

Getting down to business: How banking is evolving to cater to SMEs in a new era

An analysis of current trends within the sector, business account holders' views on important account features and switching, and how experts predict the industry could change.



Banking and money management have evolved faster in the last decade than ever before. The latest innovations are evident in consumer accounts including those offered by Open Banking-powered money management platforms.

Business banking has seen transformation, too, driven by challenger banks and other fintechs. But 7 in 10 (72%) UK business owners and directors have never switched business bank account, a new Finder survey shows. Is this set to change? And how has the pandemic affected what matters to business customers?

SMEs can benefit from invoicing, expense management or VAT submission services operating within their bank account, and can also integrate accounting software such as Xero or QuickBooks. Those doing business abroad can hold or transfer funds in different currencies with certain accounts.

But while UK personal account holders are used to free banking - and even cash incentives for switching - business customers typically face fees such as a monthly account charge. These have become a battleground, with some accounts pulling in business customers with zero or low monthly charges.

Business customers can, like personal current account holders, use the Current Account Switch Service (CASS). Over the past 5 years, from 2017 to 2021, 207,500 small business bank account switches were made using CASS, according to our analysis of figures from Pay.UK, which manages the service. And there's appetite to switch - Finder's new survey of business account holders found that 36% are considering switching in the next 12 months.

Our survey also found that the account features businesses value most have changed over the past 2 years. The option to deposit cash, deposit cheques and bank in a branch were the 3 features which saw the greatest drop in importance. By contrast, the option to apply for an overdraft, use VAT and/or tax calculators, and avoid a hard credit check when opening a business account were the 3 features that gained the most importance.

To get further insights, we asked 5 experts for their views on trends in business accounts and how the sector is set to evolve. We've published their views and our exclusive research in this report.

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About Finder



Boris Dyakonov, co-founder, ANNA

ANNA stands for Absolutely No-Nonsense Admin. The fintech was founded in 2017 and provides digital-only business accounts.



Dr Timothy King, senior lecturer in finance, banking and innovation, Kent Business School

Kent Business School is part of the University of Kent. Timothy is co-author of *Disruptive Technology in Banking and Finance*.



Martin McTague, national vice-chair, Federation of Small Businesses (FSB)

Established over 45 years ago, FSB is a membership organisation and the UK's largest grassroots business campaigning group, promoting the voice of small businesses.



Philippa Whitham, senior director, Savanta

Savanta is a data, market research and advisory company working with organisations across multiple industries. It compiles the MarketVue Business Banking report.



Symmie Swil, head of SME banking, Starling Bank

Starling Bank is a digital-only UK challenger bank that was founded in 2014. It has won multiple awards and offers personal accounts and business accounts.

What were the key trends during the past 2 pandemic years?

Boris Dyakonov, ANNA

In the first lockdown in spring 2020, at ANNA we identified a trend... we nicknamed “furlancers”. These were people who had been furloughed, who suddenly found themselves at home with time to focus on what had up until then been hobbies or side hustles and develop them into more substantial businesses. Also... high street branches were closed or had very limited numbers of staff, and customers were reluctant to join huge queues... therefore digital-first business banking did very well.

Martin McTague, Federation of Small Businesses

The challenger banks certainly made a splash pre-pandemic, and these new entrants attracted many consumers and businesses away from the traditional high street banks. However, during the pandemic, the government’s COVID loans were initially offered primarily through the traditional banks, creating a demand for those bank accounts. This may go some way to reversing the trend towards a more diversified range of business account providers, and see the high street banks concentrate their market share once more.

