

COMARCH



BANKING **ON TECH CITY**





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EXECUTIVE SUMMARY

Tech City is the name given to the hub of technology companies in East London, broadly based in the Shoreditch and Queen Elizabeth II Stadium areas.

Consisting of a few giants of digital enterprise and a large cluster of start-ups and small enterprises, Tech City has had consistent and vocal support from politicians and commentators. Most notable is David Cameron, who launched his Tech City Initiative in November 2010 with a speech where he said: "We've also asked some of the world's biggest businesses and banks to help provide the finance that's so urgently needed...and provide specialist banking services to high growth technology companies in the area."

On the third anniversary of this pivotal speech, we wanted to ask if banks had made good on their promises to deliver these specialist banking services and finance.

The answer is "yes and no". Our research has shown that banks are delivering on much needed credit lines for these companies and Tech City executives believe them to be helpful and trustworthy. Given the criticism banks have come under since the 2008 crash, this is very welcome news indeed.

Yet the research also shows that banks aren't delivering on specialist services. What might be considered vital business services such as cash flow forecasting, mobile banking and corporate credit card management aren't being offered on a significant scale.

In essence, while banks are getting the basics right, they are still failing to deliver on the value added services that make it easier for these companies to do business.

We found that despite a 2011 report by Accenture describing SMEs as "fiercely loyal" to their banks¹ a significant number of Tech City companies would be willing to switch banks to get a better service. With the Payments Council launching the Current Account Switch Service, which also applies to SMEs, in September 2013, switching accounts has never been easier.

If banks want to avoid losing custom, they need to get more than the basics right. They need to start delivering on value added and tailored services to give Tech City the helping hand required to drive innovation in the British economy.

¹ Next Generation SME Banking, Accenture (2011)

MAIN FINDINGS

- Just over half (53%) of the respondents are happy with their business banking.
- However, for micro-companies (ten employees or fewer), who made up more than half of those surveyed, fewer than half of them (48%) have a positive impression of their banking experience.
- Banks are getting the basics right. Tech City companies think banks are helpful (69%), trustworthy (72.5%) and, most surprising of all, are happy with their lending policies when it comes to getting credit (63%).
- However, when it comes to value added services, banks are not delivering for SMEs, despite significant numbers willing to pay for them.
 - 49% have been offered the option to authorise payments by seniority
 - 31.4% have been offered management of the corporate credit card
 - 27.5% have been offered payment automations within existing services
 - 25.5% have been offered push notifications
 - 8% have been offered cash flow forecasting
- 57% believe that the growth of their business would be significantly improved with banking products, services and advice that are more tailored to my needs.
- Almost one in three (31%) would consider switching banks if they felt it would improve their business.

INTRODUCTION

When a British politician or commentator wants to champion British innovation and enterprise, they turn to Tech City, the East London hub of digital giants and start ups.

Tech City is lauded as the engine room of British innovation. But are these corporate heavyweights of the future getting the level of service they need from their banks?

When David Cameron made his game changing Tech City speech in November 2010, one of the things he pledged was that banks would provide finance and specialist services to Tech City.

This research was commissioned to explore whether, three years later, banks were delivering on these pledges and promises.

If banks are delivering then they are powering British innovation and securing our digital future. If not, then they are failing the British economy.

We gained exclusive access to 51 top level decision makers at a variety of Tech City companies and asked them to share their banking experiences with us. The results made for surprising reading.

QUESTION ONE

HOW WOULD YOU RATE YOUR BUSINESS BANKING EXPERIENCE?

KEY FINDINGS

Overall, **53%** of respondents have a positive impression of their business banking experience.

However, for micro-companies (ten employees or fewer), who made up more than half of those surveyed, fewer than half of them (**48%**) have a positive impression of their banking experience.

