38	29
Reduced prices/ fees/charges	24	9	18	29	45	26	53	26	17	11	33	38
Service improved	13	11	12	3	9	30	20	14	11	3	21	25
Spoke to them / in negotiation	5	4	3	15	-	7	2	6	1	4	5	N/A
Changed the manager / account manager	2	-	4	-	-	5	6	3	-	-	4	N/A

Note: † denotes low base of <100, results should be treated as indicative only
†† 2000 based on all who considered switching but did not and told bank

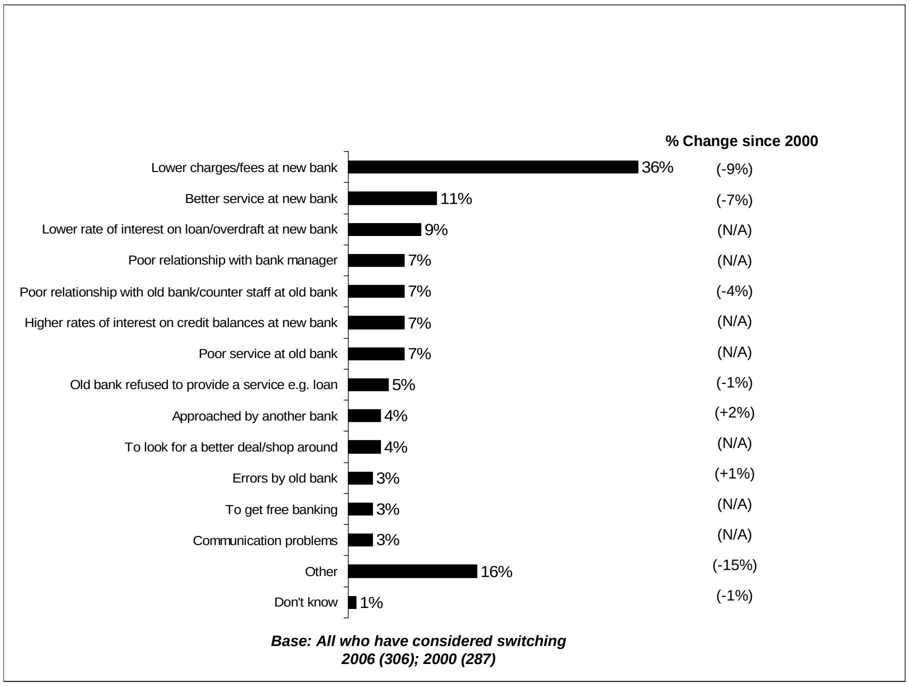
7.22 There was also significant variation by whether the business did switch or not. Two thirds (67%) of businesses which did switch claimed their bank did nothing when approached compared to 38% (an increase of 9% since the 2002 survey) of those which did not switch claimed their bank did nothing.

7.23 Although lower than for switchers, the figure of 38% among those that considered switching is a significant increase since 2000 when only 29% of those that considered but did not switch claimed their bank did nothing.

Consideration of switching

7.24 All businesses which had considered switching in the past three years (but had not done so) were asked why they considered switching and why, ultimately, they chose not to. As Figure 7.3 shows, for a third of businesses (36%) the main reasons were lower charges or fees at the bank they were considering switching to.

Figure 7.3: Reasons why considered switching



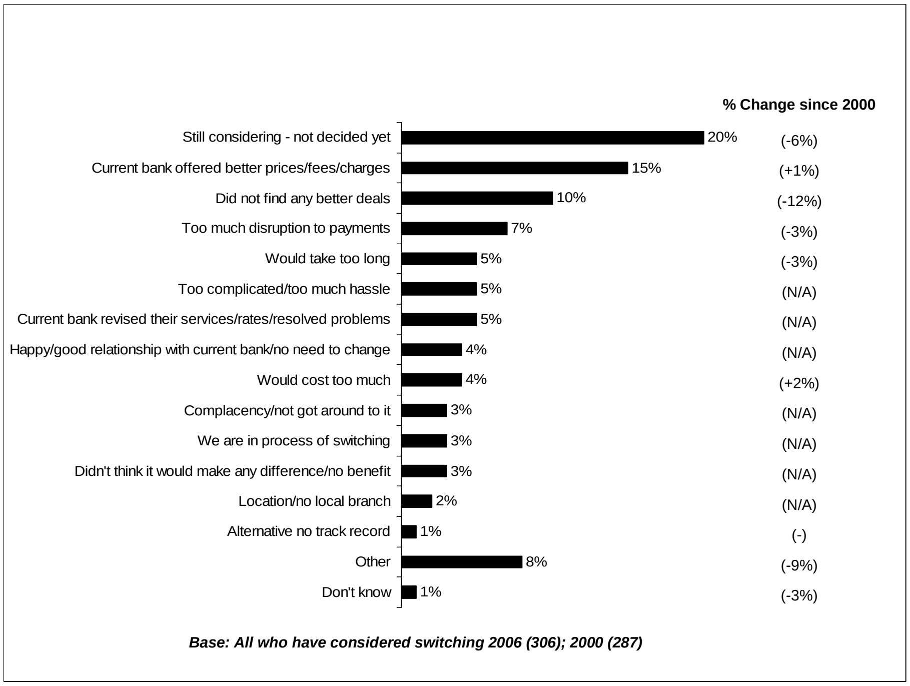
7.25 This was also the main reason mentioned in 2000, although in 2006 it was down by 9%.

7.26 Other reasons for considering switching were mainly centred either around getting better rates of interest (9% seeking lower rates on loans/overdrafts and 7% higher rates on deposits) or seeking better service (better service at new bank (11%), poor service at old bank (7%), relationship with bank manager (7%) or counter staff (7%) at old bank).

7.27 There were few variations by size or sector although the smallest SMEs (turnover of under £100,000) were the most likely to mention lower charges and fees (46% cf. 36%) overall.

7.28 In terms of why they did not switch, as Figure 7.4 shows, a fifth (20%) of all businesses who had considered but not switched were still in the process of deciding. This was also the main reason given for not switching in 2000 although it was down by 6% in 2006.

Figure 7.4 Reasons for not switching



7.29 One in seven (15%) stated that their current bank had offered better prices and fees and therefore they chose to remain with the bank. This is on par with the proportion stating this in 2000 (14%). A further 10% stated that they could not find any better deals and therefore did not switch, down significantly since 2000 when over a fifth (22%) claimed they had not switched because they could not find any better deals.

7.30 Other reasons for deciding not to switch mainly reflected that the perceived hassles of switching put them off (too much disruption to payments (7%), would take too long (5%), too complicated (5%), would cost too much (4%)).

7.31 As Table 7.7 shows, (although the base size is small and should be treated with caution) businesses under 2 years old were the most likely to still be considering switching (35% cf. 20% overall) as were those who were dissatisfied with the overall service from their main bank (also 35%). However, businesses which were satisfied with the overall service from their main bank were more likely to state that their current bank had offered them a better deal in terms of prices and fees (22% cf. 15% overall).

