

## Businesses Seek the Human Touch from Their Banks

August 2011 – Revised October 2011

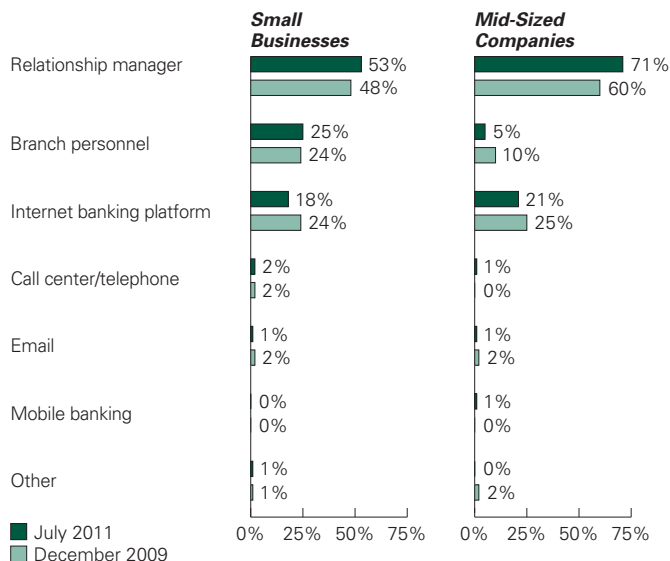
Small businesses and mid-sized companies that are not calling on bank relationship managers for high levels of personal service and advice on critical business and funding issues are missing out, according to new research from Greenwich Associates. Although small businesses and middle market companies reported improved credit conditions in the first half of this year, they continued looking to their banks for help in navigating difficult business conditions.

In the years before the onset of the credit crisis, companies began relying on Internet banking platforms to a never-before-seen extent. In fact, by December 2009, both small businesses and mid-sized companies ranked their banks' Internet platforms as having equal or greater importance than branch personnel in their interactions with their banks. By a wide margin, companies in both segments now rank their relationship managers as their most important banking channel.

From late 2009 to July 2011, companies began putting more stock in the "human touch." Over that period, the share of small businesses citing the Internet platform as the single most important point of interaction with their bank declined to 18% from 24% and the share of mid-sized companies naming the Internet as their most important banking channel dropped to 21% from 25%. Meanwhile, the share of small businesses naming their relationship manager as their most important point of contact jumped to 53% from 48%; among mid-sized companies that share increased to 71% in July 2011 from 60% in December 2009.

It is important to keep in mind, however, that the Internet remains by far the most frequently used bank channel by U.S.

### Single Most Important Point of Interaction with Bank

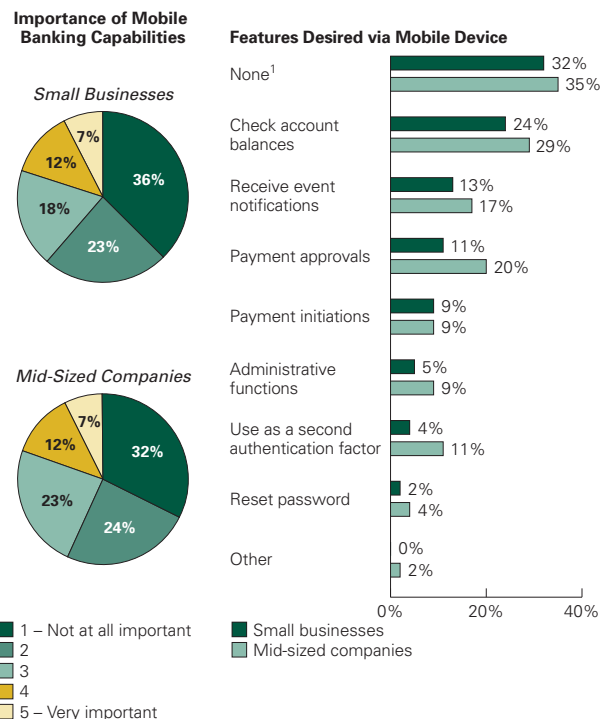


Note: Based on 280 respondents for small businesses and 280 for mid-sized companies in 2009, 249 respondents for small businesses and 259 for mid-sized companies in 2010. Source: Greenwich Market Pulse v41

### Mobile Banking: Not Yet a Must-Have

Although banks continue to roll out new mobile banking capabilities, only about one-in-five small businesses and mid-sized companies see mobile banking as an important feature in their banking relationship.

