UK SME SAVINGS TRACKER 2019

SEPTEMBER 2019

HTB

Background

This is the third in the series of detailed studies amongst UK based small and medium sized businesses commissioned by Hampshire Trust Bank. As in 2016 and then 2017, this 2019 edition focused on:

- Bank balances in both current and savings accounts
- Types of accounts in use
- Main motivations for keeping money in a current rather than deposit account
- Investment intention in the next 12 months using the cash held in business savings accounts
- Factors preventing companies from switching accounts
- The impact or potential impact of Brexit uncertainty
- What companies would invest in if they made bigger returns on the savings
- The length of time companies would be willing to tie up cash
- Factors that are taken into account when choosing a business savings account provider

Common to 2017, 500 SMEs took part in the survey. The regional split, although firm quotas were not applied, was as shown below in Figure 1.

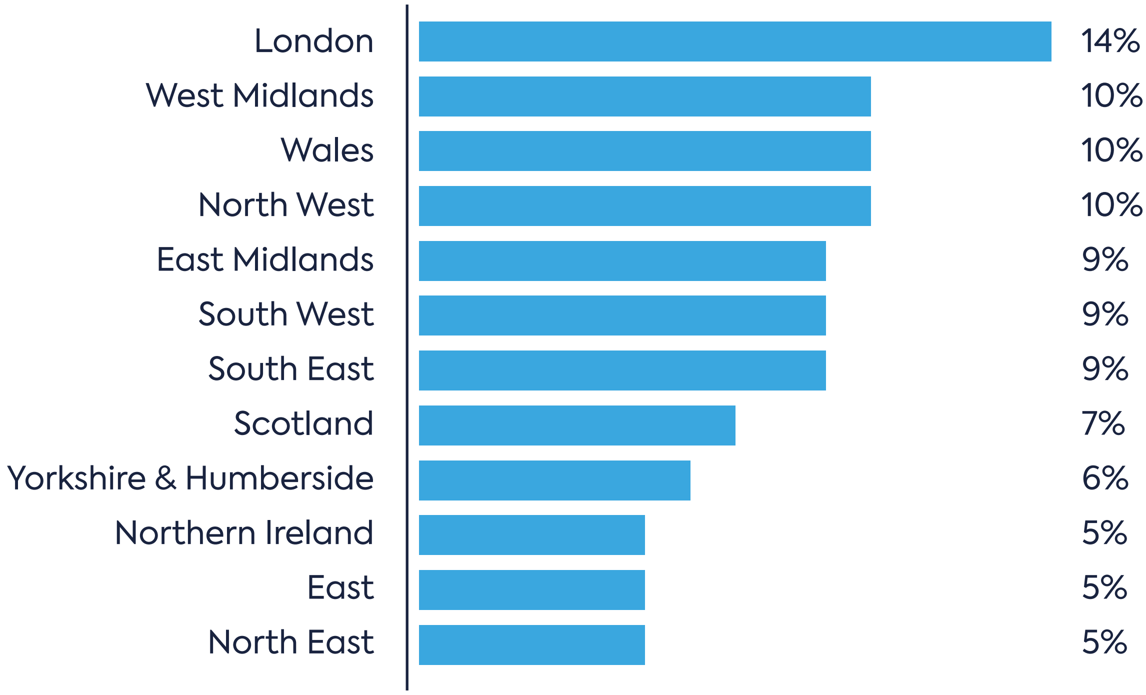


Figure 1. Regional Split of Interviews

Companies from a range of UK sectors were included as shown in Figure 2 and only companies with less than 250 employees took part. One quarter of companies (22%) had between 1 – 5 employees and 10% had between 200 – 250 employees.

