

Small Business Banking - UK - January 2011

Report Price: £1500 / \$2310 / €1793



What is this report about?

The small business banking market has held up reasonably well during the recession. The number of small enterprises, and indeed the number of business current accounts, has continued to grow despite the challenging economic environment. The biggest challenge in the market at the moment, however, is access to credit, with new lending to small businesses having fallen by 38% between October 2008 and September 2010.

This report examines the business banking market, concentrating on small businesses, but covering issues and trends that are relevant in the wider SME banking sector. It covers the various factors that influence the market, such as business start-ups and failures, as well as the key trends within the market itself.

What have we found out?

- The commercial lending sector will be boosted by the mounting pressure to increase support for small firms. Banks have already pledged to create a £1.5 billion Business Growth Fund.
- The number of business current accounts grew by 2% in 2009, to 3.76 million. This number is expected to continue to grow over the next five years, despite the difficult economic conditions.
- There is a definite opportunity to upgrade some small firms, as our research found that around a quarter of SMEs use an ordinary/personal current account to manage their day-to-day finances.
- Banks should become more community-orientated and engage with local firms. While 43% of SMEs feel that their bank values their custom, only 27% think it really supports their business.
- Although the large high street banks still dominate the market (the big four have a 79% share of the market), smaller providers have made significant progress in recent years, especially Santander, albeit helped by its acquisition of A&L.
- Business banking charges were found to be the main cause of complaint amongst customers, even long-term customers, highlighting an opportunity for banks to offer discounts on transaction charges as a way of rewarding loyalty.

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