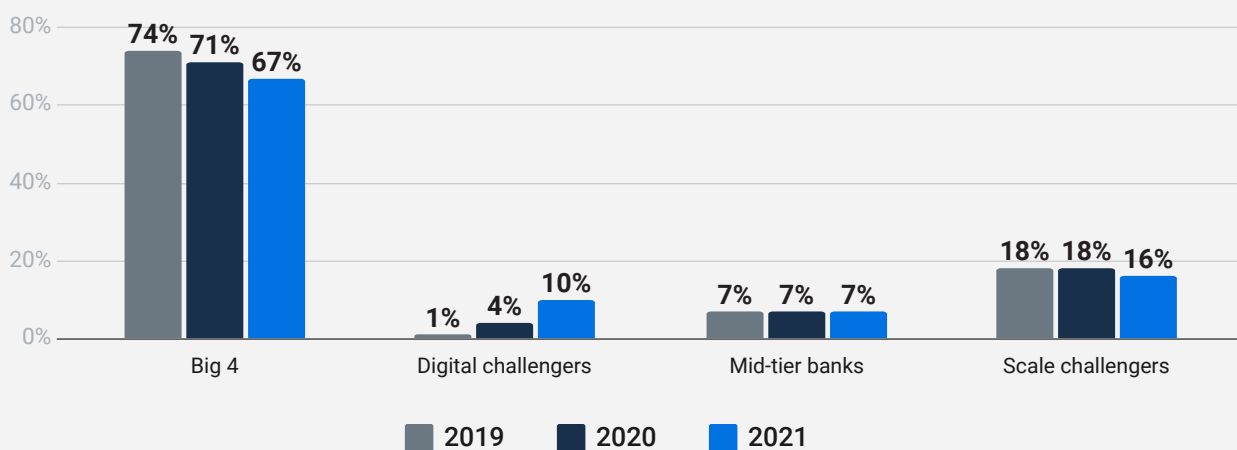
Philippa Whitham, Savanta

The biggest story in the past 2 years has been the rise of neobanks. Savanta’s MarketVue Business Banking data for year ending Q4 2021 showed that neobanks now account for 10% of SME business bank accounts. Specifically amongst startups, 54% of main business accounts are now opened with a neobank, with Starling Bank and Tide leading the way.

Symmie Swil, Starling Bank

The pandemic has meant that business owners have had to rethink how they manage their finances. This is not only to fund their business - which has probably changed massively in the past 24 months - but also because they need to manage their finances anytime and anywhere. Digital banking was designed for exactly this, and Starling is no exception. We now serve over 400,000 business customers - over 7% of the UK business bank account market - which is a sizeable market share to develop in less than 4 years.

Share of SME business current accounts (by number)



Source: FCA Analysis. Covers SMEs with a turnover of <£2m per year. Sample includes the big 4 banks, 3 scale challengers, 2 mid-tier banks and 2 digital challengers.



Boris Dyakonov, ANNA

Innovations aren't necessarily about banking itself but more around things such as smart invoicing, amazing service and clever tools... More and more people setting up small businesses are completely new to the world of invoicing, understanding tax, knowing how to stay on top of expenses, etc. but what they really want is to just focus on doing what they love, not all the hassle around it. When starting out they don't necessarily have a lot of money to spend on lawyers and accountants, so business accounts have taken care of all that by automating a lot of tedious admin and providing the tools to do so. Things such as responsive online or in-app chats are also a game-changer.

Dr Timothy King, Kent Business School

There has been an increase in the sophistication of digital product offerings that have allowed businesses to target prudent cash and liquidity management objectives. This has included business bank accounts that leverage advanced client-driven mobile banking apps that can offer a wider range of services driven by better data and platform integration. That allows, for example, receipts and tax obligations [to be managed] quickly, the automation of all expense administration to accounting software using smart integrations, and to track the spending activities of employees in real-time and facilitate budget setting at all organisational levels.

Philippa Whitham, Savanta

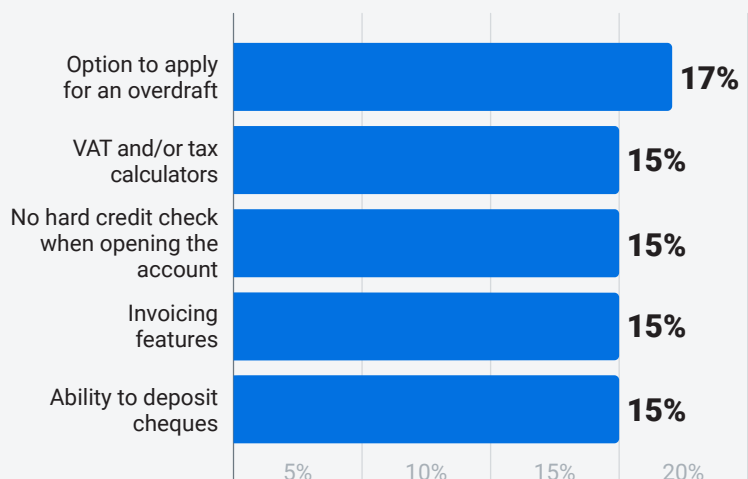
The neobank threat has certainly had an impact on the more traditional banks and has prompted them to review and re-think their offering. It is clear that there is a growing desire, particularly amongst startup businesses, to have a simple, cost-effective, digital-first business bank account and this is reflected in the recent launches of Mettle by NatWest Group and HSBC's new Kinetic account. Both products look set to challenge Starling Bank and Tide and regain a foothold in the startup market.

Symmie Swil, Starling Bank

Digital banks such as ours are offering more tools to empower business owners to take control of their finances - saving them time and money.

Integrations with accounting and point of sale providers - such as Zettle - offer a real-time view of business performance, while invoicing and bookkeeping tools - such as Quickbooks - can reduce the administrative burden of managing the business.

