

Shangri-La for small business accounts?

Why aren't more small businesses taking advantage of interest-paying bank current accounts? Mark Christopher of Cater Allen Bank explains.

Interest-paying bank current accounts have been available to individuals since the late 1980s, but for the vast majority of UK small businesses such accounts have remained a tantalising prospect.

The major banks point, with some justification, to the cost of money transmission and bad debts on business loans as their reason for not paying interest on business current accounts. And it is somewhat unrealistic for a company with a heavy transaction volume and bank borrowing to expect to receive it. There are however hundreds of thousands of small- to medium-sized businesses that are running creditor bank accounts with a small number of transactions for which the 'Shangri-La' of an interest-paying bank account with free banking is a distinct possibility.

Poor coverage

The *Mail on Sunday* launched a campaign in early 1998 aimed at persuading the major banks to pay interest to such businesses, but like earlier campaigns, it fizzled out without too much success.

Given the large number of companies affected, it is quite extraordinary how little coverage in general this subject receives in the national press and even in specialist business publications. Looking at the business banking literature of the majority of banks, it is obvious that it is aimed at business start-ups, since banks can make a good profit from start-up loans. However, there is a distinct lack of literature aimed at explaining how the mature business can improve banking terms.

Time is the key

So why is there so little reaction to the standard terms offered by the larger banks?

As ever, lack of time is probably a key factor for many business owners.

TABLE 1

Standard small business tariffs

Account	Interest on business current account	Account maintenance charge	Charge per manual transaction	Charge per automated transaction
Barclays	Nil	£2.50 per month	64p	45p
Lloyds/TSB	Nil	£2.50 per month	59p	42p
HSBC/Midland	Nil	£2.50 per month	60p	35p
NatWest	Nil	£2.50 per month	67p	40p

Someone who has devoted an entire day to administrative matters probably feels that he or she should get 'back to work' and would be less than enthusiastic about spending another day trawling the banks for a better deal on the company's business account.

What are the alternatives?

Table 1 summarises the standard small-business tariffs that have been published by the four major High Street banks.

It can be seen from the table that the major banks all offer similar tariffs. It is this factor that probably convinces many people that there are no alternatives



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available. Meanwhile, publications such as *Business Money Facts*, list quite a large number of smaller banks which will offer free banking for around 150 transactions per quarter (if the account holder remains in credit) and will also pay interest on business current account.

Unlocking savings

Moving a business account to one of these institutions has the potential to unlock quite substantial savings on charges. It also means that there is a potential for extra income by way of interest. Table 2 shows the potential for savings.

Companies will naturally be concerned to establish that the 'alternative banks' can provide basic banking facilities and the majority provide cheque-books, standing orders and direct debits plus access to UK and international payments.

One important proviso, however, is that very few of these alternative providers will give commercial overdrafts. This means that the business has to be sure that it can continue to run in credit.

Non-high street banking is probably not for businesses that have a high cash turnover. This is because agency charges for paying in at a bank branch

can be very high. However, some of the smaller banks can make arrangements for cash to be paid in at post office counters for a reasonable charge.

Finally, it is worth bearing in mind that

the potential benefits of banking with a non-high street bank are not just confined to commercial organisations, but will also extend to charities, clubs and associations, none of whom receive

particularly favourable deals for the larger banks. ■

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TABLE 2

Comparison of bank charges for business accounts

	Gross interest earned on £20,000 in business current account over one year	Bank Charges	Net (charge)/ addition to account over the year
Typical interest paying business cheque account	£608.00	Nil	£608.00
Typical standard small business tariff	Nil	£315.00	(£315.00)

Calculations for bank charges assume 300 manual and 300 automated transactions for the year plus account maintenance charges and are based on the standard small-business tariffs published by each bank.

Illustration of potential interest earnings based on typical business high interest cheque account rate of 3% gross credited monthly.

Source: Cater Allen calculations, November 1999