



An Roinn Airgeadais
Department of Finance

Retail Banking Review – Public Dialogue

SME breakout session

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SME breakout session

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Introduction

The SME breakout session was attended by over 30 representatives of various organisations including representatives from the retail banking sector, trade unions, government agencies and departments and the community and voluntary sector.

The main themes that emerged in the discussion are summarised below under four themes, namely 1) cost and scope of service provision; 2) SME diversity and access to credit; 3) supply of credit and new competition; and, 4) financial literacy.

Theme 1: Cost and scope of service provision

BANK CONTACT AND RELATIONSHIP BANKING

- A theme that was brought up by a number of participants in the SME breakout session is that Relationship banking is seen as a thing of the past and when decisions are made by an algorithm that does not understand the SME’s business an application may be rejected which would otherwise have been approved.
- SMEs noted that they had a strong demand for a contact point who “knew their business” which would allow them to develop and manage the relationship with the banks.
- It was said that among SMEs there is a difficulty in dealing with Apps and other online communication methods, especially with issues that are more complex.
- It was noted that the difficulties that SMEs experience with online banking means that they need to spend some time on the phone with the bank which can be costly in terms of the time costs on the business owner.
- There was a general point raised that there are frictions in the transition of services of the existing banks from branches to online and phone banking.

CASH

- A number of stakeholders stated that the cost of cash is too high for SMEs with rates of up to €8 per €1,000 charged to the SME.

- It was stated that digital banks are often used as a work around for using cash or accepting card by smaller SMEs.

BUSINESS OWNER DIFFICULTIES

- It was noted that the self-employed may face additional difficulties over employees, such as when they are trying to obtain a mortgage. The self-employed are usually asked for 2 years of accounts, as opposed to the 1 year of payslips that employees are asked for in their applications.

FUTURE ISSUES

- A number of stakeholders stated that cyber risk is something that is impacting on traditional banks costs and this will continue to grow into the future.
- Some stakeholders also expressed the view that changes to the banking sector in the adoption of artificial intelligence has the power to change how services are delivered and decisions are made.
- One stakeholder stated that the banks need to have a stronger focus on customers and that this may be achieved by a community banking model which will lead to less capital drain from the regions. This stakeholder said that all retail banks should appoint 2 employee representatives and 1 consumer representative to their boards.

Theme 2: SME diversity and access to credit

DIVERSITY OF SMES

- It was stated that the SME sector is very diverse and heterogeneous with large differences across businesses and sectors (which includes social finance). With the move away from a banking relationship with the branch manager, it is seen that the bank often does not understand the business at a local level.
- It was said that this is seen to create challenges when a one size fits all credit access system is introduced. The online services provided by the banks is seen to disregard this diversity which often means that it is more costly or time consuming for more complex transactions/businesses.
- It was expressed that it is difficult to talk to someone with expertise in banking for SMEs and at a local level it is seen that there is no one present who understands the needs of the SME.
- In addition, it was said that online communication with banks is not suitable for all business transactions, many transactions will need to be done in a branch. Online banking cannot be used for large transactions in particular.

INTERNATIONALLY TRADING SMES

- It was stated that only 6% of Irish SME are trading internationally and that this is very low by international standards. The high cost of banking services in Ireland was said to be contributing to the lower rates of SMEs trading internationally.
- It was stated that banks in Ireland do not seem to offer much in the way of trade finance, in order to help to develop the internationally trading SME sector.

SOCIAL FINANCE

- It was noted that banks can and do help the social finance sector in its development and to access credit and that there has been a growth in community financing in recent years.
- It was also stated that the growth in social finance means that more and more people in this part of the market will need to go to the traditional banks.
- One stakeholder expressed that more work needs to be done in this area so that banks know the different requirements of social enterprises to other SMEs.