Table 7.7 Why didn't switch banks by age and overall satisfaction

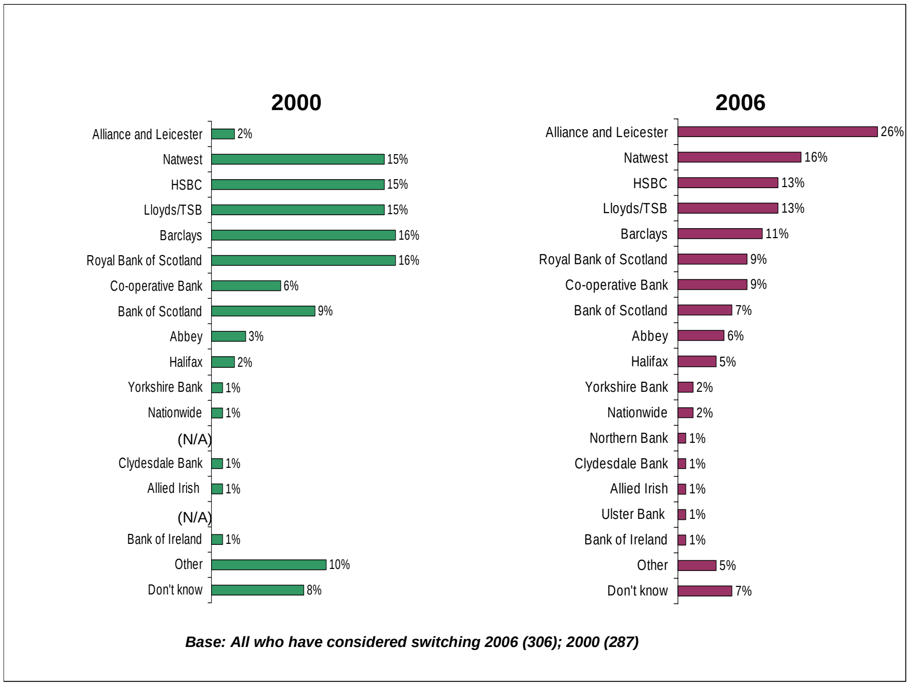
		Age of business		Satisfaction with main bank	
	All	**Under 2 years**	**Over 2 years**	**Satisfied**	**Dissatisfied**
Unweighted base: All who have considered switching	*306*	*45†*	*200*	*160*	*97†*
Weighted base: All who have considered switching	*304*	*77*	*227*	*156*	*101*
	%	%	%	%	%
Still considering	20	35	15	10	35
Current bank offered better prices	15	15	15	22	2
Did not find any better deals	10	2	12	14	6
Too much disruption	7	5	7	7	7
Would take too long	5	2	6	4	8
Too complicated	5	4	6	6	4
Current bank revised rates/solved problems	5	2	6	9	1
Happy/good relationship with old bank	4	2	5	7	-
Would cost too much	4	5	3	5	3
We are in the process of switching	3	5	2	2	3
Complacency / not got around to it	3	3	3	1	5
Didn't think it would make any difference / no benefit	3	-	3	2	1
Location / no local branch	2	3	2	2	2
Alternative no track record	1	-	1	1	-
Other	8	2	11	8	9
Don't Know	5	15	3	-	14

Note: † denotes low base of <100, results should be treated as indicative only

7.32 All businesses which had considered switching were also asked which banks they had considered switching to (in both 2000 and 2006). As the following Figure 7.5 shows, a wide range of banks were mentioned in both years, but the four main clearing banks accounted for a lower proportion of banks approached in 2006 than it did in 2000 (totalling 62% in 2006 cf. 77% in 2000).

7.33 Of particular note is the significant increase in the proportion who had approached Alliance and Leicester (26% cf. 2% in 2000), which may reflect their increased marketing activity in the sector.

Figure 7.5 Who considered switching to



7.34 In 2006, all businesses which did not consider one of the smaller banks were asked if there was a reason for not considering them. Almost a quarter (22%) claimed there was no particular reason. Of those that were able to give a reason, a wide range of issues were cited, the most common of which included; not having a local branch (12%), not being approached by any smaller banks (6%); not knowing smaller banks could offer the services they needed (6%), needing international coverage (6%); because smaller banks were perceived to be more expensive (5%) or less knowledgeable.

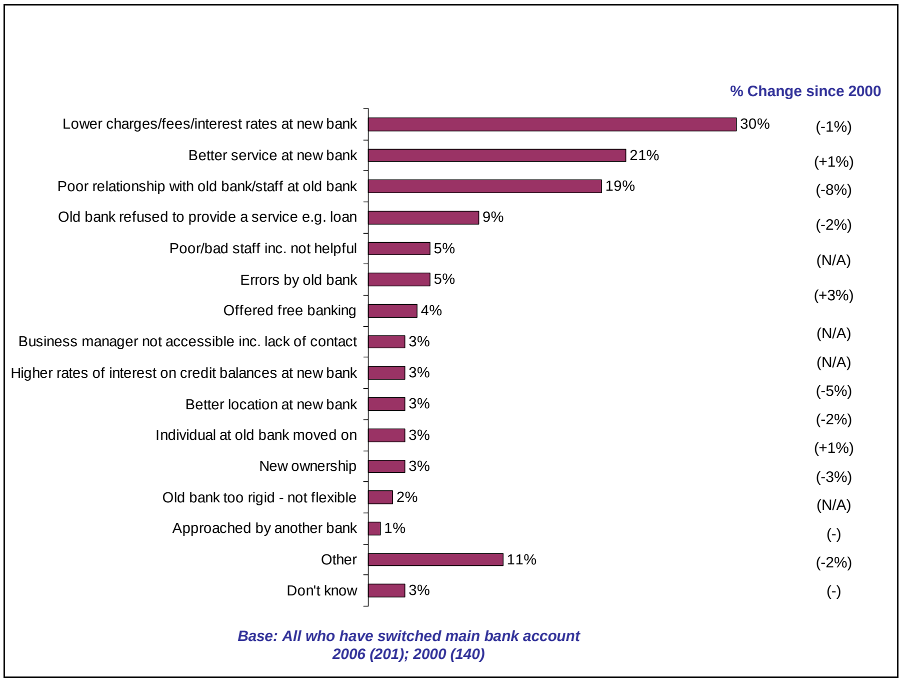
Reasons for switching

7.35 Amongst businesses who actually switched provider in the last three years the key reasons for doing so were similar to those for considering switching, namely pricing and service quality issues. Although there have been minor changes in the exact proportions mentioning them, the key reasons for switching banks have remained the same since 2000.

7.36 As Figure 7.6 shows, the most common reason for switching given was in pursuit of a better deal (be that in the form of lower rate of charges, fees or a higher interest rate at the new bank (30%), as it was in 2000 (31%).

