

2018 FIS PACE FINDINGS

Performance Against Customer
Expectations (PACE)

WHAT'S

Now+NEXT

for Small-to-midsize Business
Banking in the United Kingdom

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Introduction

Now in its fourth year, the annual FIS™ Performance Against Customer Expectations (PACE) findings offer a clear view into how well banking providers are meeting the needs of their customers. For 2018, and for the first time, FIS specifically surveyed small-to-midsize business (SMB) customers in the United Kingdom and asked them to rank the importance of nine key attributes and then score their primary banking provider's performance in those areas. These nine key attributes are built into FIS' RUN-CONNECT-GROW model, which represents a bank's levels of service and the steps to reach success.

RUN

The foundation of a successful relationship with consumers

Operate the bank reliably, safely, fairly and efficiently

Trust—Does what it promises and does what is right for my company

Simplicity—Offers the right products/services for my company that are easy to understand and simple to use

Convenient locations—Has convenient branch locations for me to take care of my company's banking needs

CONNECT

The ability to keep pace with connected consumers

Connect consumers with their finances

Digital self-service—Allows me to do things for my company anywhere, anytime through digital channels

Human touch—Provides my company the opportunity for personal, human interaction through branch, telephone, and/or live chat

Immediate—Responds fast enough to keep up with my company

GROW

Consumers relationships that lead to top and bottom line growth

Grow the bank by investing in capabilities that enable consumers to grow

Recognition—Rewards my company for its business

Digital payment—Provides a digital app for me to make business, retail, bill and person-to-person payments with my smartphone, tablet or wearable device

Control—Helps me gain/keep control over my company's finances

Summary Findings

- 7 out of 10 SMBs in the UK are satisfied with their banks, but of the 30 percent that are unhappy, most plan to change banking providers soon.
- Overall, 22 percent of UK SMBs plan to switch banks in the next year, with the larger business (revenues of £55.5 million and above) most eager to make a change.
- On average, 43 percent of SMB financial transactions were completed digitally, and 60 percent of SMBs report increased usage of digital transactions in the prior 12 months.
- Digital payments is likely to drive bank defections, as it is the top pain point for high-revenue SMBs planning to switch banks. Those that outsource payments processing are also eager to switch.
- Poor communication plays a factor, as SMBs – especially ones eager to switch banks – report difficulty getting trusted information. Having a relationship manager seems to exacerbate the problem.



Priorities for Banking Providers

- 1. Core Modernisation** – For open banking APIs to work and for banking providers to be able to bring new offerings to SMB customers quickly, it requires core banking systems that are appropriate and well-structured to ensure successful, secure integrations. For banks with archaic, patchwork cores, this may not be an option without first rethinking their core systems.
- 2. Digital Payments** – UK SMBs are adopting digital payments (online, P2P and mobile) at a breakneck pace and are quickly coming to demand support for these capabilities from their banks, rather than third parties. As the PACE data shows, this is likely one of the key reasons that nearly one in four SMB customers is looking to switch banks in the next 12 months.
- 3. Open Banking** – This introductory period of open banking, when awareness is low, presents an opportunity for banks to leverage SMBs' favorable views of their security, engage trusted technology partners and add a host of business functions, such as accounts receivable or benefits administration. This is likely the most efficient, agile way to add the services SMBs want now and in the coming years.
- 4. Better Communication** – SMBs report great difficulty in getting reliable, accurate information from their banking providers, and the addition of dedicated relationship managers is, at best, a short-term and ineffective fix. UK banks must focus on improving their communications, both internally to staff and externally with these important clients.





SMBs Want Simplicity but Will Switch Banks for Digital Payment

UK small-to-midsize business (SMB) customers view Simplicity and Control as the most important attributes in their banking relationships. Digital Payment and Digital Self-service appear in the middle of the pack in terms of importance to SMBs. However, when we break out the data based on those companies looking to switch banks, the importance matrix changes significantly. For SMBs that switched banks or plan to switch, Digital Payment leapfrogs to the top.