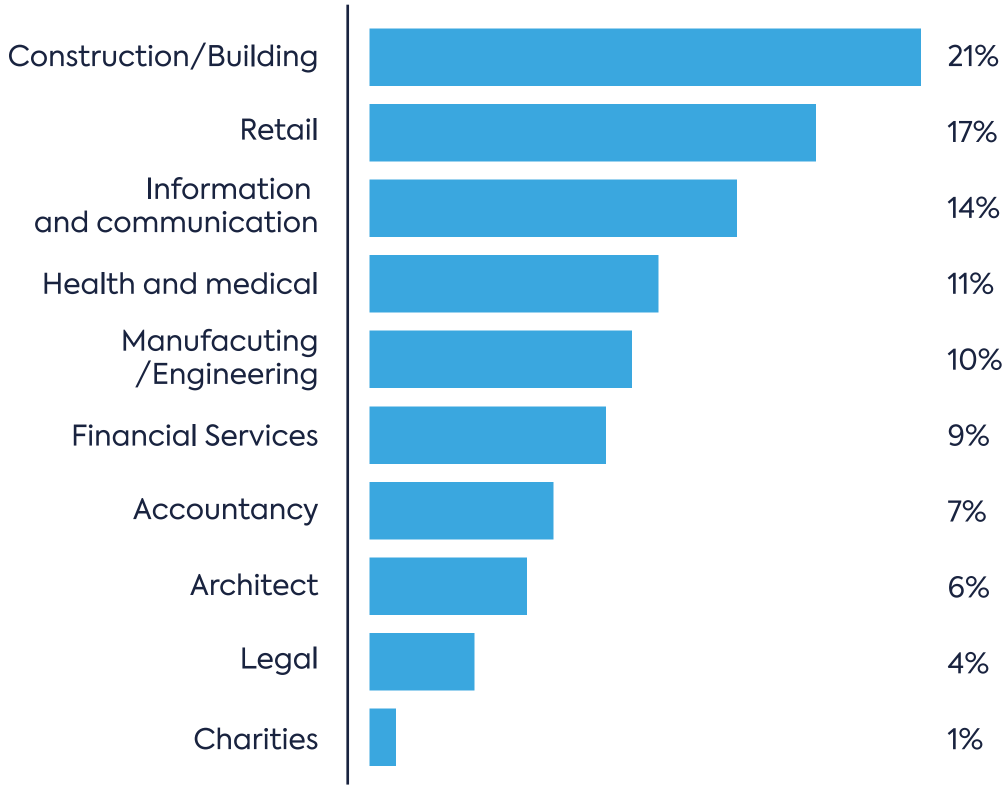


Figure 2. Sectors in which respondents work

46% of all respondents were owner/managers and a further 38% were directors (non and board level). The rest were partners. Annual turnover for companies ranged from under £500,000 per annum to over £100 million.

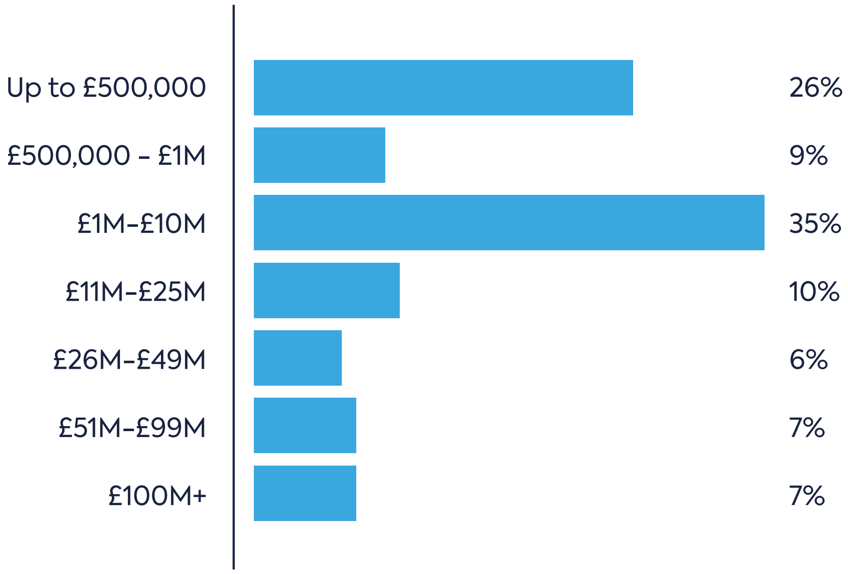


Figure 3. Annual Revenue of SMEs Taking Part

Key findings vs. 2017

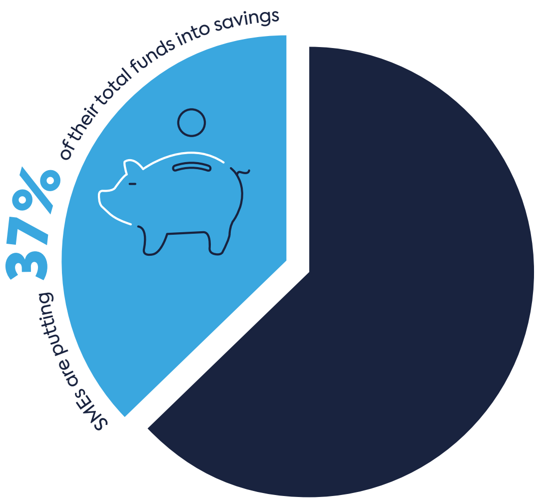
Business savings balances have continued, but at a slower rate, to decline over the last 2 years as SMEs look to pay down loans and invest in the future amid Brexit uncertainty. On average UK SMEs have £429,000 in their business savings account, a 4% drop on 2017 (£446,000). However, in contrast to the 2017 data the average amount held in business current accounts is up with an average current account balance of £726,000, a 78% increase, reflecting a desire to have better cash balances with a large amount of economic uncertainty. Companies may also have been beneficiaries of the large amount of stock piling that has gone on prior to Brexit which will have boosted cash balances.