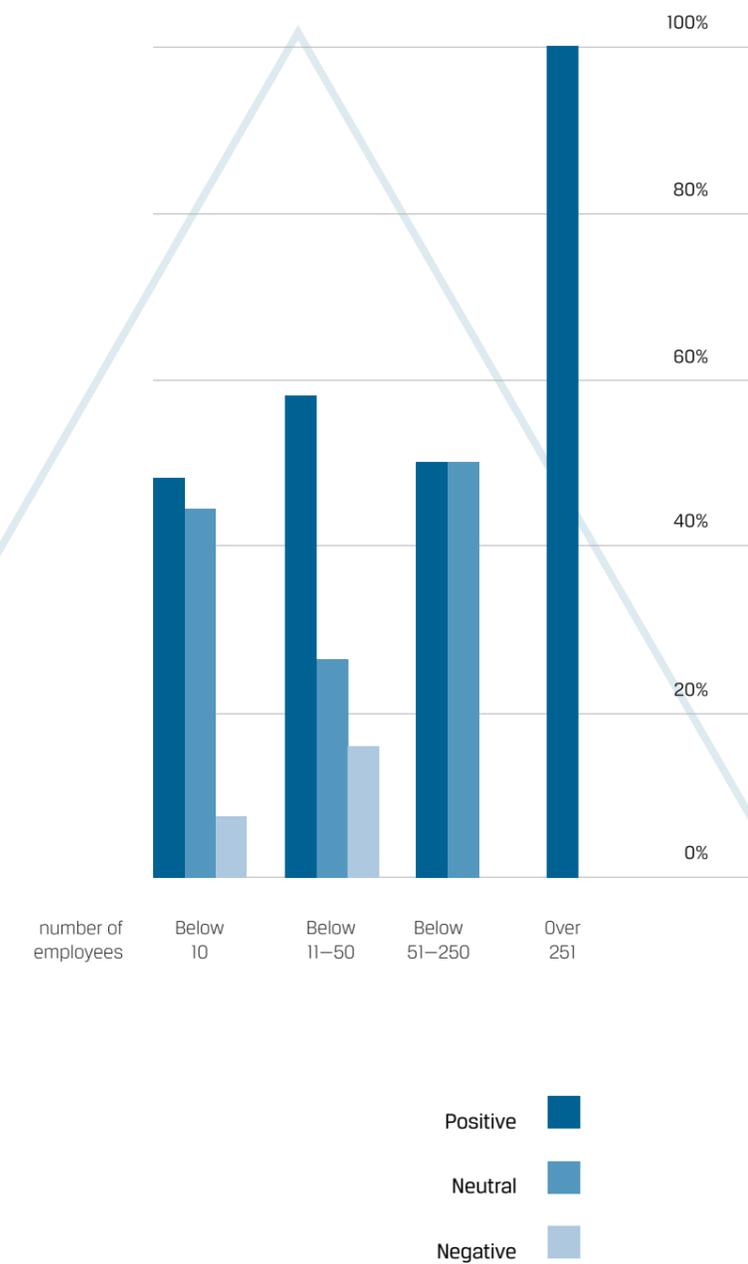
ANALYSIS

Banks have been the subject of a considerable amount of criticism over the last five years. It has been widely reported that banks are letting down businesses and individuals alike with the services they provide or fail to provide.

So it will be pleasing for the banking industry to discover that a small majority of Tech City executives have a positive impression of their banking experience.

Looking at the figures in more detail, though, shows that the picture isn't as rosy as it might appear. Of the 51 companies we spoke to, 27 were micro-enterprises, with ten employees or fewer. Fewer than half of these have a positive impression.

It's vitally important that banks deliver for all business and if they are failing the smaller ones, then questions must be asked about how to improve the services they offer.



QUESTION TWO

BASED ON YOUR CURRENT BUSINESS BANKING EXPERIENCE, WHICH OF THE FOLLOWING STATEMENTS ARE APPLICABLE TO YOUR OWN DEALINGS WITH YOUR BANK?