#### Importance of Mobile Banking and Features

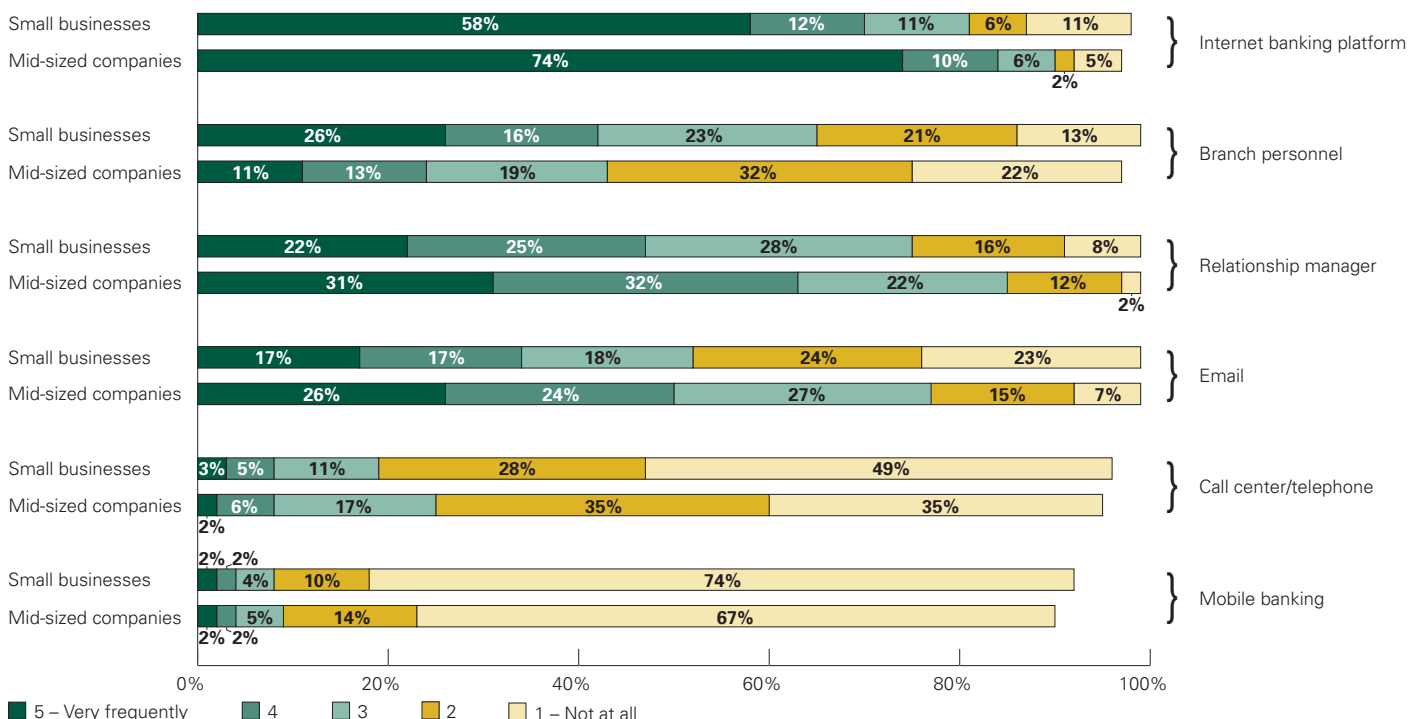


Note: Based on 248 respondents from small businesses and 257 from mid-sized companies in 2011. <sup>1</sup>Includes Do Not Use responses. May not total 100% due to rounding. Source: Greenwich Market Pulse v41

businesses. Seventy percent of small businesses and 84% of mid-sized companies say the Internet is the means by which they most frequently interact with their banks. Among small businesses and mid-sized companies, the Internet is the channel of choice for activities including investigating the status of unpaid checks, initiating payments, requesting a copy of a statement or viewing balance reports, issuing a stop pay order, adding or deleting employees from payroll, and viewing paid check images.