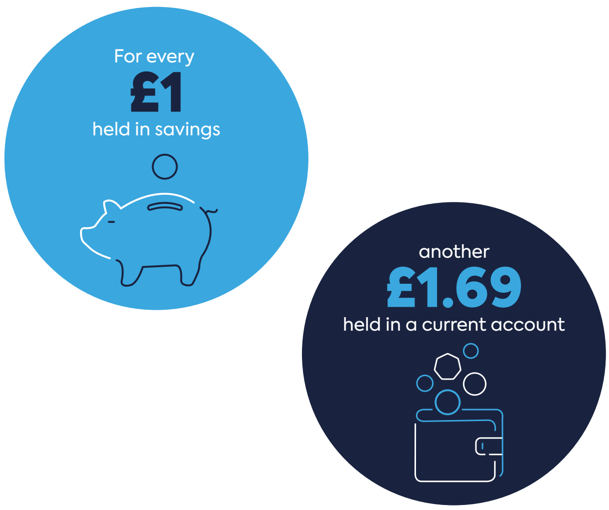
£429,000 in their savings

£726,000 in their current accounts

Year	Business Savings Account Average	Business Current Account Average
2019	£429,000	£726,000
2017	£446,000	£409,000
2016	£556,000	£423,000

On average, SMEs are putting 37% of their total funds into savings. However, the use of overdraft facilities has also decreased since 2017, with the average overdraft now of £49,300, compared with £56,000 in 2017.





For every £1 held in savings, another £1.69 is held in a current account (60 pence increase on 2017). Looking forward, 59% of SMEs in the UK are looking to increase the amount they hold in their business savings account over the next 12 months, far more than the 30% reported back in 2017, indicating a desire to move excess cash into savings.

The main motivations for keeping money in a current account have not changed, with the top motivation being the need to have money readily available as a source of capital for regular payments. (29% in 2019 versus 27% 2017). Brexit and the uncertainty surrounding Brexit continues to have an impact on the savings balances and habits of SMEs.

