



Market Pulse:

Economic Outlook, Credit Process Frustrations, and Digital Banking

December 2017

Content



Economic Outlook



Credit Process Frustrations

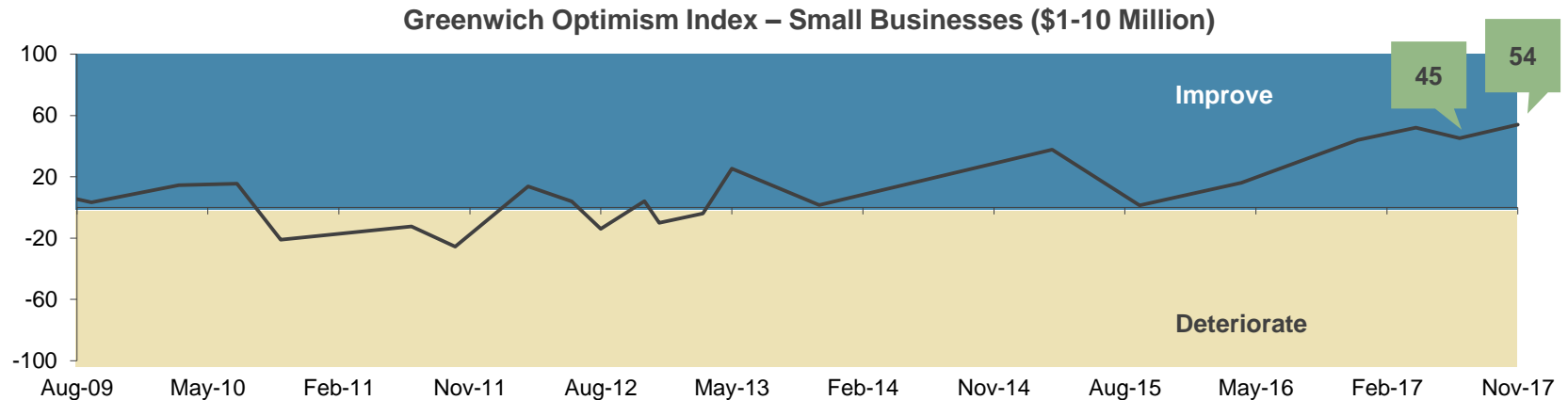


Digital Banking

Executive Summary

- After a slight decline at mid-year, small and mid-sized companies are optimistic overall about the economy, mostly due to possible tax cuts, deregulation, and perceived business growth.
- Some of the biggest frustrations with the credit process are documentation (including requests for the same information already provided), a lack of understanding by banks of their business, and length of time for the approval of requests. Many companies believe that the paperwork can be streamlined. Banks should ease this pain point by digitizing and simplifying the documentation process. Acceptable response times to credit requests has changed since 2014. An increasing number of small and mid-sized companies expect the response to come in one day or less. Approximately one-fifth of companies have used a non-bank for credit. Of those that have used a non-bank, about half of companies cite that it has changed their perception of the speed of response to credit requests.
- Mid-sized companies, more so than small businesses, cite that a bank's commitment to innovation is important to their selection of providers. Similarly, more mid-sized company executives than small businesses executives cite that a bank's digital capabilities are important for provider selection. Sixty-three percent of mid-sized companies believe digital capabilities are very important in provider selection.
- Close to half of both small businesses and mid-sized companies believe their lead bank's digital capabilities are very influential in supporting the customer experience. Only 2% of mid-sized company executives view digital capabilities as not influential at all. In addition, a majority of companies cite that digital channels have made it easier to do business with their lead bank.
- One in five small business executives and one in four mid-sized company executives interact with their bank(er) via electronic channels daily. Only 4% of mid-sized company executives cite that they never interact with their bank via electronic channels. Approximately one-third of small businesses and close to half of mid-sized company executives would be open to the idea of a self-service banking relationship if it streamlined fees. Companies are looking for technologies that are user friendly and functional in their banking relationships.

Optimism Among Small Business Owners Is Up Due To Tax Reform And Current Activity In The Market



Why do you feel this way?