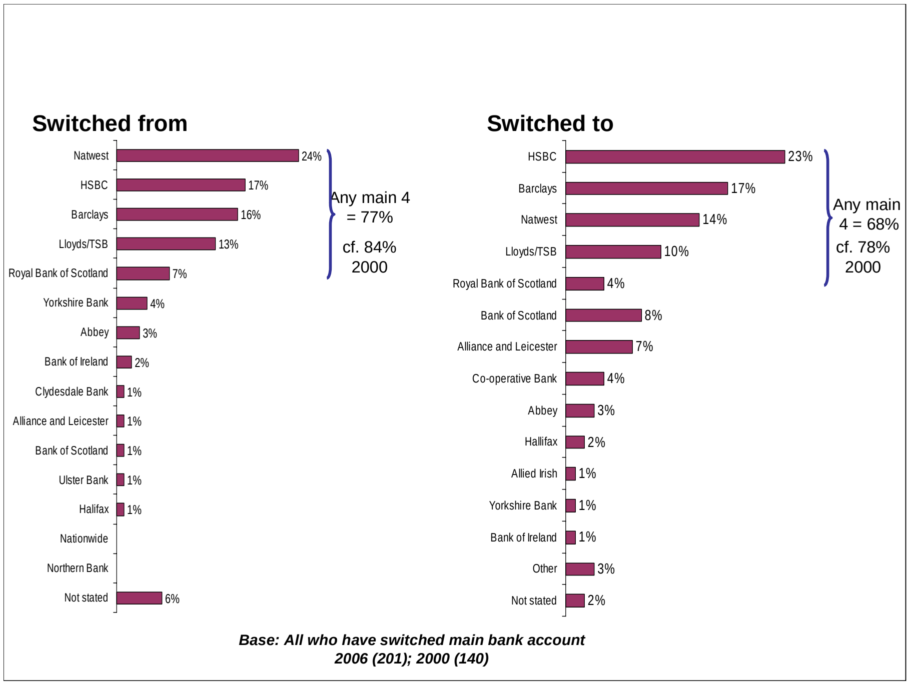
7.37 A fifth (21%) of businesses switched as they felt the new bank would offer a better service and a further fifth (19%) felt that a poor relationship with the old bank 'pushed' them into switching (the comparable proportions in 2000 were 20% and 27% respectively.). Smaller proportions mentioned more specific aspects of poor service including errors 5%, staff being unhelpful (5%) and business managers being difficult to contact (3%). Just under one in ten switched because the old bank refused to grant a service such as a loan (9%).

Figure 7.6 Reasons for switching



7.38 Figure 7.7 shows the banks that switchers have switched from and to. In 2006, 77% of switchers came from the main four banks, compared with 84% in 2000. Similarly, in 2006, 68% of switchers switched to one of the main four banks, compared with 78% in 2000.

Figure 7.7 Banks switched to and from

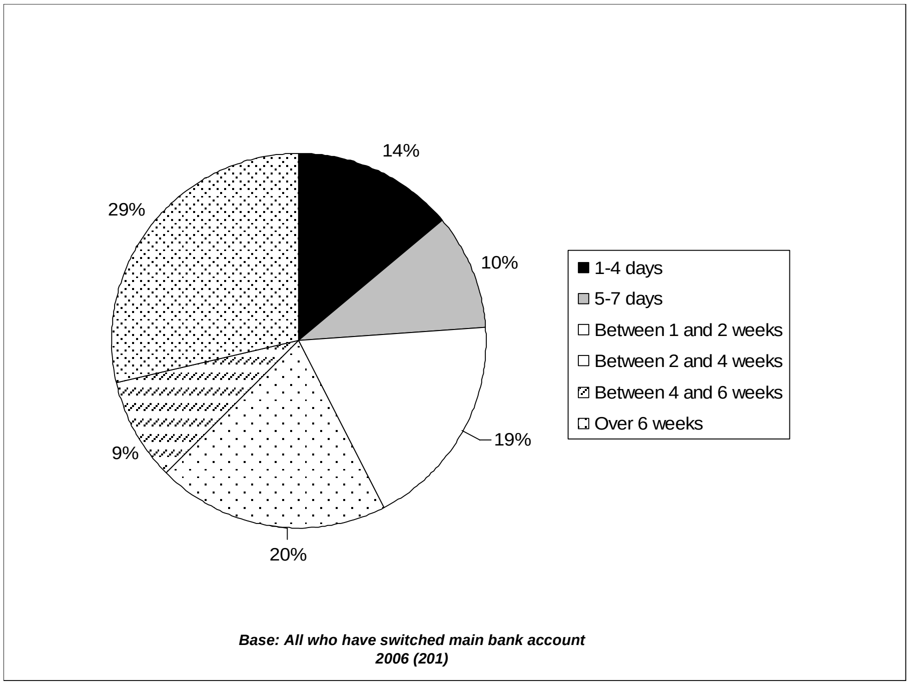


Issues relating to switching

7.39 Under the behavioural undertakings, new procedures were introduced to improve the speed and efficiency of switching between banks. To examine whether these new procedures have had an impact, SMEs which had switched their main current account were also asked about the process involved, i.e. how long this took, and if any problems occurred during the process.

7.40 As Figure 7.8 shows, a quarter (24%) of businesses surveyed in 2006 said the process had been completed within the seven days. The majority of businesses (76%) perceived it took longer, with a significant proportion (29%) saying the whole process took longer than six weeks. This question was not asked in the 2000 survey, so there is no comparative data. It should also be noted that this is firms' perception of how long the process took and as the questionnaire was already on the long side it was not possible to include any additional questions to examine this issue further.

Figure 7.8 Time taken to switch



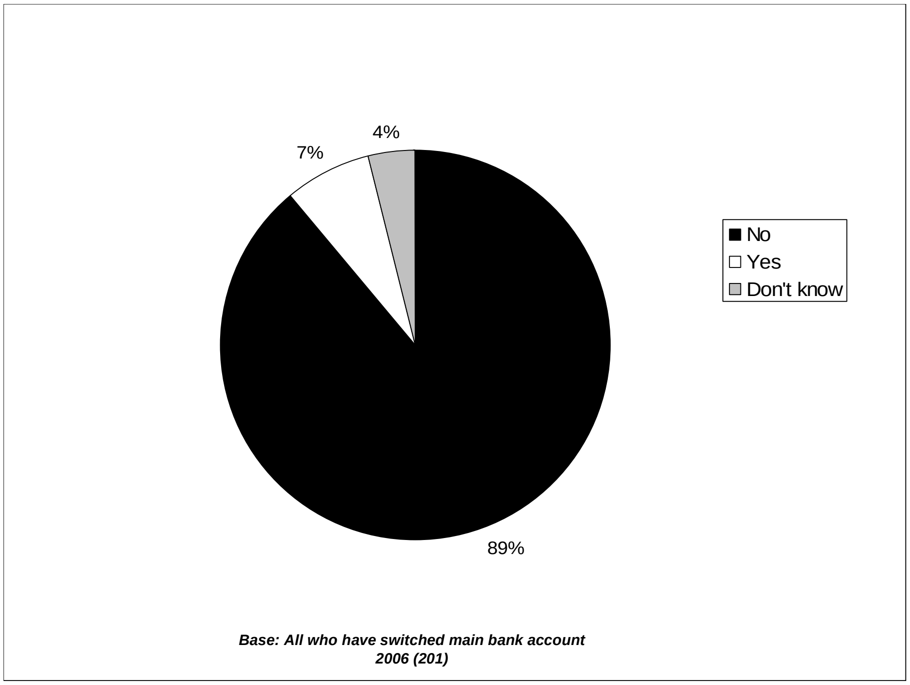
7.41 Of all businesses which switched, a quarter (25%) encountered problems when doing so. This is up significantly since 2000 (14% in 2000). That said, this still means for the majority (75%) no problems were encountered.