Theme 3: Supply of credit and new competition

RELIANCE ON TRADITIONAL BANKS

- It was noted that SMEs still rely on the traditional retail banks for credit and it is perceived that there is a lack of choice in SME lending. Most SMEs will only look to the 2 or 3 retail banks for their credit needs.
- It was highlighted by a number of stakeholders that the cost of credit and banking products to SMEs in Ireland is relatively high and that the cost base for the traditional retail banks is high.
- It was highlighted that loans to businesses make up a relatively small proportion of the traditional banks' overall loan book and that the mortgage rules for consumers mean that all lending is now more expensive.
- It was also noted that universal banking is a difficult thing to do. Another stakeholder stated that it is more expensive to operate a retail bank, especially in relation to the cost of regulation, which is not the same for all businesses.

SERVICES OFFERED BY NEW PROVIDERS

- It was stated that most of the new suppliers are coming through the digital space or are only providing new bespoke solutions. As well as this it was noted by one participant that there is a lack of mid-sized credit providers to SMEs in the Irish market, most providers are very small and the retail banks are very large.

- It was noted that new competitors in the form of banks are needed to serve the SME sector. Another stakeholder noted that An Post and the credit unions are interested in developing in this space.
- It was also noted that these new online banks are less likely to provide relationship management in person which was a key demand for many SMEs.

SWITCHING

- Switching credit provider and providers of other banking services is seen to be difficult. These issues will be exacerbated by the number of consumers and SME's who will need to switch from KBC and Ulster Bank.
- Furthermore, one stakeholder stated that the switching code as it currently stands is not fit for purpose and it will be a big problem for the remaining banks to switch Ulster Bank's customers in particular. It was said that the account opening process is causing problems, especially when some SMEs need to wait up to 3 months to open an account and have access to an overdraft.

WHAT CAN BE DONE?

- It was stated at this breakout session that the barriers to foreign entry to supply banking products in Ireland needs to be addressed. On that point it was stated that foreign direct investment is important to address the lack of competition.
- It was expressed that a regulatory sandbox should be implemented to allow for innovations in the financial sector that can be done in a safe way which would give the firms space to try innovative solutions.
- One participant expressed that the non-regulation of peer-to-peer lending to SMEs in Ireland is seen as a problem in the sector.
- It was stated that banks need to develop their customer experience for SMEs and that often the first choice for SMEs is Enterprise Ireland as they have a better customer experience and they understand the SMEs.
- It was expressed that there is a need to entice more banks to Ireland and to make Ireland a place that banks want to enter. In order to do this, it was stated, there is a need to understand why there are two established banks leaving.
- It was stated that it has been observed that banks are motivated to achieve the best outcomes for SMEs but that more investment is needed from them, especially in the area of IT.

Theme 4: Financial literacy

MICRO FIRMS

- One stakeholder expressed that there are more micro firms in Ireland than is the case internationally and many of the stakeholders at the breakout session stated that there is a gap in financial literacy for SMEs and in particular the micro firms.
- One stakeholder expressed that there is a lack of digital literacy among micro firms too and that micro firms in general have different needs to other SMEs.

RELATIONSHIP BANKING OVERCOMING FINANCIAL LITERACY GAPS

- Some stakeholders noted that traditionally a gap in financial literacy may have been managed through relationship development with the branch manager and that this is no longer possible.

A NEED TO IMPROVE FINANCIAL LITERACY

- It was generally expressed that there is a need to improve financial understanding in order for SMEs to have the ability to get proposals credit ready. It was stated that SMEs in general do not want to engage with the banking sector and that this may need to change in order to increase financial literacy.
- A number of stakeholders also stated that banks need to have staff on hand who have experience in the banking needs of SMEs and who are also aware of the government schemes available to SMEs to assist them with their gap in financial literacy. It was stated that this would make the banking sector more user friendly to SMEs and start-ups.
- It was stated that the more that SMEs know the more they can avail of the competition in the market.
- It was stated by a number of participants that demand for credit among SMEs is still very low and that there is still a fear of borrowing. It was stated that once applications for credit are received by a bank in 9 out of 10 cases are approved.



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