Negative Responses

- “It seems as though people are not spending as much currently.”
- “Political uncertainty will get worse and this will depress capital and household spending.”
- “In my humble opinion, the markets are artificially inflated because [Trump] is in office. When the markets realize that he is having NO positive effect on jobs, income, interest rates, the market will go down. In addition, this administration is not without scandal. At any moment, there can be some 'news' that takes this administration down. Quickly. My gut says that something big will happen within the next 6-12 months.”

Positive Responses

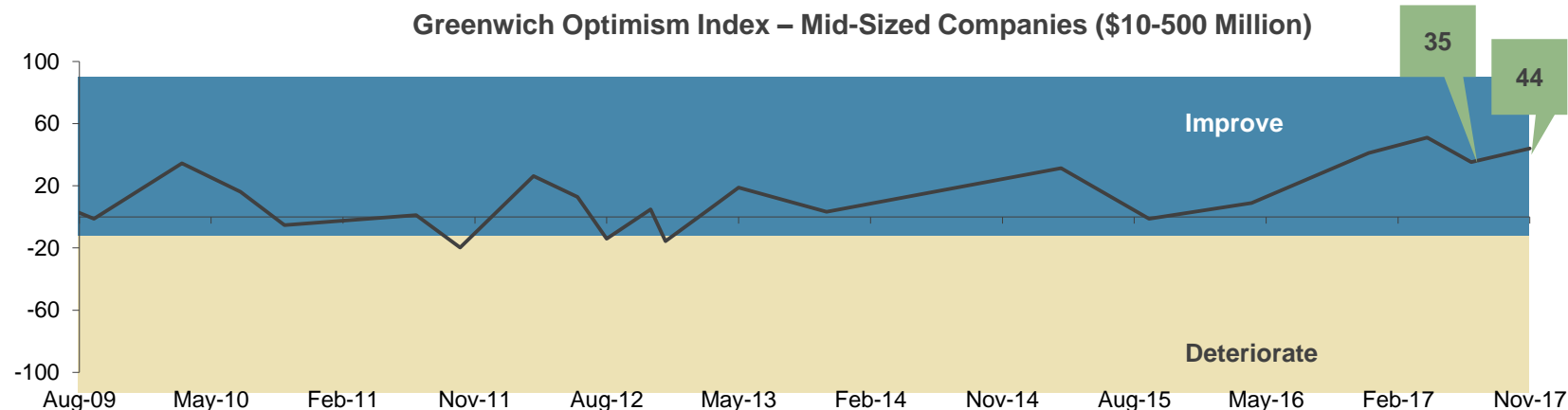
- “Based on the first part of the year results and ongoing conversations with customers.”
- “The demand for consumer goods and services is high, but services have been at max capacity so it's slow to respond to demand, but starting to. Tax cuts will also spur the economy.”
- “Market is waiting decisions on major issues. Some deregulation has eased pressure on Small Businesses. Recent influx of funds into regional economies reflects positively on economic indicators.”
- “Less government, lower taxes, more jobs.”

Note: The Greenwich Optimism Index is the net score of companies who feel that the economy will improve versus deteriorate.

Question: On a scale from 1 = Will Deteriorate Significantly to 5 = Will Improve Significantly, what is your view on or expectation for the economy over the next six months? Why do you feel this way?

Source: Greenwich Associates Market Pulse v68 (November 2017).

After A Mid-year Dip, Mid-sized Companies Are Optimistic About The Economy, Citing Deregulation And Increased Sales



Why do you feel this way?

Negative Responses

- “Government policies are impulsive and unpredictable. When promises are not kept, discouragement follows.”
- “Interest rates [are] going up and the market has gone up a lot more than expected. Correction will come [in] a matter of time.”
- “Poor fiscal leadership and Federal Reserve balance sheet unwinding.”
- “Tax changes underway will make home ownership less affordable. Political climate very uncertain.”

Positive Responses

- “Our sales and backlogs are way up.”
- “I’m hopeful that tax law changes may increase spending and stimulate the economy.”
- “Government is deregulating and making doing business easier which encourages growth.”
- “There seems to be more economic activity. Our targeted markets seem to be more active. There are reports of lower unemployment. Cost of capital and energy is low.”

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Source: Greenwich Associates Market Pulse v68 (November 2017).