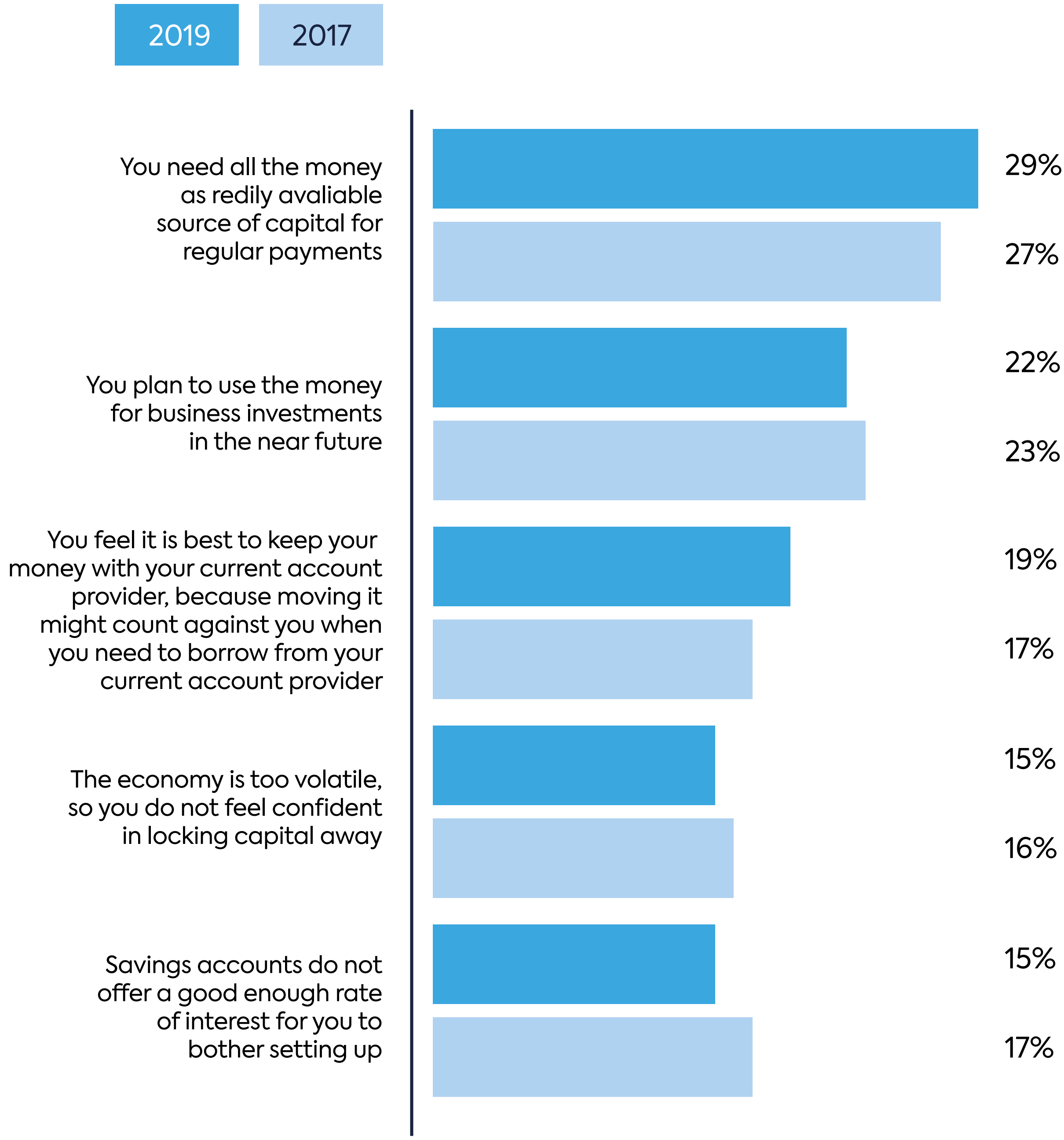


Figure 4. Main motivations for keeping money in current account

Savings

Whilst the most common savings account remains the same as in 2017: Easy access (77%) there are some changes in savings habits. The good news is that more businesses intend to increase the amount in their savings accounts in the next 12 months (59% versus 30% 2017). However, this is somewhat polarising as there has also been a slight increase in the number of businesses indicating that they intend to decrease the money in their savings account (27% versus 14% 2017).

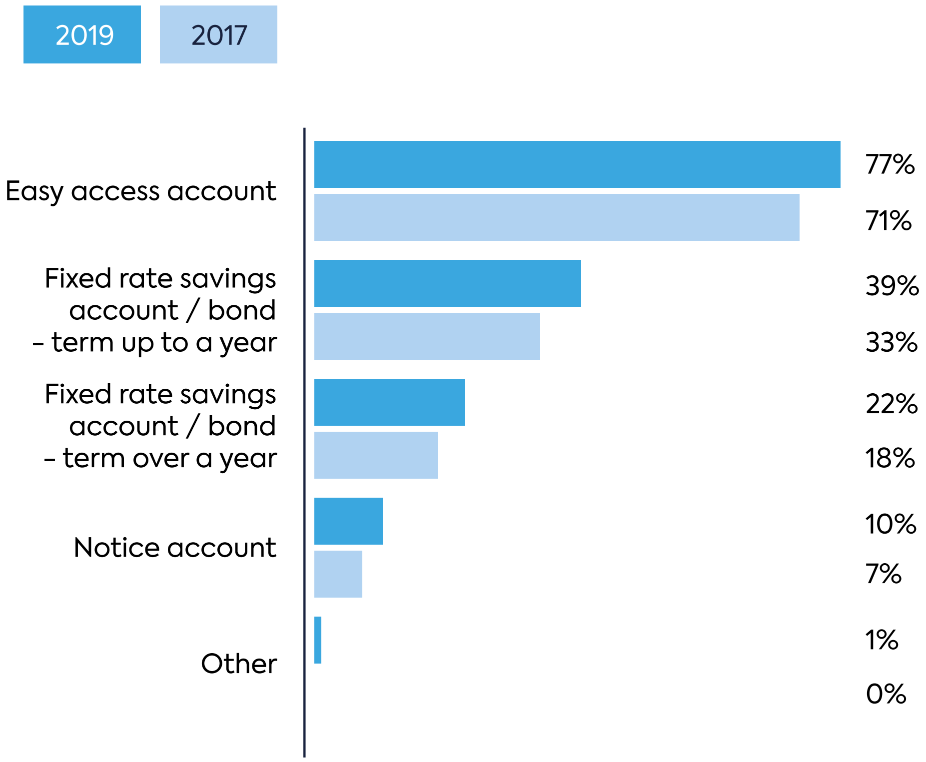
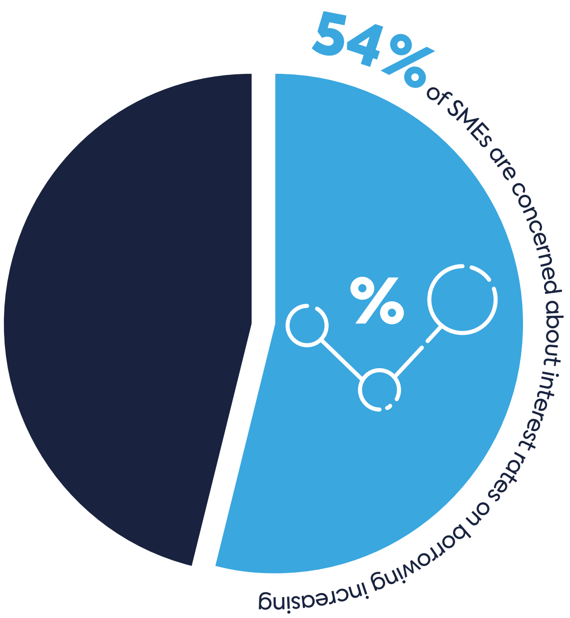