"Before the start of the crisis, it was easy for companies to put their bank relationships on auto-pilot, with direct interactions initiated by companies mainly in connection with important events like loan applications, and with banks reaching out mainly in connection with new product sales," says Greenwich Associates consultant Duncan Banfield. "Today, companies need help solving broader business problems, and our data shows that they have stepped up interactions with bank relationship managers as part of that effort."

## Service Channel Frequency of Use



Note: Based on 249 respondents from small businesses and 259 from mid-sized companies in 2011. Source: 2011 Greenwich Market Pulse v41. Updated October 2011

## An Opportunity for Banks and Businesses

Although companies' appetite for ideas and advice represents an invaluable chance for banks to build new levels of trust with their clients, it seems that some banks are not taking advantage of that opportunity. Only about one-third of small businesses say their banks have provided any advice on how to improve cash flow efficiency through this period of limited credit and sparse consumer demand. While slightly more than half of mid-sized companies say their banks have initiated meetings to review and try to improve their cash flow situation, a full 46% of these companies say they've received no such advice from their banks.

"For both banks and companies, the takeaway messages from our research results are straightforward," says Greenwich Associates consultant Pete Garrison "For banks, we have identified an opportunity to provide added value to customers at a time in which client trust and loyalty remains tenuous. For companies, our research shows that some of your competitors are in fact receiving proactive outreach from their banks, who are offering valuable assistance in areas like increasing

cash flow efficiencies. If you're not getting the same type of advice, you should ask your relationship manager why that's the case. If you find your bank is unable or unwilling to provide this type of advice, explore other options."

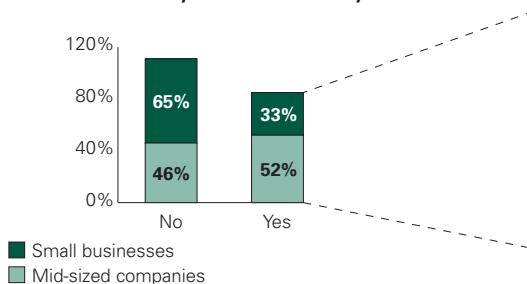
## Credit Conditions Improve On Eve of Market Downturn

The Greenwich Associates Credit Availability Index for mid-sized companies pushed into positive territory last quarter for the first time since the second half of 2007. Unfortunately, that long-awaited positive turn occurred at a moment when corporate loan demand appears threatened by new concerns about a flagging economy that could cause small businesses and mid-sized companies to put any expansion plans on hold.

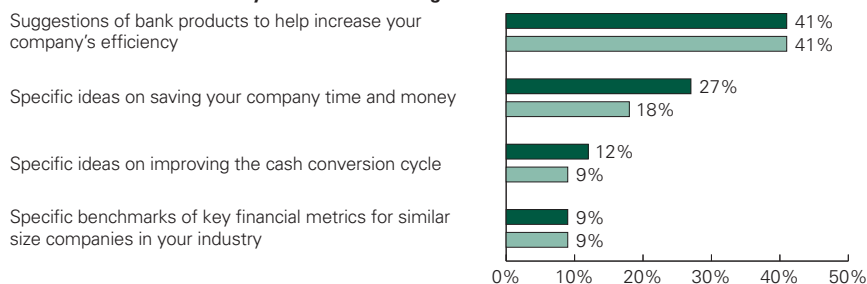
Since approximately the mid-point of 2009, U.S. companies have been telling Greenwich Associates a consistent story: Credit conditions are hardly favorable, but they are improving. Over that two-year period, the Greenwich Credit Availability Index has reflected a gradual movement toward something close to "normal" in terms of corporate borrowing.