Biggest Frustrations with Credit Process

Repetitive paperwork, long approval times, and inflexibility are common pain points among small and mid-sized companies

Small Businesses

- “They rely on credit information, statistics, and underwriters. There is not a real attempt or proper questions to understand the business. Also look at current status, do not take into consideration the long term history of the business.”
- “Start to finish time it takes to initiate contact, review, and approve.”
- “The smaller banks don't want to go out on a limb for small business and the big banks want you to jump through hoops, and then if they approve you for credit they charge [an] exorbitant amount in interest even if you're not a credit risk.”
- “Handing over the same info they [had] before. I don't mind updating, but it's very frustrating to waste my time.”
- “Conservatism on the part of the bank, not being flexible, and not looking for ‘outside of the box’ solutions.”
- “Banks that avoid a certain asset class due to past bad experiences.”
- “Underwriters lack of understanding about what we do and how we operate.”

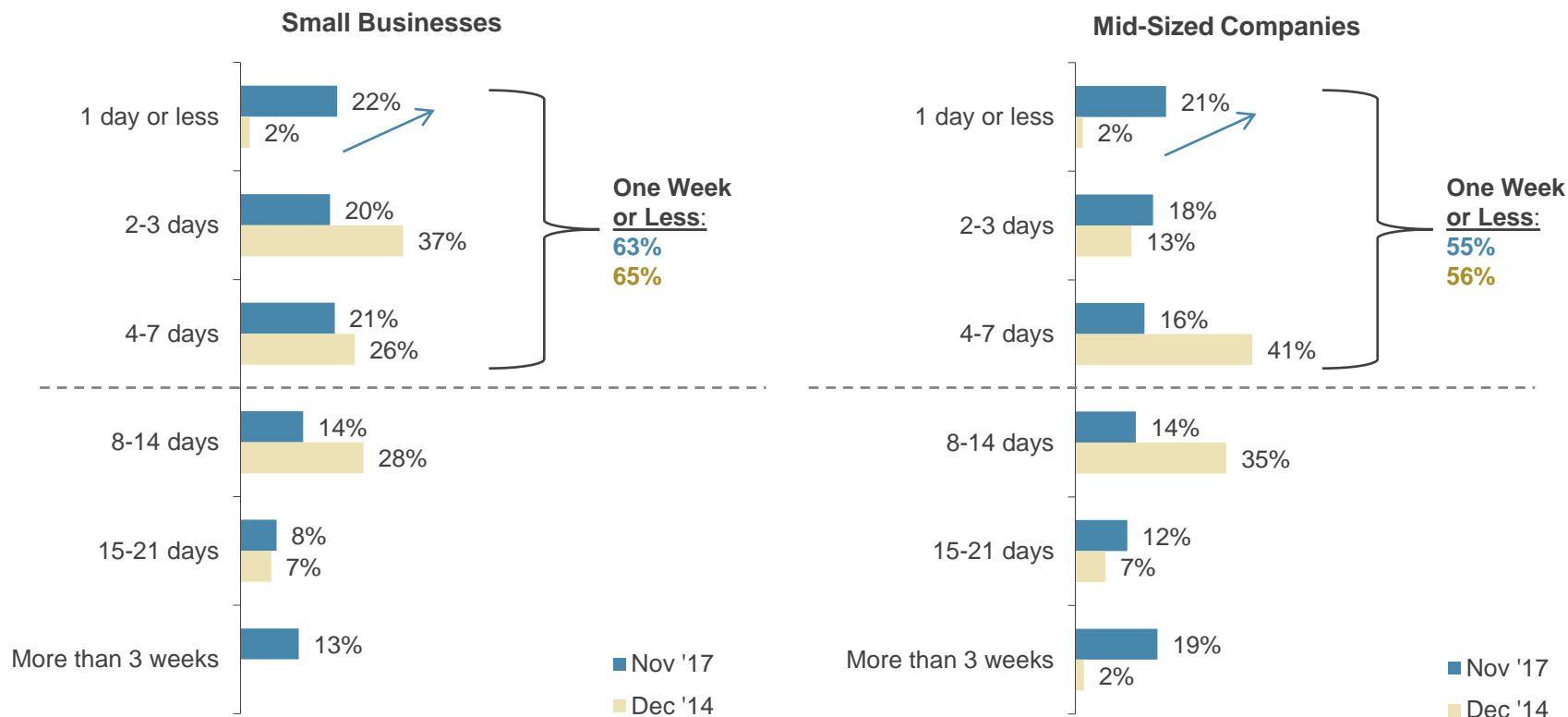
Mid-Sized Companies

- “Length of time to receive approval for credit requests and the amount of information now required for any requests even though a majority of it is already on file.”