SMB Customers' Top Attributes, by Whether They Switch Banks

Rank	UK overall	Plan to switch banks	No switch
1	Simplicity	Digital Payment	Simplicity
2	Control	Control	Trust
3	Trust	Simplicity	Control
4	Digital Self-service	Trust	Digital Self-service
5	Digital Payment	Digital Self-service	Immediate
6	Immediate	Human Touch	Digital Payment
7	Human Touch	Immediate	Human Touch
8	Convenient Locations	Recognition	Convenient Locations
9	Recognition	Convenient Locations	Recognition

The Challenger Affect

As we go through the 2018 PACE findings, a clear pain point emerges around SMBs being able to process and send digital payments. This highlights what may be an uncomfortable shift for legacy institutions: The customers of UK SMBs are increasingly eager to pay via a range of options, including mobile devices and payment apps. This may be the result of the dozens of fintech startups and digital-first challenger banks that have flooded the retail banking market. This may also present a wedge issue for these smaller competitors to eventually slice off pieces of the lucrative SMB banking market.

SMBs Bank Primarily with Top 50 Banks, Generally Satisfied

The UK SMB banking market is heavily concentrated, with the top 50 global banks garnering more than 86 percent of the market. Regional banks (4 percent), cooperative banks (5 percent), and direct banks (5 percent) account for the rest. Additionally, direct banks (i.e. 100 percent virtual banks) have taken market share in recent years.

Overall, 70 percent of UK SMB customers report they are “extremely satisfied” or “very satisfied” with their primary banking providers.

SMB Customer Satisfaction



SMB customers report being satisfied overall by their banks’ performance in all nine RUN-CONNECT-GROW categories, though Recognition (“rewards me for my business”) trails well behind the other attributes.

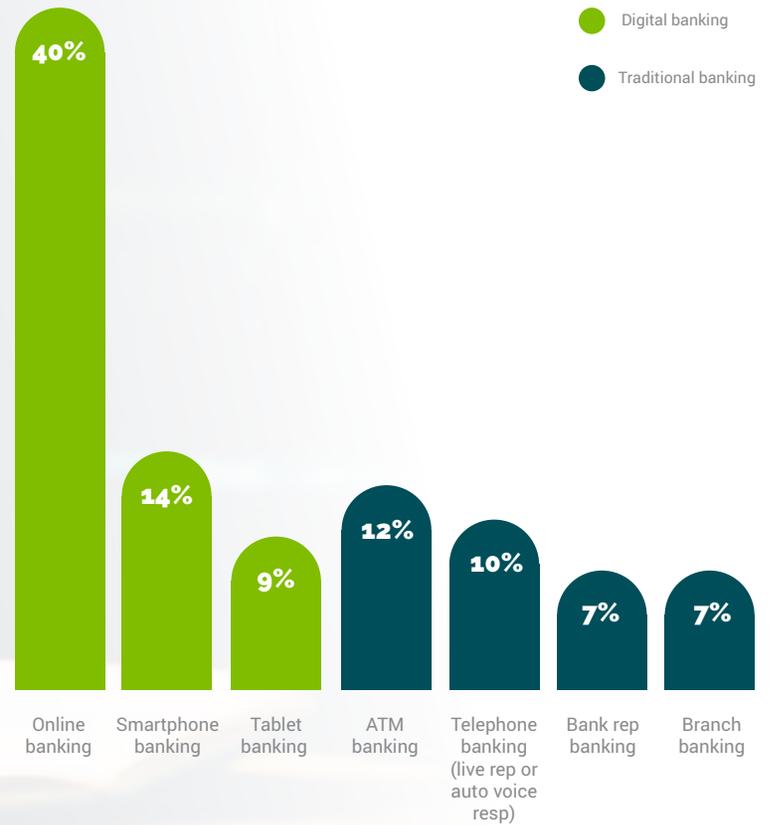




The Digital Divide

Online banking remains by far the primary way UK SMB customers contact their banks, followed by traditional banking channels. Nearly 23 percent of SMB bank contacts are made through mobile devices.