## Cash Flow Advice

### Cash Flow Efficiency Advice Provided by Lead Bank<sup>1</sup>



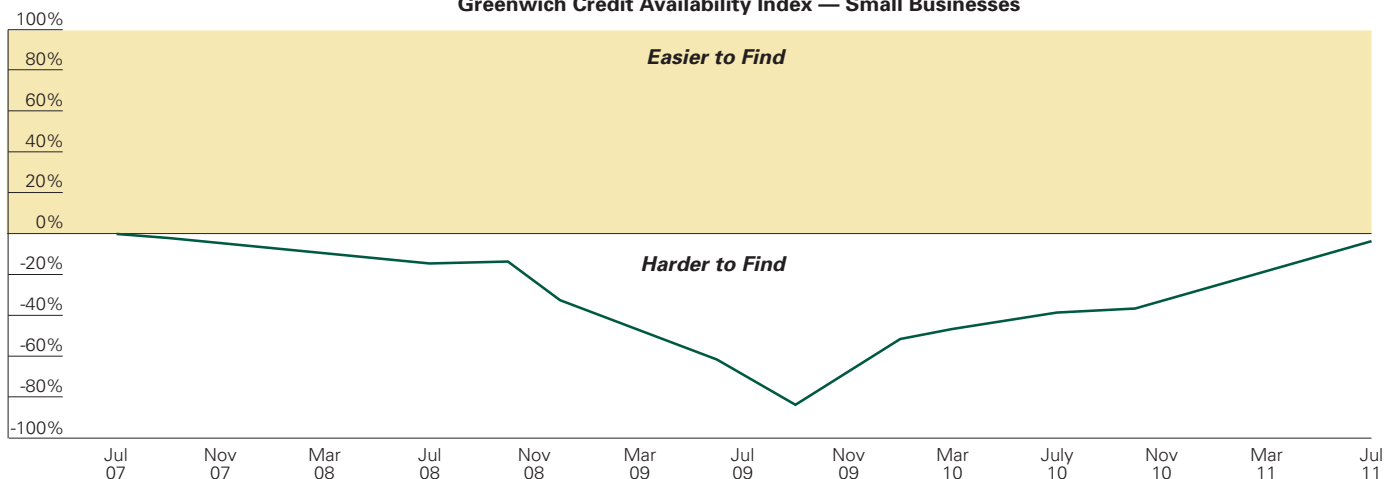
### Values and Ideas Provided by Lead Banks Offering Advice<sup>2</sup>



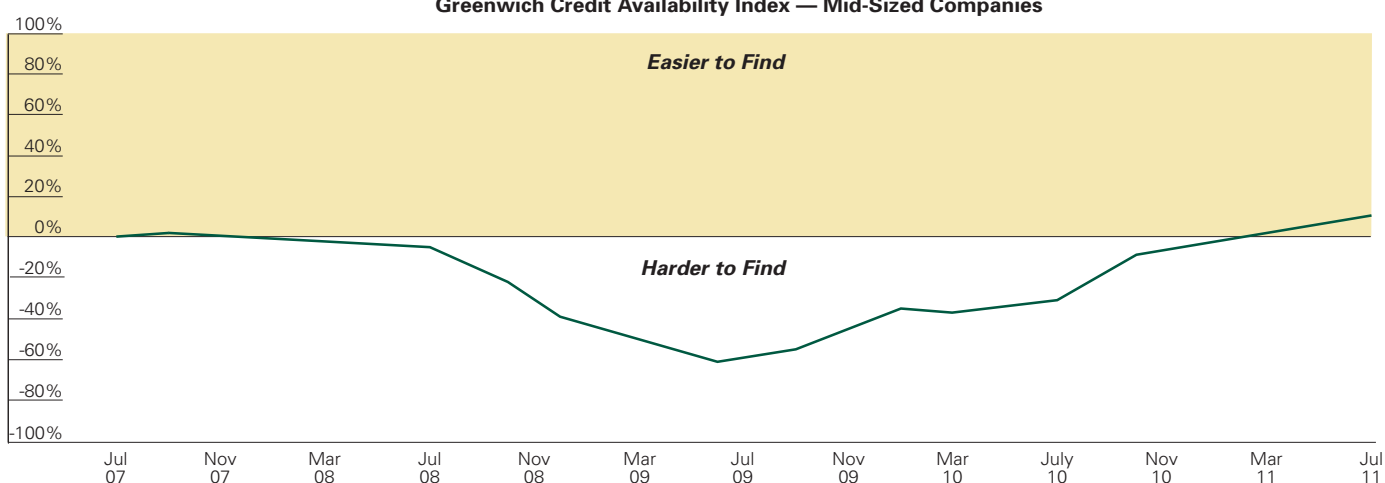
Note: <sup>1</sup>Based on 242 respondents from small businesses and 251 from mid-sized companies. <sup>2</sup>Based on 133 respondents from small businesses and 259 from mid-sized companies. Source: Greenwich Market Pulse v41