- “Extreme detail of financial information requested. Real overkill. Annual audited financials and quarterly in-house financial statements should be enough.”
- “The cumbersome questions due to complex revenue recognition issues that are often not understood by the reviewer from the perspective on impacting cash flow.”
- “Decisions are made by people who are too far removed from my relationship.”
- “Bank turnover that required us to reintroduce ourselves to a bank that has had our business for 17 years.”
- “The amount of forms that need to get signed and the legal work involved when there is even a small change to existing credit agreement.”
- “The effect of a bad period has on the overall credit relationship with your banker.”
- “Too many forms to sign, some are redundant. Process could be more streamlined and better managed by bank.”

Source: Greenwich Market Pulse v68 (November 2017).
What are your biggest frustrations with the overall credit process?

Acceptable Response Times To Requests For Credit

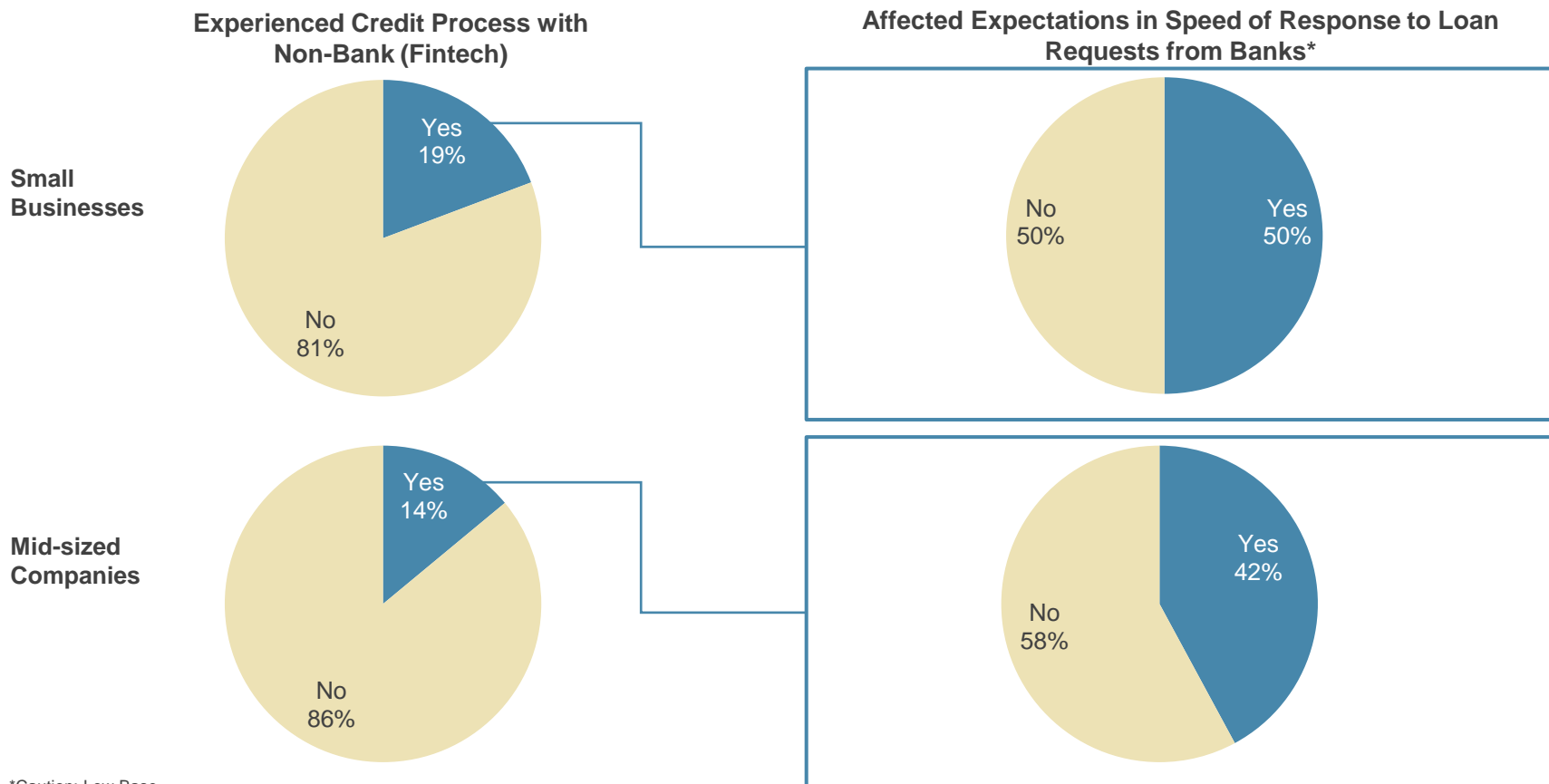
A majority of small and mid-sized business expect a credit approval in less than a week and there is a significant increase in companies that expect a day or less