SMB Bank Interactions



Money Moves Digitally

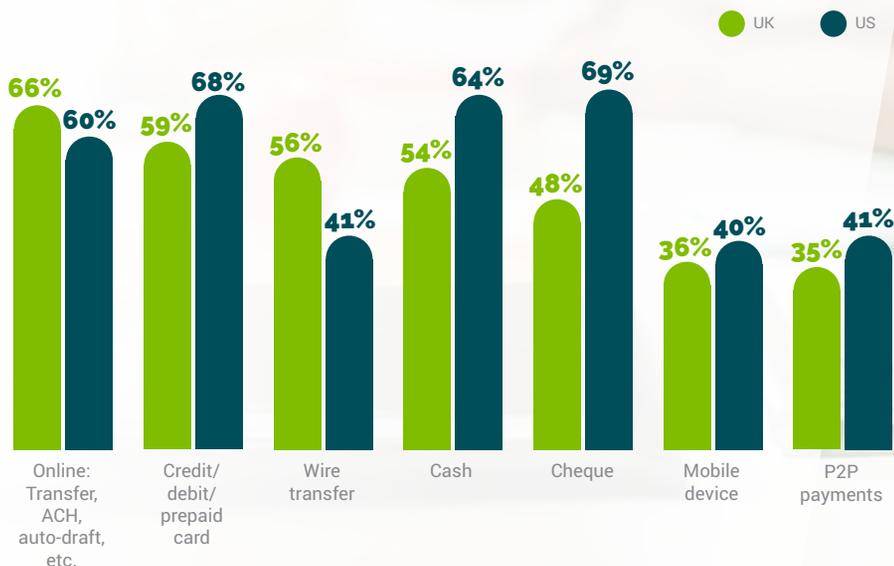
However, when it comes to transactions, digital is clearly gaining ground. Some 43 percent of SMB financial transactions were completed digitally (online or via mobile), and 60 percent of SMBs report increasing usage of digital transactions in the previous 12 months.

Digital Transactions, 2017 – 2018



However, UK SMBs in general accept fewer payments via cards, mobile devices and person-to-person (P2P) services like PayPal relative to their counterparts in the US. Banks that serve businesses with operations in both regions need to view their product portfolios holistically and ensure SMBs have access to the full range of payment options, including cross-border payments.

Common Payments Accepted, UK vs. US



Overall, just four percent of UK SMBs report using outside services to help process their companies' digital payments, but that number more than doubles to 11 percent for those businesses looking to switch banks. One option to keep SMB customers happy – and to capture additional fee revenue – is for banks to consider making payments processing a cornerstone of their commercial portfolios, if they don't already.

Use of Outside Payment Processing Services



Open Banking Rolls Out

In the UK, SMBs are using financial mobile apps more to conduct a wide range of business, from making investments to applying for loans and opening new bank accounts. This will likely continue as open banking comes online fully in the UK and with implementation of the Revised Payment Service Directive (PSD2) throughout Europe.

SMB Financial Mobile App Usage

49 percent of SMBs are aware of open banking, compared to just 20 percent of UK consumers.

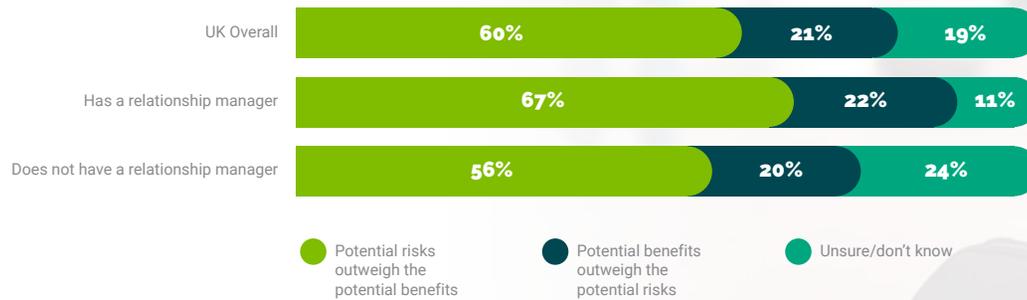


With open banking, banks will make their customer data accessible (with consent) to verified third parties via a set of secure application programming interfaces (APIs). In time, this will allow SMB customers to access financial services from other providers – insurance, benefits administration, investments, etc. – via their bank profiles, and vice versa.