## Greenwich Credit Availability Index

Greenwich Credit Availability Index — Small Businesses



Greenwich Credit Availability Index — Mid-Sized Companies



Note: The Greenwich Credit Availability Index is the net score of companies who feel that credit is easier versus harder to find. Based on responses from companies that have borrowed in last three months. Source: Greenwich Market Pulse v41

The Credit Availability Index provides a glimpse into business' recent experiences in applying for and obtaining bank loans. The index score represents a net calculation based on companies' response to the question: Is it harder or easier to borrow money than it was three months ago? A positive score indicates that credit conditions have eased or improved over the past quarter; a negative score reflects tightening or deteriorating credit conditions.

In July 2011, the Credit Availability Index for mid-sized companies moved solidly into positive territory. The index score for small businesses fell just short of a positive reading while posting its strongest results since 2007. These results reflect a dynamic that companies have been describing to Greenwich Associates for more than a year: Banks have been lending — at times aggressively — to the largest and most creditworthy companies in the middle market space. While weaker middle market companies and most small businesses remained frozen out of the bank loan market throughout the early stages of the post-crisis period, in more recent months these smaller companies have found loan access much improved.

“Since the credit crisis, there has been much debate about what has been slowing the rebound in bank lending to small businesses and mid-sized companies: Has it been banks' refusal to lend, or a lack of corporate demand?” says Greenwich Associates consultant David Fox. “We now have strong evidence

that, as of July 2011, companies were gaining confidence in their ability to obtain bank credit. But as markets enter yet another phase of volatility, it seems very likely that demand will come under renewed pressure.”

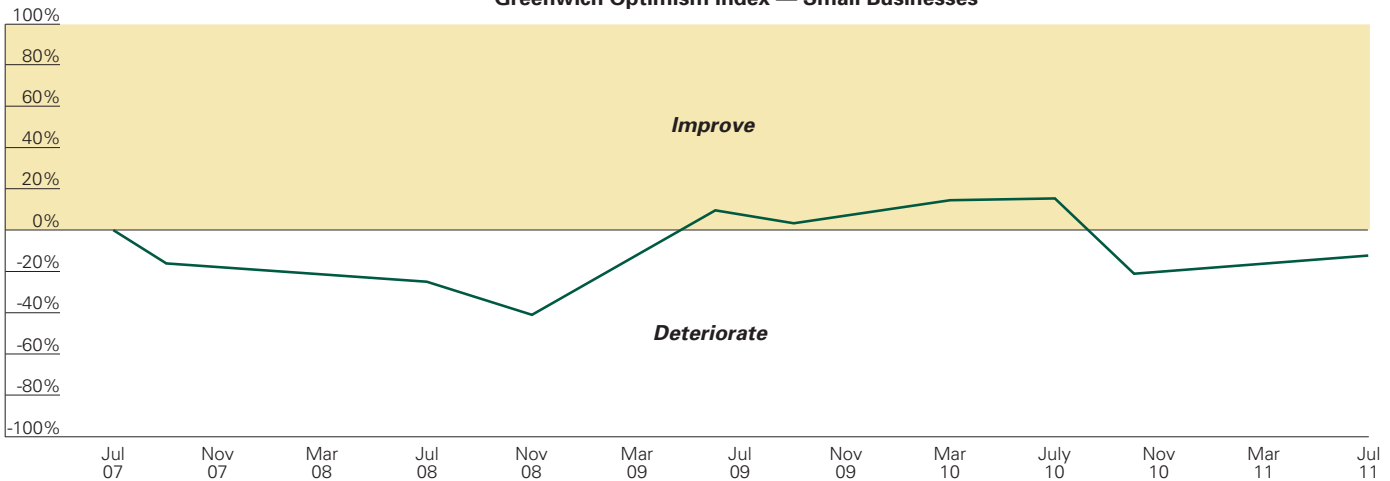
### Optimism Imperiled?

Prior to the S&P downgrade of the U.S. credit rating and subsequent equity market gyrations, companies were expressing increasing levels of optimism about the economy. Post-crisis optimism among middle market companies peaked at the end of the first quarter of 2010, at a time when it appeared to most observers that an economic recovery was taking hold. Shortly thereafter, sentiment — as measured on the Greenwich Optimism Index for mid-sized companies — nosedived, reaching negative territory later that year. Optimism among small businesses peaked in July 2010 before plunging into negative territory just a few months later.