Source: Greenwich Market Pulse v56 (December 2014), Greenwich Market Pulse v68 (November 2017).
How much time do you expect it to take to get credit from starting the application to approval?

Experience with Credit Process at Non-Banks

Less than 20% of companies have gone through the credit process at a non-bank; Of those who did, nearly half cited it affected their expectations around response time from banks



*Caution: Low Base

Source: Greenwich Market Pulse v68 (November 2017).

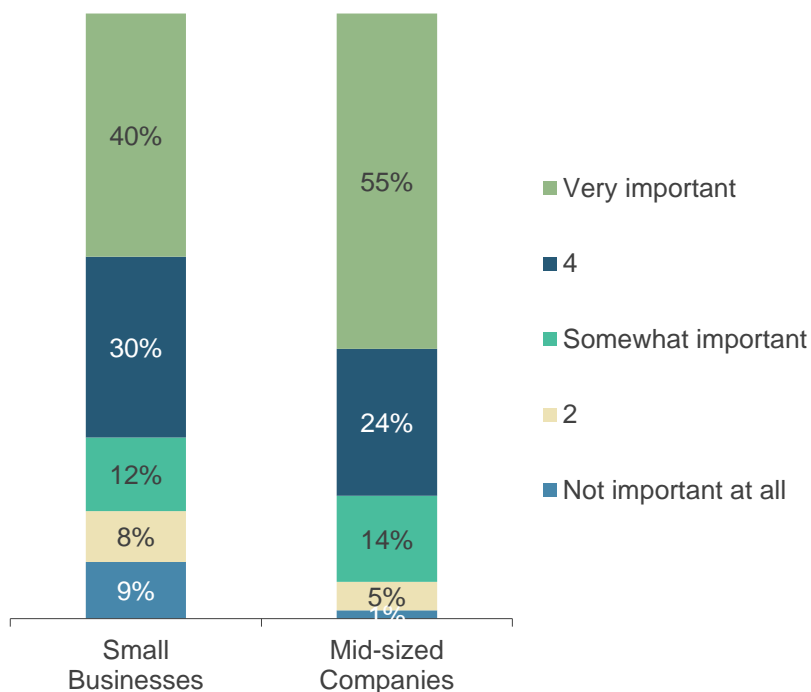
Have you gone through the credit process at a non-bank (fintech)?

[If Yes] Has that affected your expectations in terms of speed of response to loan requests from banks?