Worried About Risks

Awareness for open banking is much higher with the UK's SMB customers than with individual consumers, but enthusiasm remains tepid. Some 60 percent of SMBs view the risks of open banking outweighing the potential benefits, and this figure is higher among SMBs with a dedicated relationship manager, which may indicate possibly inaccurate or negative communications by banks about the impacts of open banking and PSD2.

View of Open Banking



A Chance to Lead

With open banking's continued roll out in the UK, there is certain to be much handwringing – and, of course, political lobbying – about its long-term impact for legacy banking providers, who may face even greater disruption from challenger banks and nontraditional competitors. However, now is the opportune time for banks to create a market advantage. Banks can work with established, trusted technology partners to add the ancillary products and services SMB customers want, such as robust payments processing, while ensuring the highest level of security. As seen elsewhere in the 2018 PACE research, clear and consistent communication is essential to success.

The Angry Quarter

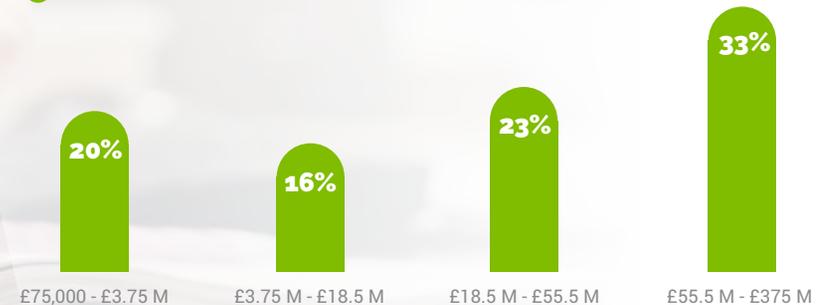
While none of the SMBs that responded to the 2018 PACE survey indicated that they switched banks in the past year, nearly one in four (22 percent) say they are planning to switch in the next year. Those most eager to switch are larger businesses with revenues between £55.5 million and £375 million. If these larger businesses defect, banks may see large chunks of their business banking revenues disappear.

UK SMB Customers



Who is Switching?