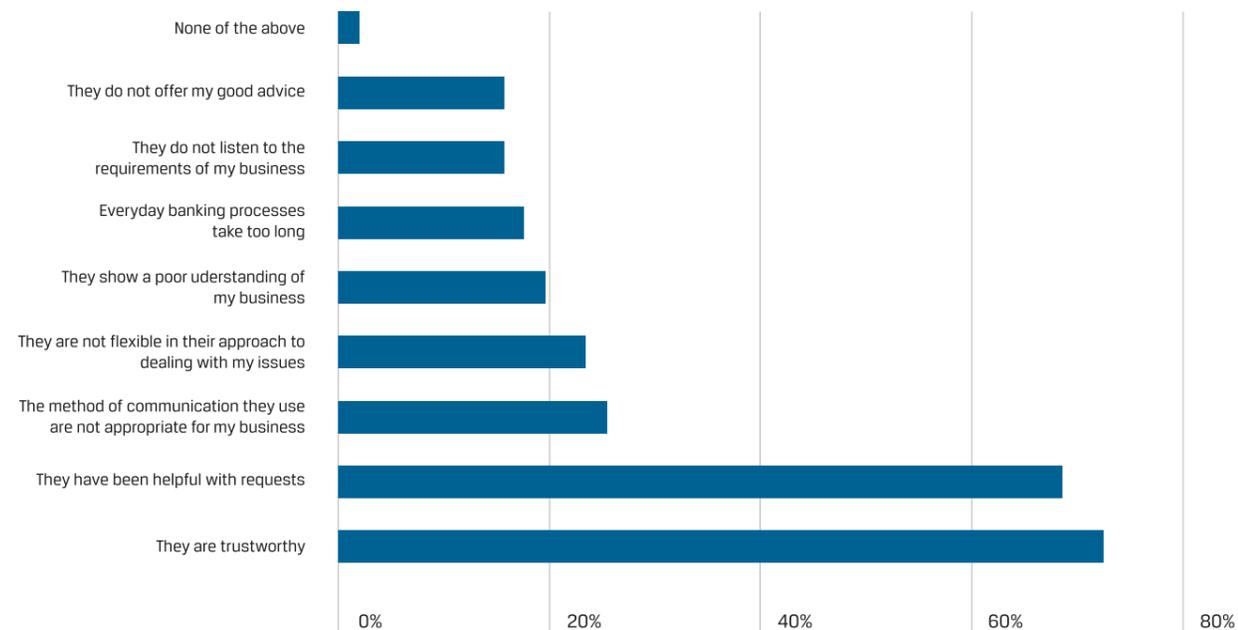
KEY FINDINGS

Respondents are happy with the basic services they get from their bank.

- 80% believe they understand their business
- 72.5% believe them to be trustworthy
- 69% believe them helpful

ANALYSIS

On the surface, these are encouraging figures for banks. However, it's arguable that factors such as business understanding and trustworthiness are hygiene factors. Banks should be getting these absolutely right as a matter of course. Where banks will stand or fall in the battle for business isn't on the basics – it's on the value added services.



QUESTION THREE

WHICH OF THE FOLLOWING SERVICE CHANNELS ARE OFFERED BY YOUR BANK AND WHICH DO YOU USE?

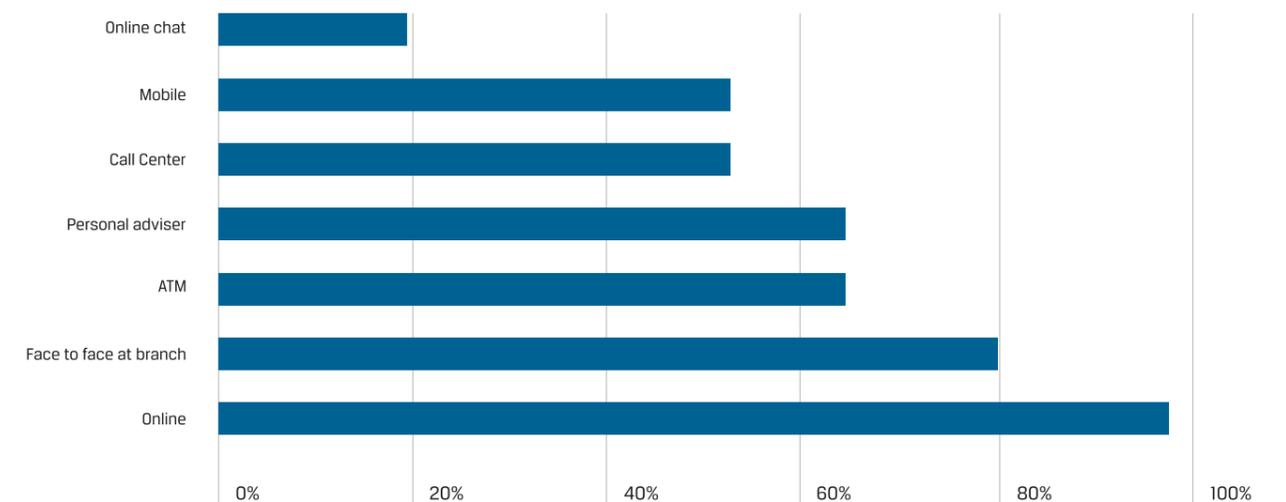
KEY FINDINGS

- Almost all (98%) of respondents have been offered online banking and the same number use it.
- 80% have been offered face to face services at their branch with half (49%) using it and almost two-thirds (65%) have been offered a personal adviser with (41%) using it.
- However, only half (53%) have been offered mobile banking and only one in five (22%) use it.