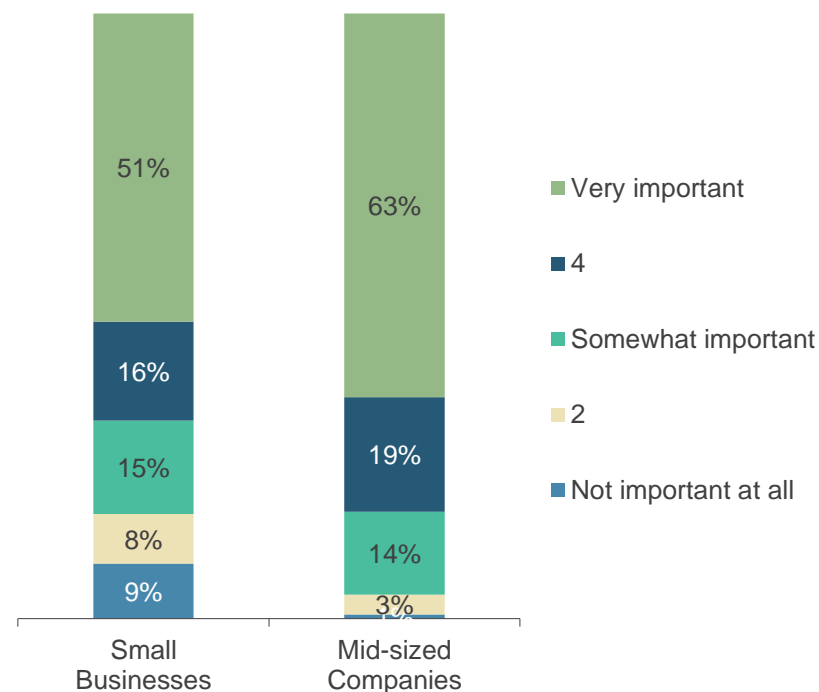
Digital Capabilities As A Driver Of Bank Selection

A bank's commitment to innovation and digital capabilities are important to most businesses in selecting providers, even more so among mid-sized companies

Bank's Commitment to Innovation in Provider Selection



Bank's Digital Capabilities in Provider Selection



Source: Greenwich Market Pulse v68 (November 2017).

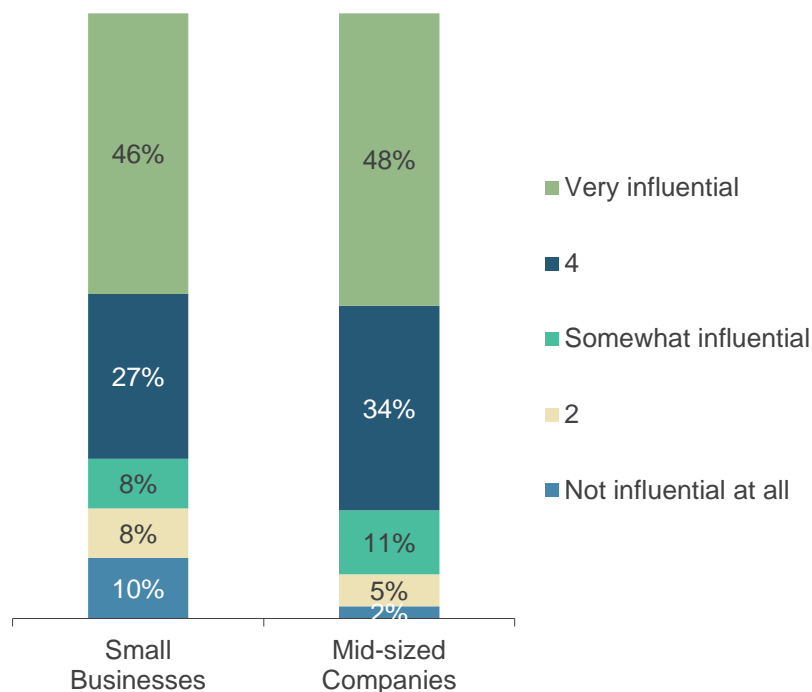
How important is a bank's commitment to innovation in determining how you select a provider?

How important are a bank's digital capabilities (mobile and online access) in determining how you select a provider?