● Plan to switch

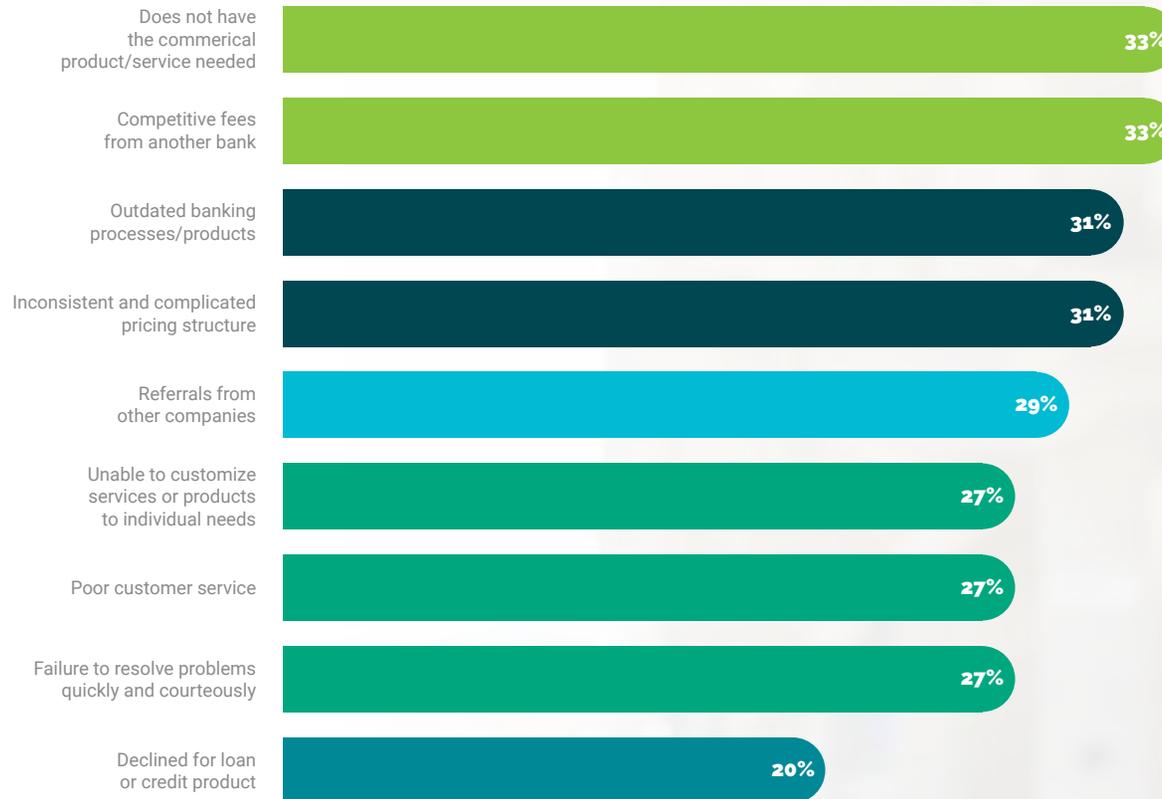


It's clear that making the switch may not materialise for many SMBs because of the difficulty of unwinding banking partnerships, but they are likely to spread their business around to other providers (in this case, payments processing and merchant services) to alleviate their pain points with their primary bank.

SMBs Want More, Better Merchant Services

Unsurprisingly, given the whole of the 2018 PACE findings, SMBs in the UK cite “not having the product or services commercial clients need” as a primary reason for switching banks, tied with the high costs of the services offered.

Why SMBs Are Switching Banks



As mentioned, for SMBs planning to switch banks, Digital Payment is the most important PACE attribute. Also of note is that businesses with revenues between £55.5 million and £375 million are the biggest outsourcers of payments processing (7 percent). This suggests that inflexible payment options may drive SMB defections in the coming year.

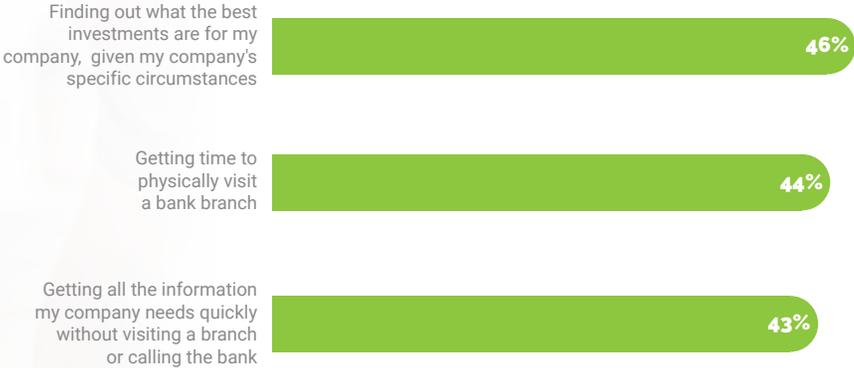




Communication Is Key

2018 PACE data indicates that UK banks share a similar problem with their U.S. counterparts: poor communications. This is unsurprising: SMBs in both regions bank primarily with the same top 50 global banks.