7.42 For the few businesses which did encounter problems (this was only 39 businesses and as such figures should be treated with caution), the main difficulties cited were that it took too long (39%) and that there were problems in moving across direct debits and standing orders (37%).

7.43 Around half of the SMEs which encountered problems claimed they would be less likely to try switching again as a result of the problems. This is on par with the proportions seen in 2000 but on these base sizes comparisons should be treated as indicative only.

7.44 Aside from any specific problems, businesses which had switched were asked whether any charge was levied by their old bank. As the following Figure 7.9 shows, in the majority of cases no charge was levied (89%). Only seven per cent claimed to have been charged.

Figure 7.9 Whether switching charge imposed

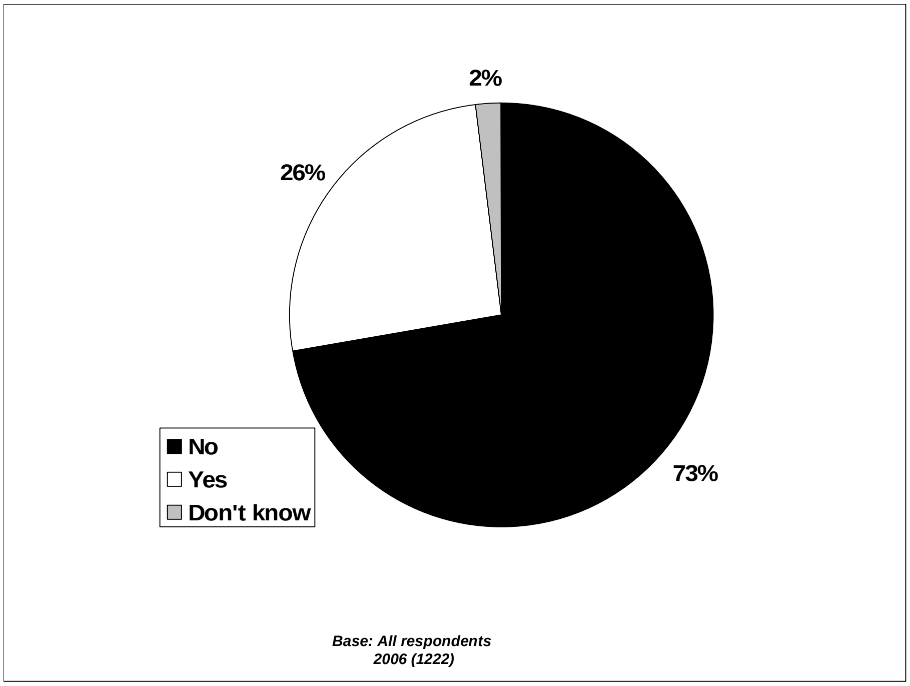


Awareness of procedures

7.45 All businesses (and not just those that had switched or considered switching) were asked if they were aware of the new procedures for switching banks. The question first explained that "procedures were introduced in 2004 to make it easier to switch business current accounts, for example establishing a procedure and timetable to complete the switch" and then asked if they were aware of any of these procedures governing the switching of accounts and how they heard about them.

7.46 As shown in Figure 7.10 a quarter (26%) of businesses were aware of the switching procedures.

Figure 7.10 Awareness of procedures governing switching of accounts



7.47 The largest businesses (£5m - £25m turnover) and those in the wholesale sector were the most likely to be aware of the procedures (38% and 32% respectively).

7.48 SME's who had actually switched accounts were significantly less likely to be aware of the procedures (18%) as were those which held their main account with smaller banks (18%).

Table 7.8. Awareness of procedures by sector and switching activity

		Switched last 3 years		Sector								
	All	Switcher	Non switcher	Bus services	Manufacturing	Wholesale	Retail	Construction	IT	Transport	Other services	Other
Unweighted base: All respondents	*1222*	*201*	*1021*	*201*	*203*	*190*	*168*	*66†*	*61†*	*33†*	*146*	*154*
Unweighted base: All respondents	*1222*	*159*	*1063*	*194*	*185*	*183*	*166*	*83*	*62*	*33*	*148*	*167*
	%	%	%	%	%	%	%	%	%	%	%	%
Yes	26	18	27	27	25	32	25	27	18	31	21	24
No	73	82	71	72	72	67	74	72	82	69	76	73
Don't know	2	1	2	1	3	1	*	1	-	-	3	3

Note: † denotes low base of <100, results should be treated as indicative only

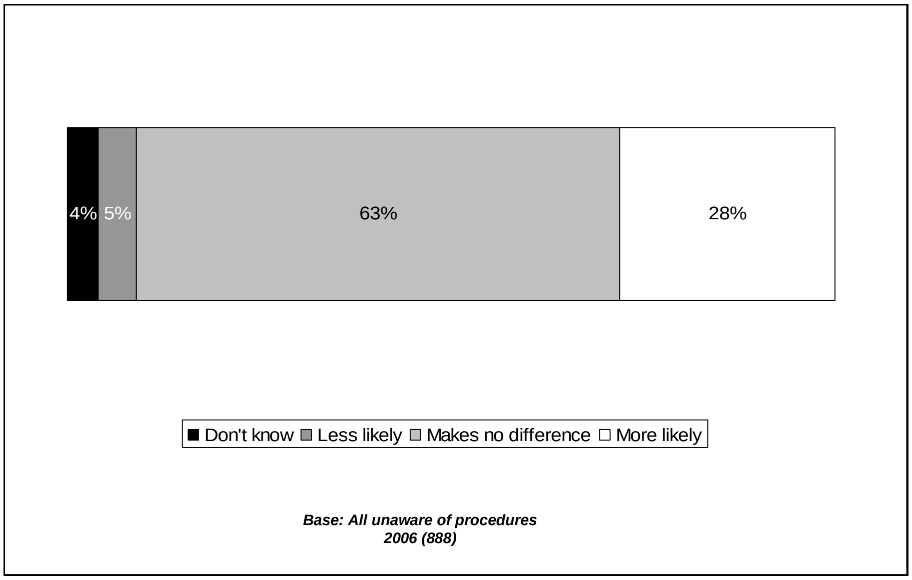
7.49 Of the businesses which were aware of the switching procedures, the main sources of information were through the bank itself (46%), through an article in a magazine (20%), or through an article in the trade press (9%).