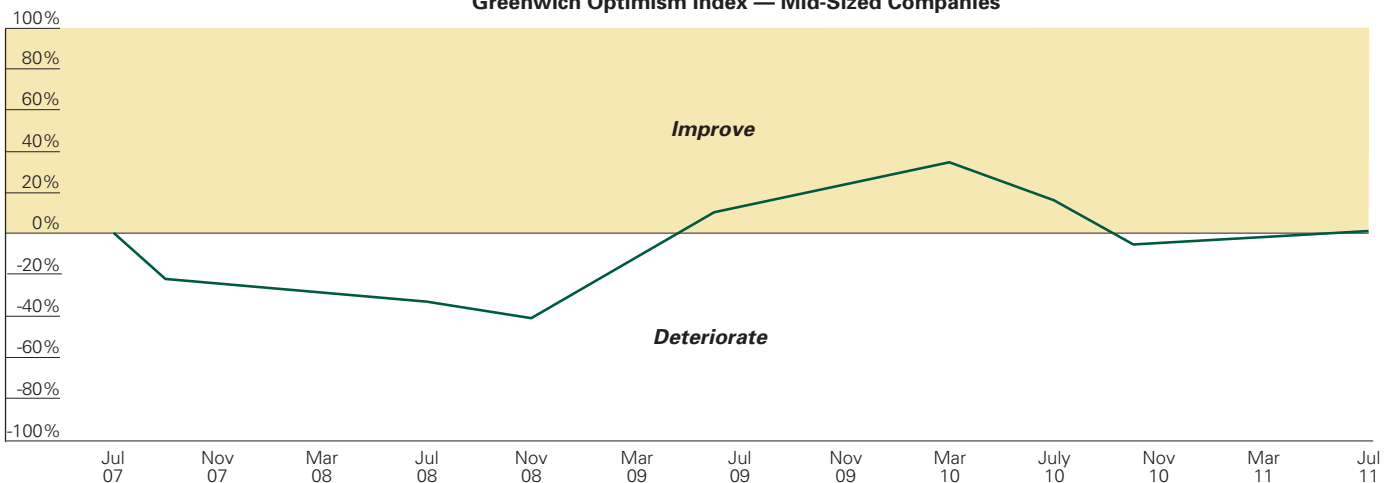
Since roughly November 2010, sentiment readings among small businesses and mid-sized companies have been slowly grinding higher. Despite negative economic data, the protracted stand-off over the U.S. debt ceiling and dangerous rumblings from Europe, the Greenwich Optimism Index for mid-sized companies climbed into positive territory in July 2011 and continued moving in the same direction among small businesses.

## Greenwich Optimism Index

### Greenwich Optimism Index — Small Businesses



### Greenwich Optimism Index — Mid-Sized Companies



Note: The Greenwich Optimism Index is the net score of companies who feel that the economy will improve vs. deteriorate. Based on 242 respondents from small businesses and 247 from mid-sized companies. Source: Greenwich Market Pulse v41

“In terms of credit conditions and economic sentiment, all indicators were moving in the right direction as the summer unfolded,” says Greenwich Associates consultant Don Raftery. “The question now is whether any of that positive momentum can survive the current market volatility, or whether the small and middle market growth engine will stall yet again.”

*Consultants Duncan Banfield, Larry Bailey, Pete Garrison, David Fox, Don Raftery, and Marc Harrison advise on banking in the United States.*

### Methodology

*The Greenwich Market Pulse is an ongoing research series that addresses the most important and timely issues facing small (\$1 million–\$10 million) and mid-sized (\$10 million–\$500 million) company executives and their banking relationships in the United States. The current study was conducted during June 2011 and included participation from 508 companies, including 249 small businesses and 259 middle market companies.*

*The findings reported in this document reflect solely the views reported to Greenwich Associates by the research participants. They do not represent opinions or endorsements by Greenwich Associates or its staff. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Greenwich Associates compiles the data received, conducts statistical analysis and review for presentation purposes in order to produce the final results.*

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