Figure 5 Type of Account in Use



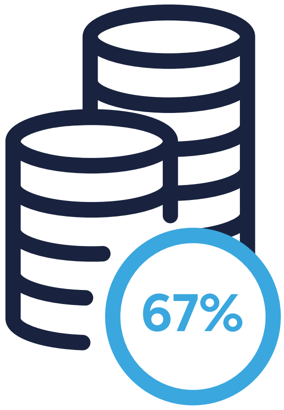
Increase savings

There has been a rise in concerns and uncertainty impacting the intention to increase saving balances; which is likely due to the uncertainties surrounding Brexit.

- 54% of SMEs are concerned about interest rates on borrowing increasing
- 43% are concerned around the uncertainty of whether borrowing facilities will continue.
- 37% specifically raised an issue about the impact of Brexit on the short-term economic outlook.

Despite these concerns the good news is that businesses continue to identify growth opportunities, over half (55%) said they were accruing money to save for a major purchase, compared with 34% in 2017.

The top reason to increase savings balances remains as building a cash buffer (67%), which has significantly increased compared with 2017 (49%). This is likely due to the increased economic and trading uncertainty surrounding what Brexit will mean for SMEs, coupled with a decrease in the confidence surrounding the current state of the economy. Almost one third of SMEs said that they had concerns about the UK long term economic outlook which was fuelling an increase in business savings.



One third of SMEs said that they had concerns about the UK long term economic outlook which was fuelling an increase in business savings

Decrease savings

The main reasons for decreasing the amount in savings reflect (to some degree) the situation found in 2017. Concerns around the UK long-term economic outlook is having a similar impact (37% in 2019 versus 35% in 2017). However, there has been a slight increase in SMEs suggesting they would decrease their savings to pay off a loan, (37% in 2019, 29% in 2017), which could be linked to the uncertainty around whether interest rates on borrowing would increase. On a more positive note the number of businesses indicating that they would decrease savings to invest in their business has also gone up (37% versus 32%).

Switching savings

The number of account options open to SMEs has grown over the last decade and the opportunity to switch has increased. The top three factors which would encourage SMEs to switch savings accounts are financial rewards to move (63%); better products (61%) and more up to date technology used (51%). However, there appears little motivation to switch and indeed a number of factors preventing companies from switching accounts. Top amongst these is the fact that the company has a good ongoing relationship with the bank so does not need to look to change. Almost two thirds of SMEs stated that they were happy with their current provider (64%). The level of service (61% happy with current service) and loyalty to current provider (57% long term account holder) were also important reasons for not changing bank.