SMB Banking Customer Pain Points (Top 3)

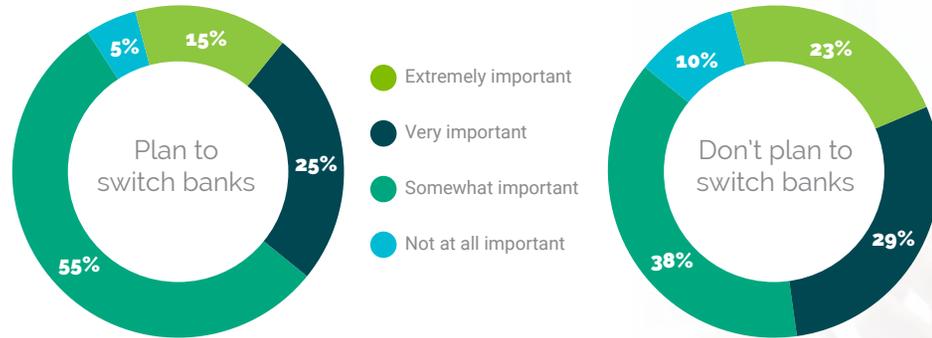


For SMB customers in the UK, many of their pain points revolve around accessing information.

A People Problem

The answer for banks has been to throw people, specifically relationship managers, at the problem. On the surface, this seems smart, given that 52 percent of SMBs with no plans to switch banks view having a relationship manager as “extremely important” or “very important.”

Importance of Having a Dedicated Relationship Manager



However, banks must be careful when pairing relationship managers with business banking customers. PACE data reveals that 89 percent of SMBs that plan to switch banks already have a relationship manager. Of those with no plans to switch, more than one-third of SMBs don't have a relationship manager at all. As the single point person representing a bank, even a small misstep by a relationship manager could weaken or destroy an SMB relationship.

Intent to Switch Banks, by Relationship Manager Status



This reliance on relationship managers highlights the underlying problem banks have with clearly communicating policies, fee structures and procedures – also reflecting the earlier data point showing SMBs with relationship managers were more worried about open banking. Relationship managers need to also be fully informed about each SMB client and their history with the bank as well as their current situation, solutions and needs. This information must be readily available at the point of contact, paving the way for the importance of omnichannel interactions.

CONCLUSION

Helping SMBs Grow Their Businesses

As the inaugural PACE findings for the UK SMB market show, banks face increasing pressure to provide the modern commercial services that business banking customers need. SMB customers, even more than consumers, expect banks to know and respect their preferences, to offer fair and competitive fees, and to offer effective communications and concierge services. Banks can create new revenue streams – beyond expanding their loan portfolios – by offering ancillary merchant services, like payments processing and helping SMBs better serve their digital-first customers and vendors. Fortunately, it has never been easier or more affordable for banks to rapidly upgrade banking systems and capabilities, and open banking will likely radically expand the products and services banks can offer their SMB customers.



About the FIS PACE Survey

Since 2015, FIS' annual Performance Against Customer Expectations (PACE) survey findings have provided a snapshot of how well UK banking providers are meeting the expectations of customers. For the 2018 report, we surveyed 253 UK small-to-midsize businesses – across industries, from startups to established business, and up to £375 million in revenue – and asked them to rank the importance of nine key performance indicators (KPIs) for banking and then to rate their primary banking providers' performance against those expectations. We also surveyed respondents about a range of emerging and established banking trends.

Methodology

The online survey was conducted by GfK Custom Research in January 2018. This is the fourth year FIS has conducted the market-defining PACE survey. The sampling was as follows:

	Consumer study				SMB study		Bank executive study	
Country	U.S.	U.K.	Germany	India	U.S.	U.K.	U.S.	U.K.
No. of respondents	1,788	1,074	1,067	1,018	321	253	355	355
Segments (with over-samples)	Community banks: 535							
	Credit unions: 619							

For More Information

Banking providers and clients, please contact:

Lisa Hall

Senior Vice President
FIS Global Financial Solutions
lisa.hall@fisglobal.com

Press and media, please contact:

Kim Snider

Senior Vice President
FIS Corporate Communications
kim.snider@fisglobal.com

About FIS

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