ANALYSIS

It's reassuring that banks are offering online services and that these are being used by Tech City executives.

Mobile banking is a concern though. With only half the executives being offered this service and only a fifth using it, this is an area banks must explore further. One would expect Tech City executives to embrace mobile banking but this isn't the case. This raises a significant question regarding the quality of mobile banking services being offered to these companies. Clearly Tech City execs are not seeing value in using them, and it is likely this is because the services being offered are based on retail banking, rather than dedicated business banking technology.



QUESTION FOUR // PART ONE

WHICH OF THE FOLLOWING SERVICES HAVE BEEN OFFERED TO YOU BY YOUR BANK?

KEY FINDINGS

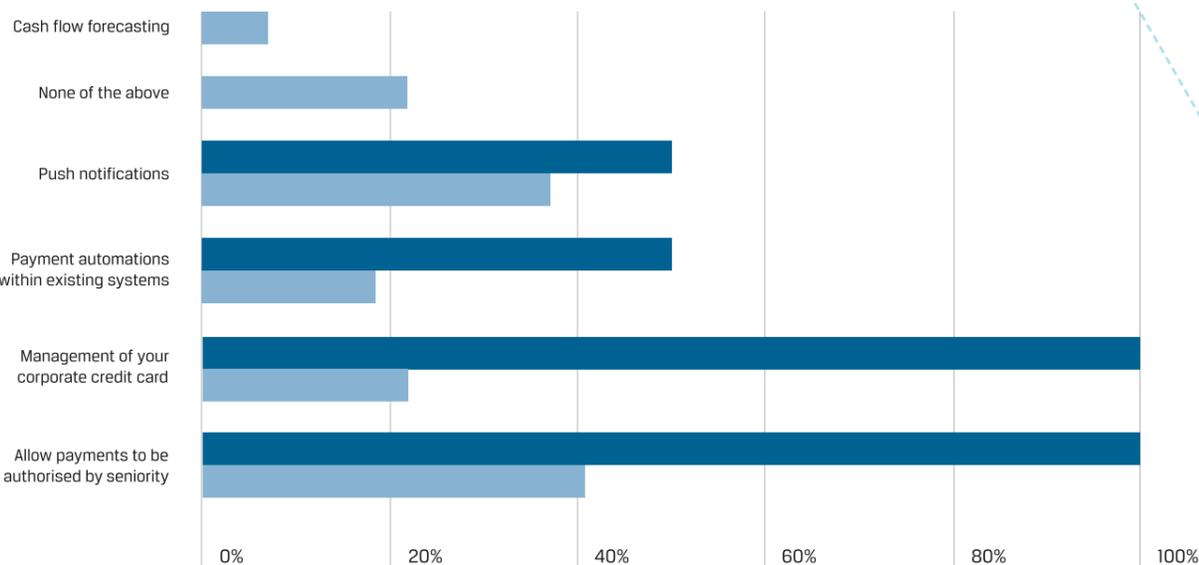
When it comes to value added services, banks are not performing for these companies. What might be seen as straightforward business services are not being offered.

- Less than half have been offered the ability to authorise payments by seniority (49%)
- 31% offer management of their corporate credit card.
- Only 8% have been offered cash flow forecasting – a vital tool when dealing with tight overheads as a high growth company.
- Larger companies are more likely to be offered these services than smaller companies.

ANALYSIS

It's in these figures that we start to see where banks aren't delivering. These are, by and large, basic business services and yet they are not being offered to Tech City companies. And as we saw in question one, the smaller the enterprise is, the less likely it is to be offered these services.

Comarch has previously raised concerns that banks do not offer SMEs the due care and attention they deserve and often re-badge retail banking products for SMEs without adding business services. The results of our research add further weight to these concerns.