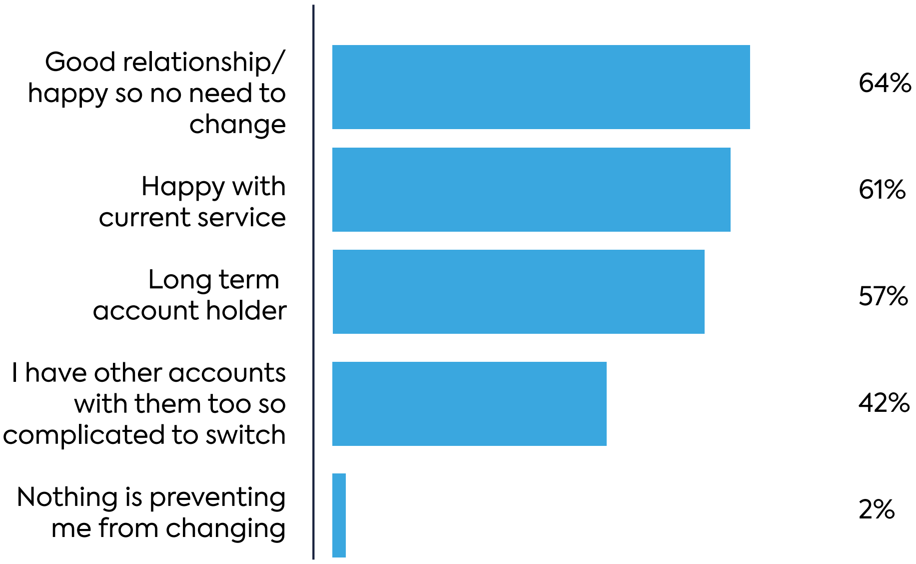


Figure 6. Factors preventing switching savings accounts

Only 2% of companies said that "nothing was stopping them from changing banks", indicating a potential for migration if relationships are not continued.

In line with 2017 data, 20% of SME businesses said that they would not consider tying money up in savings, whilst the average number of months businesses would be willing to leave money in savings has fallen again, from 8 to 7 months overall. And with this 58% would not tie their money up for more than 3 months, a slight increase compared with 2017 (52%).

Impact of Brexit

Brexit continues to impact the propensity to lock money away in savings for 3 months or more. Almost half of businesses (46% in 2019 versus 47% in 2017) indicated that Brexit had had a significant impact, whilst 17% (18% in 2017) suggested the impact had been minimal or none at all. But it is almost certain that Brexit delays have caused companies to focus on having more cash available in their current account and looking to manage their finances very closely.