7.50 A third (36%) of businesses aware of the procedures knew specifically that the bank should pay compensation if the switch is not completed according to the agreed timetable. This represents only about one in ten of all businesses (9%).

7.51 As already discussed, only a few (39) of businesses which had switched businesses were aware of the procedures. Among these, only a small number felt knowing about the procedures played any role in their decision to switch banks (2 claimed it played a key role and 6 claimed it played a minor role). As the base size is so small these figures are given for illustration only.

7.52 All businesses which were not aware of the new procedures (regardless of whether they had switched or not) were asked if knowing about the procedures would make them more or less likely to consider switching in future. As shown by Figure 7.11, among businesses that were not aware of the procedures governing switching, most (63%) felt knowing about it would make no difference to their likelihood to switch, although just over a quarter (28%) felt it would make a difference. This was particularly the case amongst those who were currently more predisposed to switching, 67% of those who were already considering switching and 42% of those who might switch if approached, felt that knowing about the new procedures would encourage them to switch.

Figure 7.11 Impact of procedures on switching



7.53 Businesses in the retail sector were more likely to claim knowing about the procedures would make them more likely to switch (42%) as were businesses based in Scotland (38%). The larger SMEs (with a turnover of £2-25m) were the least likely to feel the procedures would play a part in their future decisions over switching (16%).

Table 7.9. Whether procedures make more or less likely to switch by region and likelihood to switch

		Region		Likelihood to switch		
	All	England/Wales	Northern Ireland/Scotland	Unlikely	Possible if approached	Already considering
Unweighted base: All unaware of procedures	*888*	*747*	*161*	*500*	*280*	*95†*
Weighted base: All unaware of procedures		*786*	*102*	*503*	*289*	*94*
	%	%	%	%	%	%
More likely	28	27	38	13	42	67
Makes no difference	63	65	55	77	51	30
Less likely	5	5	3	7	3	1
Don't know	4	4	4	4	-	2

Note: † denotes low base of <100, results should be treated as indicative only

7.54 Businesses that were aware of the switching procedures were slightly (although significantly) more likely to have switched provider in the last three years than businesses who were not aware of the procedures (15% cf. 9% who were not aware of the procedures).

8 Barriers to entry and expansion

8.1 The CC identified a number of barriers to entry in the market, including the requirement for new entrants to have access to a branch network to offer branch based services. However, it recognised that the growth of internet and direct banking might help to reduce this barrier. Earlier chapters (notably chapter 4) have discussed the relative importance of the branch network and the relationship manager in the choice of provider. This chapter examines whether there have been any changes in the way businesses conduct their banking, in particular whether they are less reliant on branches for conducting their banking.. It also looks at awareness of Inter bank agency agreements, which enables SMEs to use other banks' branches for a range of services.

Methods of banking

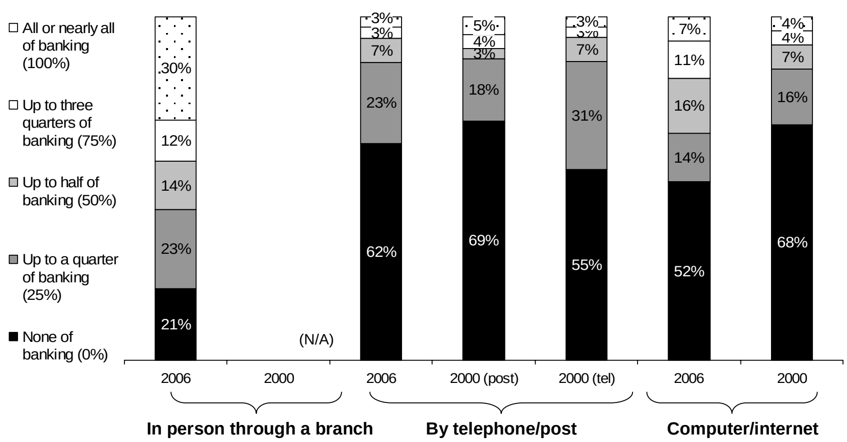
8.2 Both surveys asked about the ways businesses had conducted their banking in the last 12 months. The 2000 survey just asked about the proportion of banking conducted by the non-branch methods i.e. telephone, post and computer/internet. The 2006 survey also included the proportion of banking conducted via the branch in order to obtain a full picture of their banking behaviour. However because of constraints on the interview length, questions on the use of telephone and postal banking were combined.

8.3 As Figure 8.1 overleaf shows the use of computer/internet banking has increased significantly since 2000. Almost half of all businesses (48%) have used the computer/internet for banking over the last 12 months compared with only about a third (32%) in 2000. There has also been an increase in the extent to which computer/internet banking is being used. In 2006 a third (34%) of businesses were using it for more than a half of their banking compared with 15% in 2000.

8.4 The use of telephone or postal banking has remained broadly unchanged; 38% of businesses used postal or telephone banking for any of their banking business in 2006 compared to 31% and 45% respectively in 2000. The extent to which these methods were being used has also remained the same with about one in eight (13%) of SMEs using them for at least a quarter of their banking business.

8.5 However, four in five SMEs (79%) were still conducting some or all of their business in person through a branch; with 42% conducting over half their banking by this method.

Figure 8.1: Methods used for conducting business between banks and SMEs in the last 12 months



Base: All Respondents
2006 (1222); 2000 (1211)

8.6 As shown in Table 8.1 overleaf, banking methods used varied by turnover. The smaller the business the more likely they were to make any use and be heavier users of banking in person via the branch. Conversely, the larger the business the more likely they were to make use the non-branch methods of telephone post and computer banking methods. The largest businesses with a turnover of £5-25m were the heaviest users of computer banking, with 30% of these businesses using this method to transact more than half their banking business in the last 12 months.