QUESTION FOUR // PART TWO

AND WHICH WOULD YOU PAY FOR?

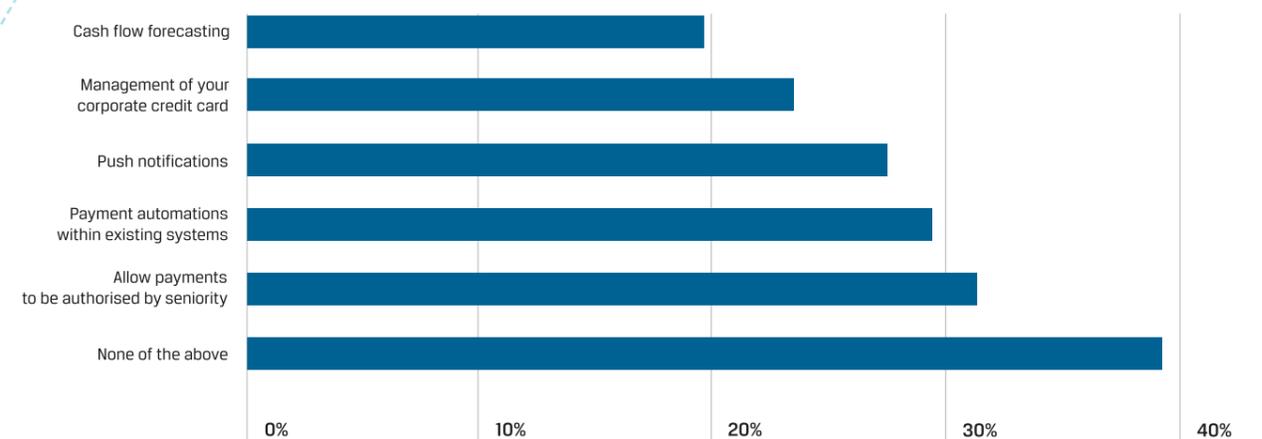
KEY FINDINGS

A significant percentage of the respondents would be willing to pay for these value added services if they were offered them.

- Despite only **8%** being offered cash flow forecasting, more than double that figure (**20%**) would be willing to pay for it
- **29%** would be willing to pay for payment automations within existing systems
- **27.5%** would be willing to pay for push notifications

ANALYSIS

The market is there for value added services. Taking cash flow forecasting, for example, this is a tool that small enterprises, working to tight overheads as a high growth company, could find of critical value. So when more than double of those offered it want it, and would pay for it, banks need to pay attention to what their business customers demand.



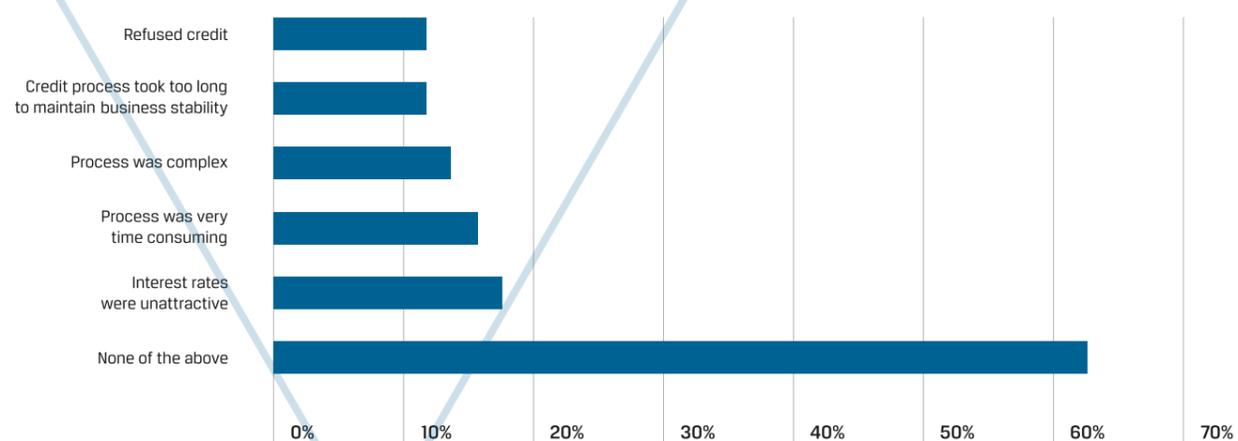
QUESTION FIVE

HAVE YOU EXPERIENCED ANY OF THE FOLLOWING WHEN APPLYING FOR CREDIT?