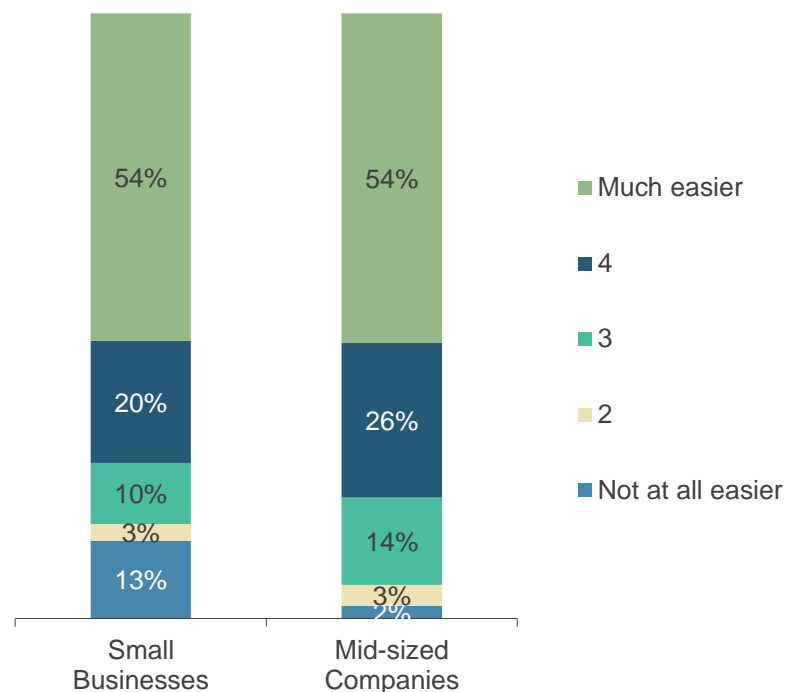
Digital Capabilities Critical To Overall Customer Experience

Digital capabilities influence overall customer service and make the bank easier to do business with cite the majority of small and mid-sized companies

Influence of Lead Bank's Digital Capabilities in Supporting Customer Experience



Digital Channels in Ease of Doing Business



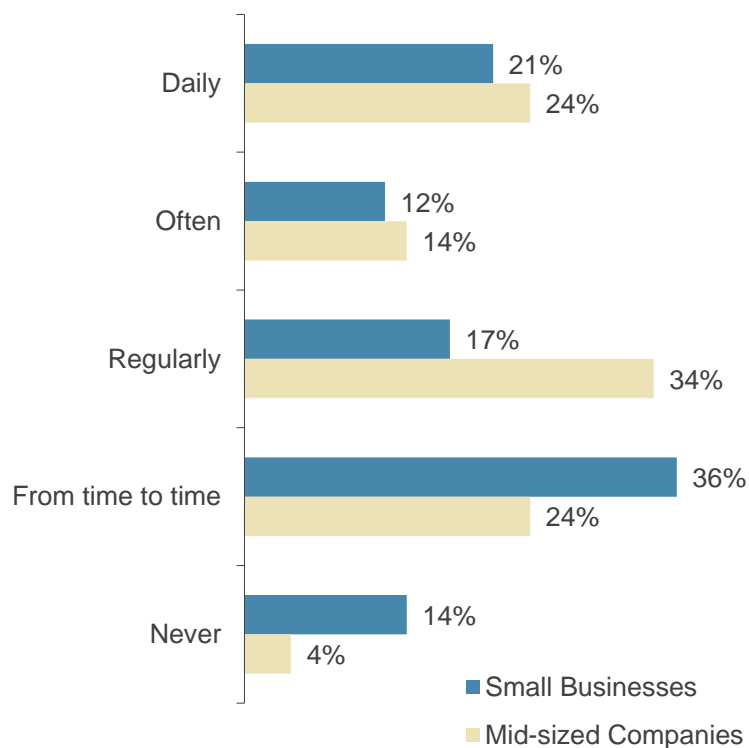
Source: Greenwich Market Pulse v68 (November 2017).

How influential are your lead bank's digital capabilities (mobile and online access) in supporting your overall customer experience?
To what extent have digital channels (mobile and online access) made your lead bank easier to do business with?