Top 5 account features that became more important to business account holders during the pandemic



Source: Finder survey of business account holders, December 2021



Philippa Whitham, Savanta

At the smaller end of the SME market, business needs are likely to be relatively simple and it is important for banks to offer cost-effective accounts to minimise the temptation to use a personal account for business purposes. As businesses grow, however, additional services and products such as business loans and commercial mortgages are desirable, to accommodate developing needs. Access to some form of relationship or business manager is definitely advantageous, and Savanta's MarketVue Business Banking data shows that satisfaction ratings are higher amongst those who have had contact with a relationship manager in the last 12 months.

Boris Dyakonov, ANNA

If customers are having to wait for hours to get through to someone on the phone or spend ages on paperwork and admin they are losing money not earning... It's also important that those leading the business can maintain good, friendly relationships with their customers or clients, so removing the awkwardness of chasing invoices and late payments by automating that means the business owner remains the "good cop" and the business account software takes on the role of "bad cop", thus not tainting that relationship.

Dr Timothy King, Kent Business School

SMEs will be looking for business account providers that facilitate effective management of a wide variety of financial and operational tasks through better integration of complementary services. SMEs will value integration of these services and the ability to access them centrally from one or more key apps.

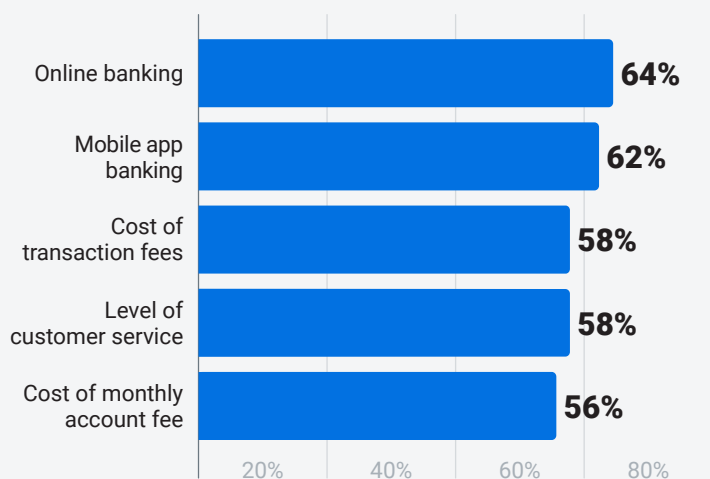
Martin McTague, Federation of Small Businesses

Unlike larger organisations, which have whole teams devoted to their financial arrangements, most small businesses are experts in their own fields, but don't necessarily have the time or resource to decipher confusing account conditions. The clearer and simpler business bank accounts can be in terms of offers, terms and conditions, overdraft costs and so on, the better.

Symmie Swil, Starling Bank

We feel that all business accounts should offer customers 24/7 customer service. When you run a business, there is never a "good time" to bank - often the middle of the night or the crack of dawn is when you end up managing your finances.

Top 5 account features that were important to business account holders both before the pandemic and now



Source: Finder survey of business account holders, December 2021



Dr Timothy King, Kent Business School

I believe this trend will actually strengthen further in the future as switching becomes easier for SMEs. Moreover, a renewed focus on the importance of prudent cash and liquidity management for long-term performance, combined with more intense competition in the banking sector, will encourage more SMEs to switch to new providers that can offer them better functionality, integration of complementary services, and ultimately more customised product offerings driven by smart AI that allow businesses to streamline and optimise existing processes.

Boris Dyakonov, ANNA

These days people switch a lot and it's become easier to do so. There's a general cultural shift towards app-based and digital products because they enable people to work and do business in smart ways. Also, the more established banks have been slower to adapt to the needs of SMEs.

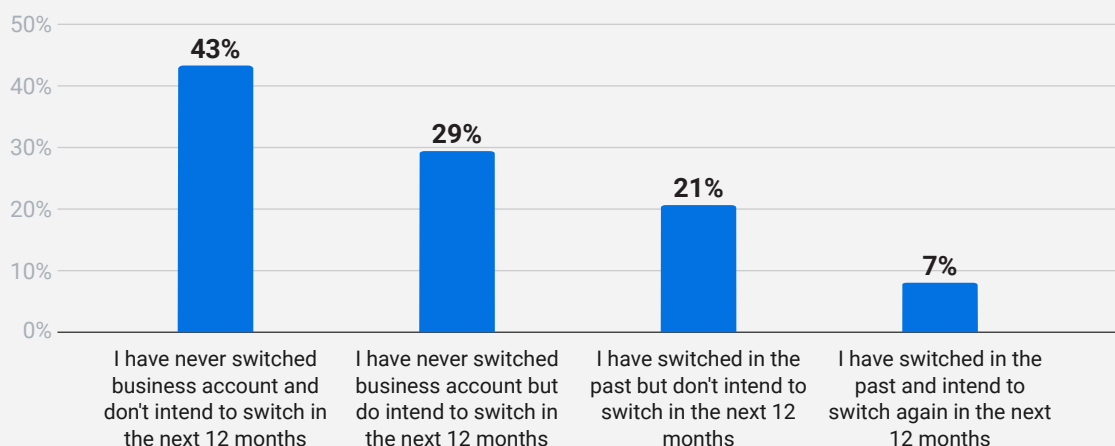
Martin McTague, Federation of Small Businesses

