Can European banks change to meet the changing expectations of SMEs?

The better the question. The better the answer. The better the world works.

The voice of the SME: EMEIA insights

The extreme uncertainty caused by the pandemic forced small- and medium-sized enterprises (SMEs) to adapt at pace and re-evaluate their business models. Gathering insights from 5,698 surveys and a series of one-on-one in-depth interviews with SMEs across 16 markets, including Australia, the EY teams found that this profound change has in turn cast SMEs' relationship with banks in a new light. Expectations have evolved, and banks must take the opportunity to transform to meet the needs of SMEs better. SMEs are the engine of the European economy. They drive job creation and economic growth and ensure social stability. Having sufficient access to finance is an important determinant for the development of an enterprise. In 2020, EU27 SMEs mentioned credit line or overdraft as the most relevant sources of external financing. They are essential to Europe's competitiveness and prosperity, industrial ecosystems, economic and technological sovereignty, and resilience to external shocks.

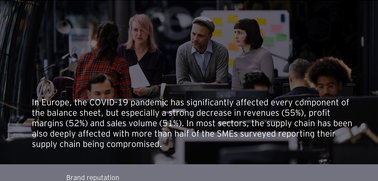
Impact of the pandemic on SMEs

The COVID-19 pandemic had a profound and deep negative impact on SMEs, forcing many businesses to borrow to keep their companies afloat and now consider new business models.

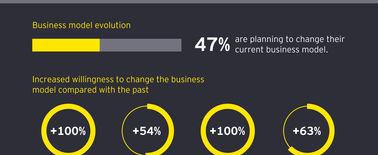
Key topics analyzed in the survey

1. COVID-19
2. Funding and growth
3. Relationship management
4. Digital transformation and tech advancements
5. Role of the banks

74% of European SMEs have been negatively impacted by the pandemic.



In Europe, the COVID-19 pandemic has significantly affected every component of the balance sheet, but especially a strong decrease in revenues (55%), profit margins (52%) and sales volume (51%). In most sectors, the supply chain has been also deeply affected with more than half of the SMEs surveyed reporting their supply chain being compromised.



Business model evolution

47% are planning to change their current business model.

Increased willingness to change the business model compared with the past

*A business where products/services are free for limited time or are basic; a premium is charged for full access

What do SMEs want from their financial services provider?

As they plot a path to recovery, SMEs increasingly want a deeper relationship with their financial services provider.

Traditional banking relationships remain crucial

Despite an increasingly digital and mobile-first world, traditional banks remain the preferred channel for SMEs in financial matters (63%). Nevertheless, the use of non-traditional banks is increasing as a secondary channel or for specific needs.

New entrants are gaining traction

The industry convergence and the erosion of barriers to entry have increased competition and led to the presence of new competitors. These threaten to steal a substantial market share even if collaborative models dominate competition.

	Type of financial institution currently used	Main financial institution currently used	Level of trust (out of 10)
Banks	63%	57%	7.2%
Large corporation	18%	12%	6.4%
FinTech	19%	11%	6.4%
Big Tech	16%	9%	6.2%
Mobile-only bank	13%	7%	6.3%
Other	6%	2%	NA

The bank remains the go-to organization when finance is required

39% want their bank/financial services provider to do the basics right, e.g., responsiveness, value for money, speed of service, streamlined processes.

Key criteria when selecting a source of finance

1. Cost/interest rate offered
2. Time to yes/time to cash
3. Chance of being funded
4. Flexibility of products offered
5. Has good knowledge of my industry

Expectations when accessing funding

49% would like to have received faster access to credit when needed.

How can banks help SMEs better and differentiate themselves in doing so?

SMEs need more progressive and strategic support and are increasingly willing to pay for it. There are several initiatives that can differentiate the banking offer.

Customers expect progress in the digital offering and greater flexibility

The main three aspects in which the financial service provider **excels**

1. Responsive to my request
2. Makes me feel valued as a customer
3. Understanding of my business

The main three aspects in which the financial service provider **does not perform adequately**

11. Understanding of my industry
12. Provides me with the flexibility to switch products/services
13. Regularly reaches out to check in on my business

The number of customers expecting to stick with their primary financial institution fell:

- The increase in the use of digital channels has also facilitated switching from one financial services provider to another.
- Customers expect the same personal experience online that they are used to in-store and are growing increasingly intolerant of anything that falls short of that.
- Thirty-four percent of European SMEs expressed a willingness to change financial services providers. The preference was for traditional banks with branches (41%), FinTechs (26%) and mobile-only banks (24%). Customer data is the key to identifying behaviors that allow retailers to offer more personalized products and services, improving experiences and loyalty.

Call to action for banks

Banks have a huge opportunity to redefine their relationship with SMEs and deliver digital solutions that meet their evolving needs today and build a profitable partnership for the long term.

To learn more, see EY's latest article on ey.com/EMEIA/SMEbanking or contact your EY representative to discuss the in-depth findings of the survey.

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