KEY FINDINGS

One of the biggest, but most welcome, surprises in the research is that, despite the headlines, banks are lending to Tech City customers.

- Only **12%** were refused credit and the same number felt the process took too long and harmed their business stability.
- **18%** thought that interest rates were unattractive and **16%** thought the process time consuming.
- **63%** of respondents had indicated no negative experiences when applying for credit.



QUESTION SIX

ARE YOU SATISFIED WITH YOUR BANKS' MONEY LENDING POLICIES WHEN IT COMES TO INTEREST RATES AND GETTING ACCESS TO CREDIT?

KEY FINDINGS

Matching the findings from question five, **63%** of respondents indicate they are satisfied with lending policies.

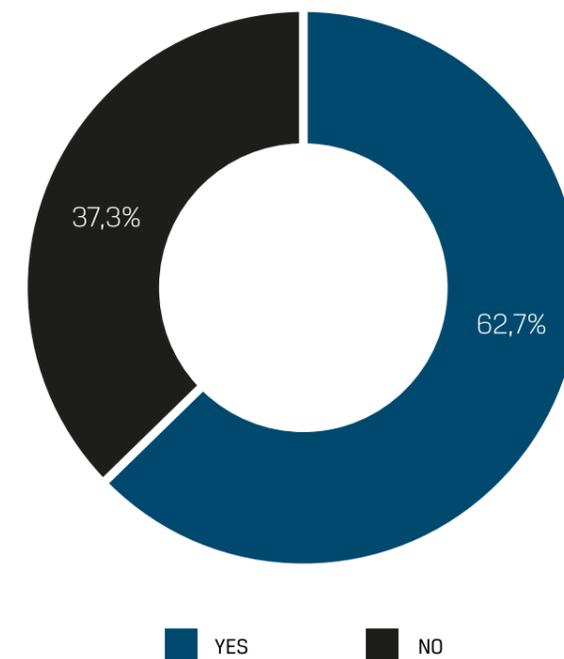
ANALYSIS

Questions five and six fly in the face of received wisdom on banks lending to SMEs. Headlines consistently tell of banks failing in this crucial area and, yet, this doesn't seem to be the case for Tech City.

Why is this?

It could be the case that the banks are delivering on some of the promises the Prime Minister made three years ago. Credit is what gets business moving and it is encouraging news to see that banks are extending this vital support to Tech City.

A more positive economic outlook and government incentives are likely contributors here.



QUESTION SEVEN

TO WHAT EXTENT DO YOU AGREE WITH THE FOLLOWING STATEMENT? THE GROWTH OF MY BUSINESS WOULD BE SIGNIFICANTLY IMPROVED WITH BANKING PRODUCTS, SERVICES AND ADVICE THAT ARE MORE TAILORED TO MY NEEDS.