Table 8.1: Use of banking methods by turnover and main bank

			Turnover						Main Bank	
		All	Up to £100,000	£100,001 to £500,000	£500,001 to £1,000,000	£1 -£2 million	£2 - £5 million	£5 - £25 million	Main 4	Other
Unweighted base: All respondents		*1222*	*423*	*386*	*120*	*91†*	*115*	*87†*	*996*	*204*
Weighted base: All respondents		*1222*	*414*	*370*	*114*	*84*	*121*	*118*	*1010*	*194*
		%	*%*	*%*	*%*	*%*	*%*	*%*	*%*	*%*
In person through a branch	Any use	78	82	81	80	76	72	60	83	62
	Heavy (more than half)	42	53	46	37	30	35	10	43	36
By telephone / post	Any use	37	30	33	44	44	45	52	37	42
	Heavy (more than half)	6	6	6	4	5	8	9	4	14
Computer	Any use	48	36	44	59	57	58	72	49	46
	Heavy (more than half)	18	16	16	20	19	20	30	18	22

Note: † denotes low base of <100, results should be treated as indicative only

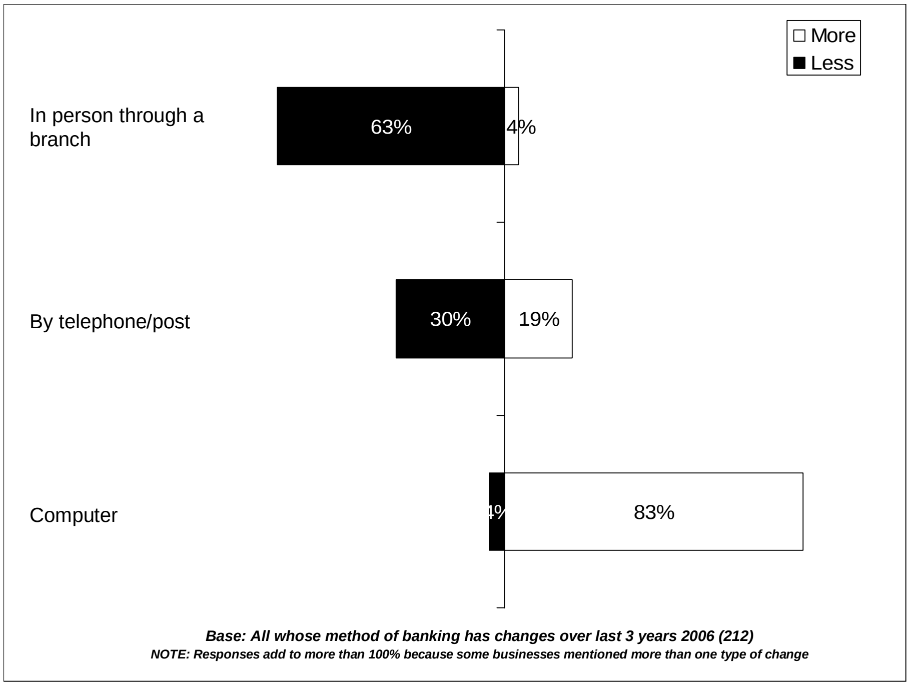
8.7 There were no major differences in banking method by sector. The only difference being that businesses in the retail sector were more likely to use the branch and were heavier users of the branch, with 44% conducting all or nearly all of their banking in person (cf. 30% overall). This is likely to be due to the fact they are more likely to receive payments in cash, as will be discussed later in this section.

Changes in method of banking over last three years

8.8 In the 2006 survey, businesses which had been trading for 2 years or more were also asked directly whether they felt their method of banking had changed over the last three years. Almost a quarter (24%) of businesses said their method of banking (i.e. relative use of branch, telephone/post or computer) had changed over the last 3 years. Notably the largest businesses with a turnover of £5m-£25m (36%) were more likely to say their methods of banking had changed. Three quarters of businesses said their method had not changed at all.

8.9 For those businesses who said their methods of banking had changed the general trend as shown in Figure 8.2 was that they now conducted considerably more banking by computer (83%) and to a lesser extent by telephone/post (19%) and less banking in person through a branch (63%).

Figure 8.2: Whether method of banking has changed over last 3 years



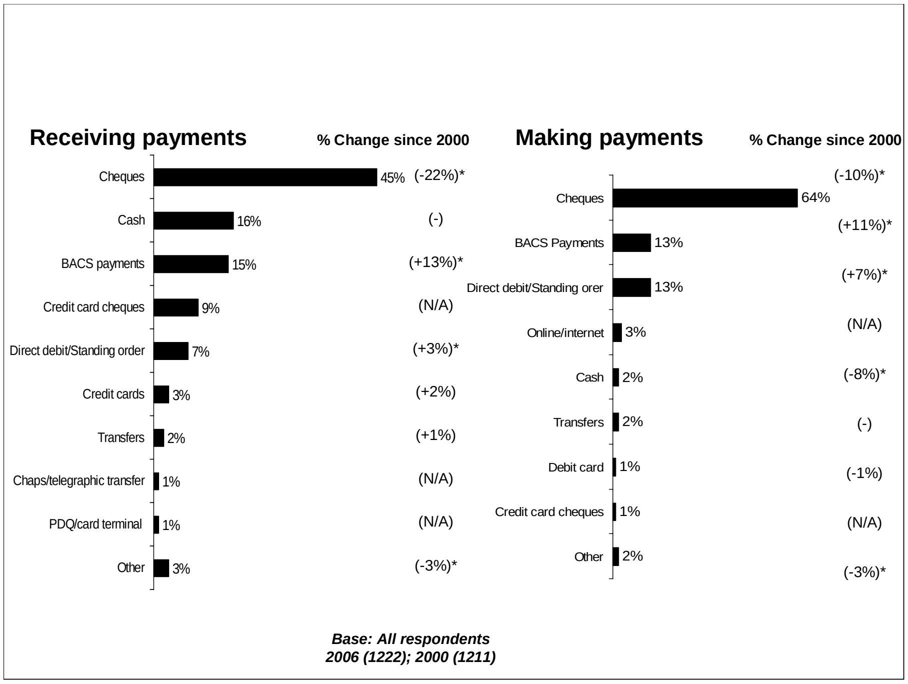
Receiving and making payments

8.10 There have also been changes in the way businesses make and receive payments since 2000, which may, in part at least, be linked to the increase in use of computer/internet banking over this period.

8.11 Cheques remained the most common method of making and receiving payments, but the proportion of businesses using this method had decreased. In 2006, 45% of businesses said that cheques were their main method of receiving payments compared with 67% in 2000. The proportion of businesses for whom cheques was the main method of making payments was higher, but had also fallen significantly since 2000 (64% compared with 74% in 2000).

8.12 The decrease in making and receiving payments by cheque can generally be attributed to the increase in popularity and availability of automated banking methods. Businesses making and receiving payments by BACS and direct debit/standing order have increased significantly since 2000 as shown in Figure 8.3.

Figure 8.3: Most common means of receiving and making payments



8.13 As Tables 8.2 and 8.3 show the most common methods of making and receiving payments varied by size and type of business.

8.14 Businesses in the construction (68%), manufacturing (60%) and business services (59%) sectors were significantly more likely to receive payments by cheque (cf. 45% overall). Retailers were more likely to receive payments by cash (32% cf. 16% overall) whereas business services (22%) and manufacturing (21%) are more likely to receive BACS payments (cf. 15% overall).

