

# Small and Medium Sized Enterprises

## SME Survey Results: Assessments of Relationship with Financial Institutions

November 2009

In August 2009 the Canadian Bankers Association commissioned The Strategic Counsel to conduct a national survey that investigated SME owners' assessments of the financial services marketplace in Canada and also gauge the impact of the recent economic downturn on their businesses. <sup>1</sup> Here are the results of this research.

## **SMEs and bank relationships**

The majority of bank business customers are small businesses and banks work hard to meet the needs of SMEs. Bankers in local communities across the country work with nearly two million SME owners offering a broad range of products and services and providing insightful advice to help their businesses thrive and grow.

- 78 per cent of SMEs owners say they have a positive relationship with their main financial institution.
- Small business owners tend to be loyal: half of survey respondents have had a business relationship with their main financial institution for more than 10 years and, of those, 22 per cent have for more than 20 years.
- SME owners identified the most important factors in their relations with their bank as: having a face-to-face relationship (92 per cent), providing low priced products and services (91 per cent) and providing access to credit (85 per cent).
- When asked about the biggest economic challenges facing their businesses, 15 per cent of SMEs said declining sales or revenues, 11 per cent cited attracting and maintaining customers and nine per cent said increased operating costs.

## **SMEs and credit**

Canadian SMEs seeking credit enjoy a very competitive marketplace, with many different financing firms competing for their business. Throughout the economic downturn banks have continued to lend to credit worthy businesses, providing a range of credit products including loans and lines of credit.

- Of the 77 per cent of SME owners who have a credit relationship with a bank, 90 per cent describe their credit relationship as "good" and almost six-in-ten (58 per cent) describe it as "very good".
- Banks continue to provide credit through the economic downturn: only seven per cent of SME owners cite access to credit as their biggest economic challenge.
- 43 per cent of SMEs have had a credit relationship with their main financial institution for more than a decade, with 21 per cent reporting a relationship of over 20 years.
- 70 per cent have credit relationships with two or more suppliers, which may include credit card suppliers, finance companies, leasing companies, banks, credit unions, angel investors or other credit suppliers:
  - 20 per cent have only one credit relationship
  - 17 per cent have two credit relationships
  - 33 per cent have five credit relationships or more

When economic circumstances deteriorate, the demand for credit often decreases. Nevertheless, over the past year bank lending to businesses continued at a sustainable pace as banks stepped in to fill credit gaps left by other lenders who have slowed their financing or left the Canadian market completely.

- 68 per cent of SME owners say they are unlikely to seek additional credit for their business in the next six months.
- At the same time, almost a quarter (23 per cent) of those with a credit relationship say their business is relying more on bank financing today than in the past. The main reasons cited for this include:
  - Economic downturn (22 per cent)
  - Banks are still lending/banks are the only source of credit available (14 per cent)
  - Lack of sales (11 per cent)
  - Need more cash (11 per cent)
  - Compared to other lenders, banks are easier to deal with (eight per cent)
- 90 per cent of SME owners who approached their bank felt that the bank was willing to help them through the recent economic downturn with over 50 per cent noting that their bank was very willing to help.<sup>2</sup>

## **SME banking needs**

SMEs turn to banks for a variety of business solutions beyond financing. From deposit services and cash management to foreign exchange and succession planning, banks work day in and day out to provide advice and develop innovative solutions for their SME clients.

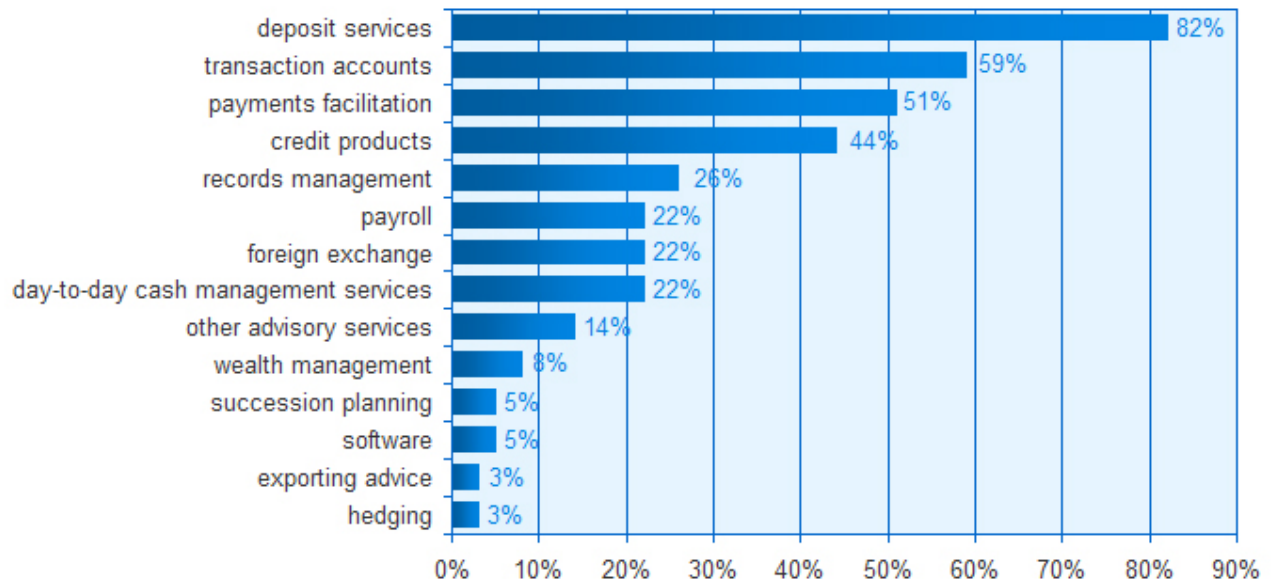
- When choosing a financial institution, 35 per cent based their choice on credit services and 52 per cent chose their institution for non-credit banking services.
- In-person, branch service with a teller is the most frequent way SMEs do their day-to-day banking (79 per cent), followed by Internet banking at 66 per cent, an increase of 12 per cent from 2008.
- 53 per cent of SME owners who bank online have increased their use of Internet banking and 79 per cent of business owners say Internet banking has made their business more efficient.
- 91 per cent of SME owners think provision of low cost products and services is important, while 92 per cent think a face-to-face relationship is important to them.
- 81 per cent of SME owners believe it is important that their financial institutions are technologically advanced.

## **SME use of banking services**

The top three services SMEs use with their main financial institution are:

- Deposit services (82 per cent)
- Transaction accounts (59 per cent)
- Payments facilitation (51 per cent)

## SME Use of Banking Services



<sup>1</sup> All data from: *SME Survey Results: Assessments of Relationship with Financial Institutions*, conducted by The Strategic Counsel on behalf of the Canadian Bankers Association. The findings are based on a national proportionate sample of SME representatives, interviewed by telephone between August 10 and 25, 2009. The sample of 200 is accurate within +/- 6.9 percentage points, 19 times out of 20.

<sup>2</sup> Percentages based only on the subset who had a need to speak to their bank.