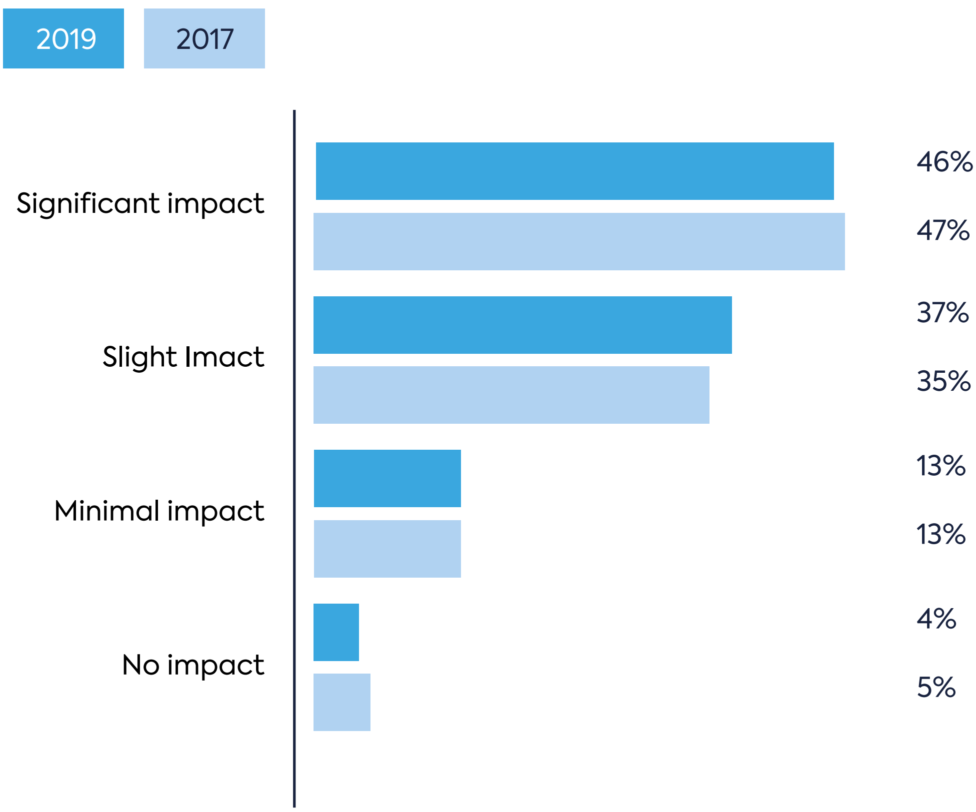


Figure 7. Impact of Brexit

Investing any return on savings

Interestingly there has been a change in what small and medium businesses claim they would invest any return on savings on. Over one third (37%) would invest in staff training, compared with less than one quarter (24%) in 2017, whilst 30% (21% in 2017), would invest it into staff salaries, suggesting that there is a stronger need to retain good and key staff. The focus on staff retention has been a key development over the last few years amongst the small and medium business community.

Figure 8. Using money returned on savings

Choosing a business savings provider

Both personal and business recommendation and advertising (in either the trade or national press) seem more important sources of information in 2019 compared to 2017 but overall there seems to be a bigger focus on using information sources now compared to 2 years ago.

Nearly half of businesses (47%) said that they received a personal recommendation and similarly 44% said they had a professional recommendation with respect to getting information on business savings providers. Different forms of advertising are also an important source of information, particularly trade press (40%), national and business (both 39% respectively).

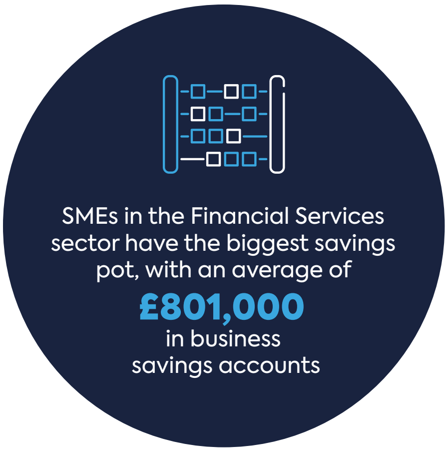
If businesses are shopping around for a savings account provider though, the important factors influencing the decision remain largely the same. Almost one third (32%) want a provider that can cater for the specific business type, and almost one fifth (18%) are focused on the interest rate. Being a well-known brand/branch is of less importance now (6% versus 12% in 2017).

Considering technological advances and the uncertainty surrounding Brexit, it is interesting that brand choice in 2019 is driven by a new digital brand (61%) and being an independent bank (60%). Whilst an established brand history is still important (55%) it is to a lesser extent than these other drivers. Interestingly over a third (37%) of SMEs said that the brand does not have any impact on their selection decision!

Subgroup Differences:

While the survey is not set up to provide a truly representative analysis by sub-group some of the major indicative changes from 2017 can be reported.

SMEs in the Financial Services sector have the biggest savings pot, with an average of £801,000 in business savings accounts. However, Accountancy SMEs hold the biggest proportion of total funds in savings at 52%, compared to the national average of 37%. In terms of growth of business savings funds, these have been noted in Financial Services (44%); Manufacturing/Engineering (40%); Retail (20%) and Construction/Building (18%). The top sectors by type of account balance are shown below.



Sector	Business Savings Account Average balance
Financial Services	£801,000
Information & Communication Technology	£663,474
Manufacturing/Engineering	£622,000
Accountancy	£486,935

Sector	Current Account Average balance
Financial Services	£1,143,000
Information & Communication Technology	£1,126,000
Manufacturing/Engineering	£1,024,000
Construction/Building	£520,000

Apart from Architects, where we see 50% of SMEs indicating that they intend to decrease the funds in their savings, all other sectors indicate an intent to increase savings funds over the next 12 months.

The vast majority of Architect SMEs (91%), 85% of those in construction and 74% in Information and Communication Technology said they were increasing the amount in their savings to build a cash buffer, higher than the national average of 67%. Similarly, compared to the 2017 data, 54% of Financial Services SMEs and also 58% of those in Manufacturing said that they were increasing funds due to concerns about Brexit and the short-term UK economic outlook. These are higher than the national average, 37%.

Looking at how long sectors are willing to tie up their funds, compared to the national average of 7 months, there is more reluctance across certain sectors to tie up savings in an account. SMEs in the Financial Services sector express they would only hold savings in an account for 4 months, and in Manufacturing this would only be 5 months on average.