KEY FINDINGS

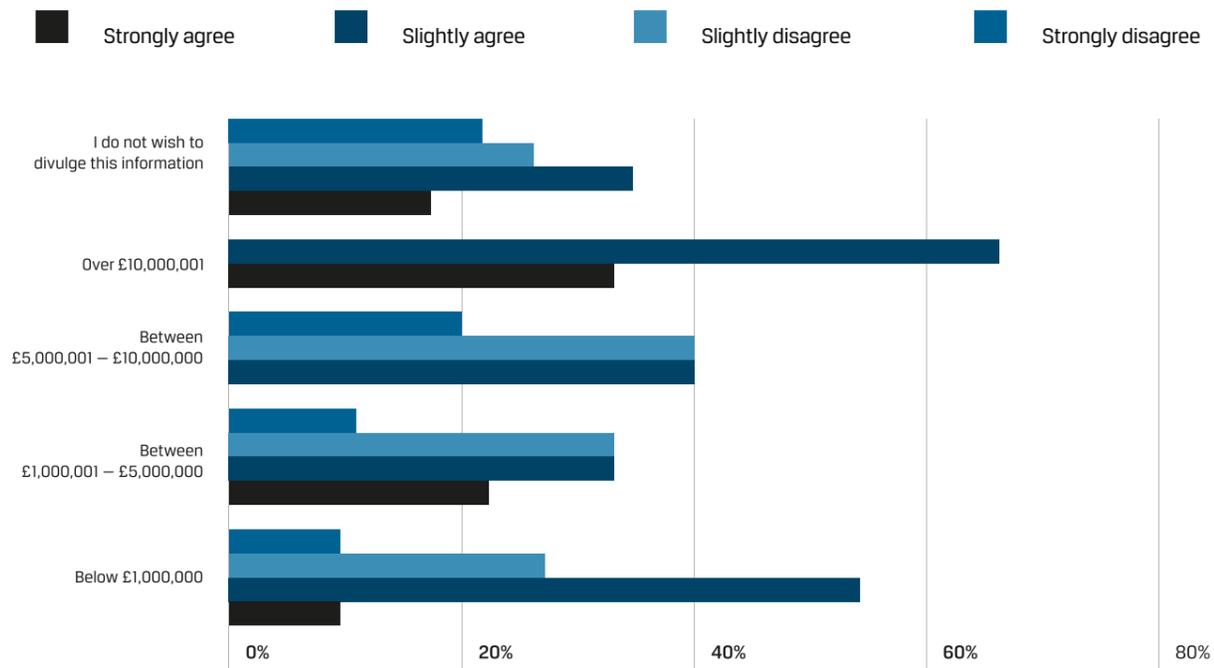
A majority of respondents (57%) agree with this statement.

ANALYSIS

On its own, this is self-intuitive. However, when taken along with question 4, which looked at the services banks were offering, a clearer picture emerges.

Tech City executives know that a tailored banking service would improve their business growth yet this isn't being delivered by the banks.

This effects micro-businesses in particular because these are the least likely to be offered such services.



QUESTION EIGHT

HAVE YOU CONSIDERED SWITCHING BANKS BECAUSE THE LEVEL OF SERVICE YOU RECEIVE IS NOT UP TO YOUR BUSINESS REQUIREMENTS?

KEY FINDINGS

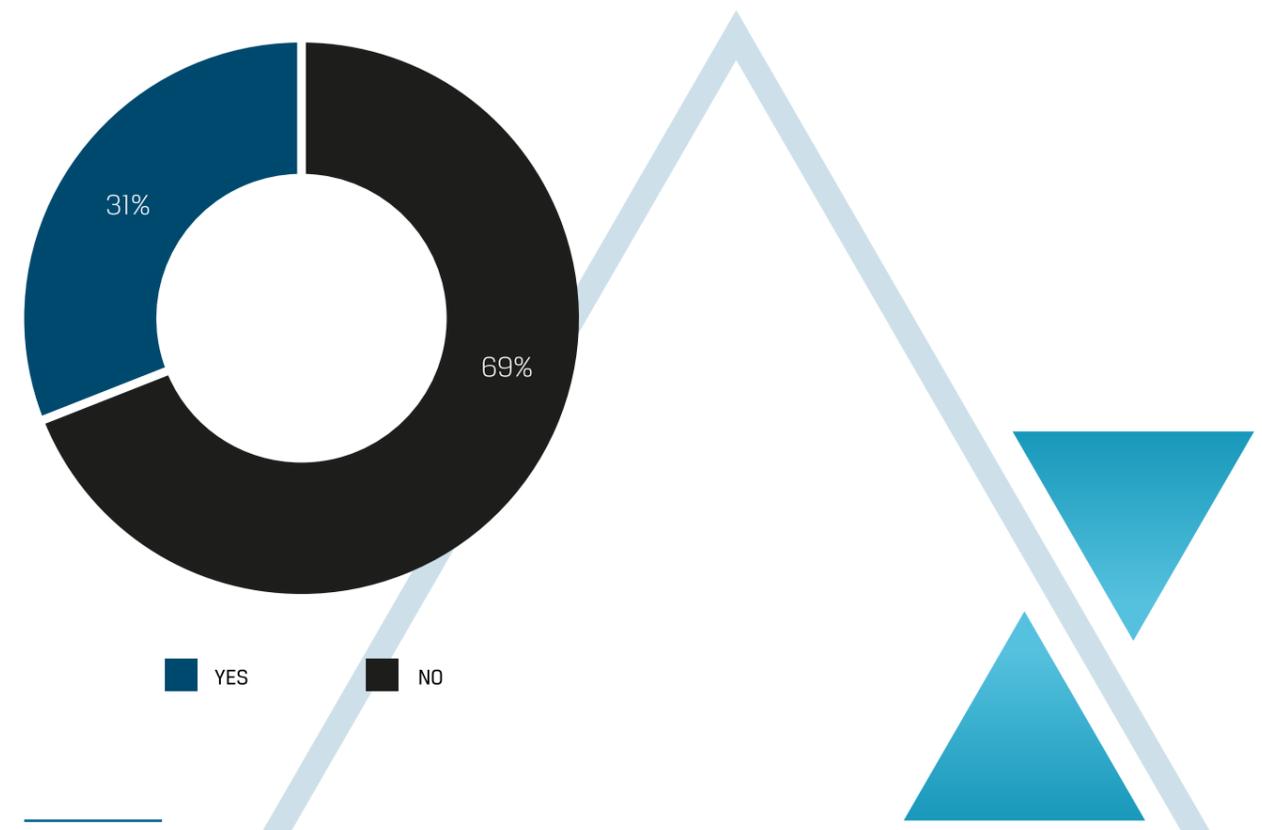
Approximately one in three (31%) respondents answered yes. A sobering statistic for banks at a time when new regulation is making it easier for corporate customers to switch.