As we rebuild from the pandemic, and regain a measure of stability, there may be a resurgence of the trend to move away from traditional high street banks. It could be good news for small businesses, and for the competitiveness of the business banking market, if providers - whether traditional or challenger - look to improve their offering for smaller firms, through more attractive terms or through more innovative products and features.

Symmie Swil, Starling Bank

At Starling, we expect businesses to continue to switch to banks that offer a better service with lower costs. We predict that the majority of switches will come to challenger banks, however, which are offering greater ease of use and customer support. Data from the FCA backs this up; over the last four years, digital challenger banks have seen a steady increase in market share, while traditional banks are seeing a decline. At Starling, we regularly receive the highest amount of account switches despite offering our customers no cash incentives.

Account switching intentions among business account holders



Source: Finder survey of business account holders, December 2021



Philippa Whitham, Savanta

Amongst SMEs, the neobank market share looks likely to rise further, driven by startups and younger business owners. However, we do expect this to now include new digital offerings from the traditional banks as they start to play catch-up. We may also see some of the smaller new entrants drop away leaving the bigger players such as Starling Bank, Tide, Revolut and Monzo to consolidate their positions. We also anticipate these newer brands broadening their product offering, partly to appeal to larger businesses, but more importantly to keep existing customers loyal as their businesses grow.

Martin McTague, Federation of Small Businesses

It's likely that the business account sector will come under scrutiny once again due to the difficulty of opening up business bank accounts. Although we know that small business numbers declined by 400,000 over the course of 2020, with the toll taken by 2021 yet to be finalised, at some point the number of small businesses and self-employed people will start to grow again, which ought to prompt greater competition between finance providers. More widely, as we try to recover from the pandemic's economic damage, it will be vital for banks to provide financial fundamentals to small business customers.

Boris Dyakonov, ANNA

Customers are choosing business accounts based on brands they identify with. They might not feel aligned to an old institution... The other challenge is that as the sector continues to grow, regulatory pressure is rising. There have been people abusing government financial schemes during the pandemic and we need to watch out for increased fraud. Financial institutions are at the forefront of this, and it adds pressure to us and also to innocent customers as they have to deal with answering more questions, more rigorous checks and so on. Then finally, we're at the advent of the metaverse. It's an inevitability, so ANNA's exploring the idea of opening a branch in the metaverse. Watch this space!

Dr Timothy King, Kent Business School

Businesses will want banking services that are competitive, flexible, wide ranging and increasingly tailored, to maximise their potential to save, lend excess cash and, more generally, to manage cash holdings dynamically. I believe competition in the sector will intensify as traditional providers and new fintech entrants compete, and in some cases collaborate, to become the main providers or "underlying enablers" of banking services to SMEs.



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Dr Timothy King, Kent Business School



About Finder

Finder is a personal finance website which helps consumers compare products online so they can make better-informed decisions. Consumers can visit the website to compare bank accounts, utilities, mortgages, credit cards, insurance products, shopping voucher codes, and so much more before choosing the option that best suits their needs.

finder.com/uk launched in the UK in February 2017 and is privately owned and self-funded by two Australian entrepreneurs – Fred Schebesta and Frank Restuccia – who successfully grew finder.com.au to be Australia's most visited personal finance website (Source: Experian Hitwise).

In December 2021, Censuswide surveyed 362 business account holders on behalf of Finder, to explore their thoughts on the importance of different business account features, as well as their account switching intentions for the 12 months ahead.

Savanta's MarketVue Business Banking report for the year ending Q4 2021 is based on 8,797 startups and established businesses in Great Britain with a turnover of £0-£2m, which were surveyed in the period from 4 January to 17 December, 2021.

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About the author

Michelle Stevens is a deputy editor at Finder, specialising in banking, finance and mortgages. She has a journalism degree from the University of Sheffield and has been a journalist for more than 10 years, writing on topics including fintech, payment systems and retail.