8.15 The higher the turnover the more likely businesses were to receive and make payments by BACS. Smaller businesses were more likely to use direct debit for making payments and receive payments by cash.

8.16 Wholesale (73%) and manufacturing (58%) are more likely to make payments by cheque unlike businesses with a high turnover of £5m-£25m who are less likely to pay by cheque (45% cf. 64% overall).

Table 8.2 Methods of making payments by turnover and sector

		Turnover						Sector								
	All	Up to £100,000	£100,001 to £500,000	£500,001 to £1,000,000	£1 -£2 million	£2 - £5 million	£5 - £25 million	Business services	Manufacturing	Wholesale	Retail	Construction	IT	Transport	Other services	Other (excl. pub sector and not for profit)
Unweighted base: All respondents	*1222*	*423*	*386*	*120*	*91†*	*115*	*87†*	*201*	*203*	*190*	*168*	*66†*	*61†*	*33†*	*146*	*154*
Weighted base: All respondents	*1222*	*414*	*370*	*114*	*84*	*121*	*118*	*194*	*185*	*183*	*166*	*83*	*62*	*33*	*148*	*167*
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	
Cheques	64	61	71	66	70	68	45	67	58	73	69	72	50	48	55	68
BACS payments	13	5	7	20	18	18	45	15	28	15	4	10	15	13	9	8
Direct debits	11	16	11	7	7	7	4	7	8	4	13	6	4	22	24	15
Online/internet	2	3	2	5	1	2	1	3	2	3	1	1	6	12	2	*
Standing order	2	3	2	1	1	-	-	*	1	-	4	2	3	2	1	4
Cash	2	3	2	-	1	-	-	*	-	1	4	2	-	1	6	2
Transfers	2	2	1	1	-	3	4	3	1	4	-	2	2	2	2	1
Debit card	1	2	2	-	-	-	-	-	1	-	2	2	9	-	-	2
Credit card cheques	1	2	2	-	-	*	-	1	*	2	1	3	-	6	-	1
Other	1	2	2	-	1	-	2	4	-	1	1	2	5	-	1	-

Note: † denotes low base of <100, results should be treated as indicative only

Table 8.3 Methods of receiving payments by turnover and sector

	All	Turnover						Sector								
		Up to £100,000	£100,001 to £500,000	£500,001 to £1,000,000	£1 -£2 million	£2 - £5 million	£5 - £25 million	Busines s services	Manufac turing	Wholes ale	Retail	Constru ction	IT	Transpo rt	Other services	Other (excl. pub sector and not for profit)
Unweighted base: All respondents	*1222*	*423*	*386*	*120*	*91†*	*115*	*87†*	*201*	*203*	*190*	*168*	*66†*	*61†*	*33†*	*146*	*154*
Weighted base: All respondents	*1222*	*414*	*370*	*114*	*84*	*121*	*118*	*194*	*185*	*183*	*166*	*83*	*62*	*33*	*148*	*167*
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Cheques	45	45	43	43	41	49	48	59	60	52	18	68	47	41	26	34
Cash	16	25	16	10	9	8	3	2	3	10	32	3	14	17	37	26
BACS payments	15	8	11	19	23	19	36	22	21	18	4	14	23	22	7	10
Credit card cheques	9	5	15	10	8	9	2	2	4	5	25	5	2	8	14	13
Direct debits	5	5	5	7	5	5	5	6	5	6	4	4	3	4	5	8
Credit cards	3	3	3	1	3	1	-	1	1	3	9	-	-	-	2	2
Standing order	2	3	2	3	1	2	*	2	1	*	2	1	-	-	5	4
Transfers	2	1	2	3	1	1	2	3	1	2	-	2	10	-	*	1
PDQ/card terminal	1	1	*	*	1	2	*	-	1	1	2	-	-	-	1	1
Other	3	3	2	3	6	3	3	3	3	2	4	2	-	9	3	1

Note: † denotes low base of <100, results should be treated as indicative only

Inter bank agency agreements

8.17 Inter bank agency agreements offer a facility where SME's are able to deposit and withdraw money at another banks' branches (as well as conduct a prescribed range of other services). The 2006 survey included a question to examine awareness of these agreements amongst SME's.

8.18 Awareness of inter bank agency agreements was low. Only a quarter (25%) of businesses definitely knew agreements existed. A further 11% felt their bank might well offer it but were not sure, whilst the remaining two thirds either thought their bank did not have such an arrangement (32%) or did not know of their existence (32%). Smaller businesses, (with a turnover of up to £500K) were more likely to say their bank did not offer such an arrangement (37%).

9 Appendix - Technical Report

Methodology

9.1 The survey covered all sizes and types of businesses with a turnover of up to £25 million operating in the private sector.

9.2 In total, 1222 interviews were conducted by telephone with small and medium sized enterprises in the UK with a business bank account.

9.3 The survey fieldwork was conducted by telephone by IFF Research, an independent market research company, at IFF's CATI centre between 24th April 2006 and 2nd June 2006.

9.4 The interview was 25 minutes long on average.

9.5 Interviews were conducted with the person responsible for the financial services of the business, typically the owner/manager of the business or finance director.

9.6 As the main purpose of the study was to examine changes in SMEs' attitudes and banking behaviour, the survey methodology was designed to be as similar as possible to the 2000 survey to maximise comparability of results.

9.7 The 2000 survey covered a cross-section of SMEs by size, sector and age of business but was not weighted to reflect the overall business population (and thus slightly under represented smaller businesses).

9.8 This study adopted a similar approach to the 2000 survey as the primary requirement was to maximise comparability of results. The results are therefore not wholly representative of the SME business population

9.9 This, the 2006 survey also included interviews with 201 businesses who had switched banks in the last three years.

9.10 Businesses which had switched were defined as those which had moved their main (business) account to another bank or building society in the last three years.

9.11 There is no population data on the proportion of businesses which have switched in the last three years, but the 2000 survey indicated that it was 5% per annum.

9.12 Based on this assumption it was proposed in the contract that we would not achieve the 200 required interviews with this group from the total of 1200 without additional screening.

9.13 However, we also needed to use the survey data on the percentage of switchers to weight results for the analysis (on the assumption that annual switching rates would be at about 5%).

9.14 We therefore supplemented interviews achieved with switchers from the main sample, by conducting some additional 'booster' interviews specifically with this group (in total 156 were achieved with switchers from the main sample and an additional 45 with switchers from the boost sample).

9.15 Interviews achieved with main sample indicated switching rates remained broadly unchanged since the 2000 survey (13% switched in the last 3 years in 2000 cf. 12% in the 2006 survey).

Pilot

9.16 A short pilot (34 interviews) was conducted between 25th and 26th April to test the questionnaire and survey approach. It was found to work well and within time so no substantial changes were made before starting the mainstage of fieldwork.

9.17 All pilot interviews were included in the main dataset.

Sample profile

9.18 As discussed earlier, the sample was structured by size and sector with the aim of matching interviews achieved in 2000.