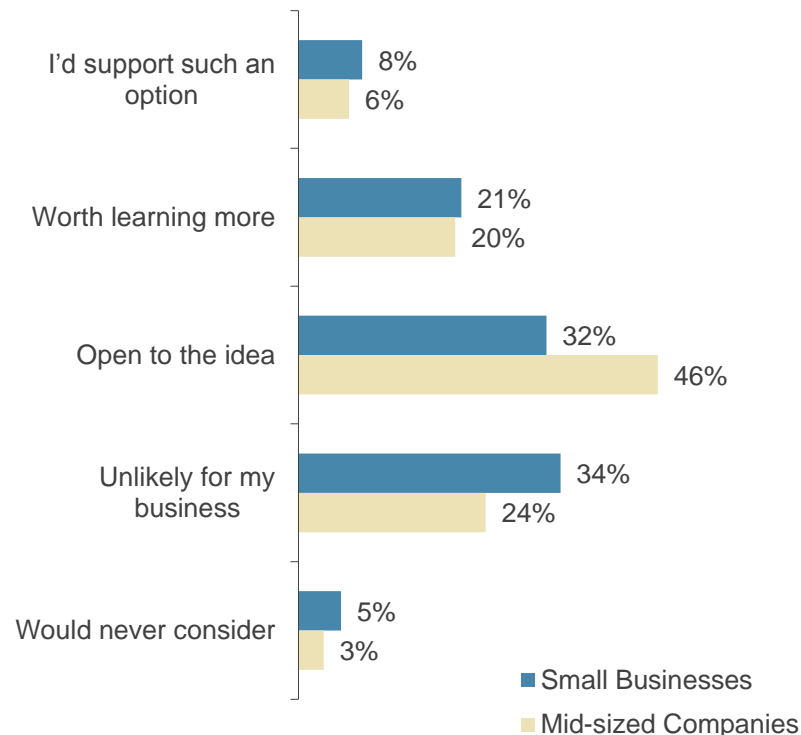
Digital Banking Channels

Close to one quarter of mid-sized companies interact with their bank via electronic channels daily; More than half of companies are open to the idea or would learn more about self-service banking with streamlined fees

Frequency of Bank(er) Interaction via Electronic Channels



Consideration of Self-Service Banking if it Enabled Streamlined Fees



Source: Greenwich Market Pulse v68 (November 2017).

How frequently are you interacting with your bank/banker via electronic channels (email, text, chat, website, etc.)?
To what extent would you consider a self-service banking relationship, if it enabled streamlined fees?

Digital Technologies Outside Banking Industry Increasingly Influencing Expectations

Technologies that are easy to use, accessible, and functional in the way businesses need are highly desirable

Small Businesses

- *"Make the chat function more user friendly and functional."*
- *"Ability to make a payment when credit transactions are pending."*
- *"Mobile deposits."*
- *"Easier remote access to information with quick 2-factor authentication."*
- *"Easy mobile app use."*
- *"Limited electronic signatures."*
- *"Web-enabled day-to-day transaction for less fees, web-based facilities for stopping payment of checks and other facilities, and ability to allow customers to pay directly to our bank without ACH."*

Mid-Sized Companies

- *"Better credit card online platforms (more user-friendly for corporations), more online applications and more tech-savvy ways of doing banking."*
- *"Email transfers."*
- *"Ability to schedule wires more than two days in advance."*
- *"Better integration with EDI software."*
- *"Ability to reference multiple data sets and combine these with banking information [to] generate a report with financial analysis."*
- *"An alternative to the '[credit card] payments' customers are using that big banks are selling as 'cheaper' payment services but charging fees for."*
- *"Balance notifications, security alerts, one touch response for approvals."*
- *"Mobile banking capabilities with receipt attachment for better p-card processing."*
- *"Artificial Intelligence"*

Source: Greenwich Market Pulse v68 (November 2017).

What technologies have you seen from outside the banking industry that you would want to see in your banking relationship?

Greenwich Market Pulse

Greenwich Market Pulse is an ongoing research series that addresses the most important and timely issues facing small (\$1-\$10MM) and mid-sized (\$10-\$500MM) company executives and their banking relationships. Greenwich Associates' access to thousands of financial decision-makers in the United States allows for constant contact with the market. Greenwich Market Pulse reports deliver the unbiased perspectives of these individuals in concise and actionable charts, complemented by insights and analysis from Greenwich Associates' industry experts. Greenwich Market Pulse studies are conducted four times per year and are often used in tandem with other annual Greenwich Associates research.

Methodology: 293 companies were interviewed online in October 2017, representing 126 small businesses and 167 mid-sized companies.

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