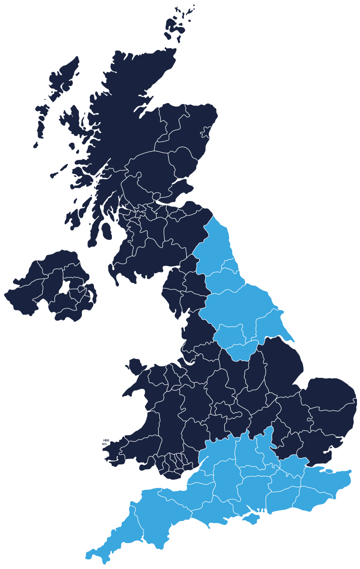
Comparing the main factors considered when choosing a provider nationally to the individual sectors, SME businesses in the Legal (37%) Financial (32%) and Retail (26%) sectors are more likely to consider the interest rate (18% total).

There is some variation in the drivers of brand choice for a savings provider by sector. Whilst the top 3 drivers remain important across all, for the Architect sector (64%) Accountancy (69%) and Construction/Building (58%) a provider that uses savings deposits to boost the British economy is even more important than the overall average (51%).

Region

Indicative results by region are highlighted below but again with the survey not being completely controlled by region, the data is more to provide indications of change.

The regions with the highest proportion of savings from their total funds are the North East (47%), South East, South West and Yorkshire and Humberside (43%). These proportions of savings are all above the national average (37%) but still less than half, and below the national average in 2017 (52%). Whilst the biggest growth in savings has been in Scotland £761,000 on average (only £220,000 in 2017) and the West Midlands, which has seen a 44% increase, to £556,000 from £170,000 in 2017.



Region	Business Savings Account Average Balance
East Midlands	£810,795
Scotland	£760,781
London	£698,629
West Midlands	£555,532

Region	Current Account Average Balance
Scotland	£1,611,380
East Midlands	£1,300,680
West Midlands	£988,380
London	£881,450

There is some regional variation in the motivations for keeping funds in a current account which are most likely due to the anticipated impact of Brexit. For example, 37% of SMEs in Northern Ireland say that the main motivation is that the economy is too volatile, much higher than the national average of 15%. And in Scotland, 43% of SMEs are motivated by the threat of a penalty if they were to move from their current provider and then have a need to borrow again, this is higher than the national average of 19%.

Overall building a cash buffer is cited as a top reason to increase the amount held in a business savings account. However, compared to the national average of 54%, SMEs in Northern Ireland (75%) South West (71%), East and South East (67%) are more concerned that interest rates on borrowing facilities may increase. Whilst in London there is more concern around the uncertainty of whether borrowing facilities will continue (57% versus 43% overall) and the short-term economic outlook in the UK as a result of Brexit (59% versus 37%).

Interestingly there seems to be more optimism in parts of the North, with those businesses in the North East (10 months) and Yorkshire and Humberside (11 months) more open to keeping savings tied up in an account for longer, particularly when compared to London businesses, where the average is only 4 months.

Conclusion

There has been a considerable shift in emphasis over the last two years in how SMEs manage their finances. More money is now being stored in current accounts to fuel growth and reduce loans than in 2017 while balances in business saving accounts have shown a minor fall. But overall balances have been on the increase as cash has become king.

For every £1 in a business savings account, another £1.69 is held in a business current account, a significant shift over the last two years. With savings accounts generally providing a higher rate of return than current accounts, it is worth taking the time to shop around to find an account that suits your needs. Also, companies are not keen to tie up their hard-earned cash for too long with an average of around 7 months to gain a return.

59% of companies are looking to increase the level of savings in their business savings account but at the same time 27% are looking to decrease the levels. The need to build a cash buffer is still driving SME attitudes to saving and the desire to pay for a major purchase is also another key factor.

For those looking to decrease their levels of savings, concerns about the UK long term economic situation and the desire to pay off a loan are driving the change.

Brexit is and will continue to have an impact on the propensity to lock money away amongst UK SMEs and there is also a shift to looking after internal talent as any gains made on savings would be used to train staff and increase salaries.

At Hampshire Trust Bank we offer a range of business savings products from a 90 Day Business Notice Account to a 5 Year Business Bond. As we are an authorised deposit taker, eligible deposits with Hampshire Trust Bank are protected by the Financial Compensation Scheme (FSCS). The FSCS protects most depositors, including individuals, companies and small local authorities up to a limit of £85,000.

If you are interested in finding out more about our business savings accounts, please do not hesitate to contact us.

HTB

Hampshire Trust Bank Plc
55 Bishopsgate
London
EC2N 3AS

Company number: 1311315