9.19 In addition, 205 interviews were achieved with businesses under two years old (this was then weighted up to reflect the proportion achieved in 2000 – 30%).

9.20 It was agreed to complete a smaller number of interviews with this group in the 2006 survey than in the 2000 survey (when 354 were achieved) as they were not expected to be fully able to comment on changes over the last 3 years, a key focus for this study. However a sample of 200 was sufficient to allow analysis by this group.

9.21 The achieved sample by size and sector is shown in table A1.

Table A1: Sample profile by size and sector

	SIC 2003*	TOTAL	SIZE					
			Up to £100,000	£100,001 to £500,000	£500,001 to £1,000,000	£1,000,001 to £2,000,000	£2,000,001 to £5,000,000	£5,000,001 to £25,000,000
Business services	74	201	63	74	16	16	21	11
Manufacturing	15 to 37	203	65	69	25	18	15	11
Wholesale	51	190	61	62	19	12	15	21
Retail	52	168	74	56	8	12	10	8
Construction	45	66	21	22	7	4	5	7
IT	72	61	28	14	2	5	7	5
Transport	60-63	33	11	7	5	1	8	1
Agriculture	1 to 5	12	8	1	1	-	1	1
Other services	55,70,71,73	152	49	54	17	8	15	9
Other *(Excluding public sector and not for profit)* **	All others *(excluding 75,85,91,80)***	154	62	32	17	12	18	13
TOTAL		1222	423	386	119	91	115	87

** In the 2000 survey the sectors were defined using the 1992 SIC but the 2003 definitions are the same at this level*
*** Not specified in 2000*

Weighting

9.22 As explained earlier, the 2006 data were weighted to match the profile of achieved interviews by size, sector and age of business in 2000.

9.23 Interlocking targets were set for size within sector, but age of businesses had to be defined separately.

9.24 For weighting purposes Agriculture was included in 'other' sector (as it was on the 2000 dataset).

9.25 A weight was also applied by whether the businesses had switched in the last 3 years (this weight was determined by the proportion of interviews achieved with switchers from the main sample, i.e. excluding the boost sample -14%).

9.26 Rim weighting was applied to reconcile the size by sector, age of business and whether switched targets to achieve the best fit.

9.27 The following tables (A2 through to A4) show the profile of the achieved sample and the profile of the survey data once weighted by size within sector, age of business and by whether switched in the last 3 years.

A2: Sample and weighted profile by sector and size

SECTOR	SIZE	Sample profile %	Weighted profile %
Business services	Up to £100,000m	5.2	5.1
	£100,001 to £500,000	6.1	4.8
	£500,001 to £1,000,000	1.3	1.1
	£1,000,001 to £2,000,000	1.3	0.8
	£2,000,0001 to £5,000,000	1.7	2.0
	£5,000,0001 to £25,000,000	0.9	2.1
Manufacturing	Up to £100,000m	5.3	3.1
	£100,001 to £500,000	5.6	4.3
	£500,001 to £1,000,000	2.0	1.7
	£1,000,001 to £2,000,000	1.5	1.2
	£2,000,0001 to £5,000,000	1.2	2.0
	£5,000,0001 to £25,000,000	0.9	2.8

SECTOR	SIZE	Sample profile %	Weighted profile %
Wholesale	Up to £100,000m	5.0	3.7
	£100,001 to £500,000	5.1	3.8
	£500,001 to £1,000,000	1.6	1.4
	£1,000,001 to £2,000,000	1.0	1.1
	£2,000,0001 to £5,000,000	1.2	2.4
	£5,000,0001 to £25,000,000	1.7	2.6
Retail	Up to £100,000m	6.1	5.5
	£100,001 to £500,000	4.6	5.3
	£500,001 to £1,000,000	0.7	0.9
	£1,000,001 to £2,000,000	1.0	0.9
	£2,000,0001 to £5,000,000	0.8	0.6
	£5,000,0001 to £25,000,000	0.7	0.4
Construction	Up to £100,000m	1.7	1.9
	£100,001 to £500,000	1.8	1.9
	£500,001 to £1,000,000	0.6	1.1
	£1,000,001 to £2,000,000	0.3	0.7
	£2,000,0001 to £5,000,000	0.4	0.6
	£5,000,0001 to £25,000,000	0.6	0.6
IT	Up to £100,000m	2.3	2.0
	£100,001 to £500,000	1.1	1.7
	£500,001 to £1,000,000	0.2	0.2
	£1,000,001 to £2,000,000	0.4	0.5
	£2,000,0001 to £5,000,000	0.6	0.3
	£5,000,0001 to £25,000,000	0.4	0.2
Transport	Up to £100,000m	0.9	0.6
	£100,001 to £500,000	0.6	0.5
	£500,001 to £1,000,000	0.4	0.8
	£1,000,001 to £2,000,000	0.1	0.2
	£2,000,0001 to £5,000,000	0.7	0.6
	£5,000,0001 to £25,000,000	0.1	0.1
Other services	Up to £100,000m	3.1	5.5
	£100,001 to £500,000	4.1	4.0
	£500,001 to £1,000,000	1.7	1.0
	£1,000,001 to £2,000,000	0.9	0.7
	£2,000,0001 to £5,000,000	1.3	0.5
	£5,000,0001 to £25,000,000	0.8	0.4
Other (excluding public sector)	Up to £100,000m	5.1	6.5
	£100,001 to £500,000	2.6	4.0
	£500,001 to £1,000,000	1.4	1.0
	£1,000,001 to £2,000,000	1.0	0.9
	£2,000,0001 to £5,000,000	1.5	0.9
	£5,000,0001 to £25,000,000	1.1	0.5

A3: Sample and weighted profile by age of business

AGE	Sample profile %	Weighted survey data %
Under 2 years	17	29
Over 2 years	83	71

A4: Sample and weighted profile by switcher

AGE	Sample profile %	Weighted survey data %
Switcher	16	13
Non Switcher	84	87

Response rate

9.28 The following table (A5) shows the outcomes of sample used (i.e. called at least once) in the survey. The response rate out of those in scope of fieldwork was 55%.

A5: Response rates

	Total	Population in scope of study %	Population in scope of fieldwork %
Total amount of sample used	**7551**		
Business did not have business bank account	59		
Franchise or subsidiary	34		
Total in scope of study	**7458**	**100**	
Appointment made for interview with target respondent, but not achieved during fieldwork period	87	1	
Business called several times, but unable to reach target respondent	2776	37	
Invalid cases	**2383**	**32**	
Unobtainable number	1856	25	
Out of quota	486	7	
Residential number	23	*	
Business closure	18	*	
Total in scope of fieldwork	**2212**	**29**	**100**
Interviews achieved	1222	16	55
Refusals	975	13	44
Breakdown during interview	15	*	1
Response rate		**16**	**55**