For larger SMEs with 51–250 employees, this figure rises to half (50%).

ANALYSIS

Banks should not take the loyalty of banks for granted. While SMEs in general may well be "fiercely loyal" to their banks, as Accenture argued in 2011², Tech City companies most certainly are not.

When the Tech City executives believe that tailored services are what's needed to help their company grow and when banks aren't providing them, it's little wonder that one third of them have considered switching banks.



² Next Generation SME Banking, Accenture (2011)

CONCLUSIONS

The question we sought to answer was; are banks delivering on the pledges made by David Cameron three years ago?

Based on our evidence banks are, by and large, getting the basics right and Tech City companies are getting vital access to credit. Given the criticisms of the banking industry over recent years, it's an encouraging development and one that Comarch supports and welcomes.

However, the Prime Minister didn't just talk about access to credit, he spoke of "specialist banking services" and this is where banks need to start performing to a much higher standard.

We've seen sufficient evidence to support our concerns that banks still don't take the specialist needs of SMEs seriously enough, including the Tech City companies. When a majority of them believe that their business could be improved through tailored and specialist services and banks aren't providing them, this is cause for concern.

We believe that the willingness of so many executives to change banks if they aren't delivering for them should be the wake up call banks need.

RECOMMENDATIONS

Based on the evidence from this research, we have three recommendations for the industry

- 1. BANKS NEED TO INVEST IN TECH TO DELIVER NEW SERVICES**
Many of the services that are wanted by Tech City but not supplied by banks can be easily provided through the adoption of new technology. Banking technology is developing swiftly and new services can be easily adopted and offered by banks.
- 2. BANKS NEED TO GET MOBILE RIGHT**
Half of the people we spoke to had been offered mobile services but only a fifth had taken them. It's not often that supply is so far ahead of demand for banking services, especially for a tech savvy audience such as our respondents. Banks must make sure that the service they offer is the service businesses want.
- 3. BANKS NEED TO TAILOR SERVICES TO BUSINESS REQUIREMENTS**
Our respondents recognise the importance of tailored services and so should banks. A one size fits all policy will not work for SMEs and neither will rebadged retail banking services. Banks need to address the SME sector with proper care and attention and give them the specialist products, advice and services that will allow them to flourish.

ABOUT COMARCH

Comarch is a global IT company employing 4,200 people. Comarch works with major financial institutions from banking, insurance and capital market verticals such as BNP Paribas Group, Citigroup, ING Group, Rabobank and UniCredit Group in more than 20 countries. With 17 years experience in the banking sector, Comarch delivers proven solutions, designed specifically to support the business banking market. With its 'mobile first' philosophy and vast experience in vertical markets, Comarch works with banks to deliver innovative services that help their banking customers grow, unlocking new revenue streams and reducing costs to deliver rapid return on investment.

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ABOUT THE RESEARCH

The research for Comarch was carried out between 21/10/2013 and 05/11/2013. The sample was 51 executives (decision makers / people that are involved with banking within their companies) who work in Tech City, including start up enterprises.

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