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10 Key Highlights on SME Banking

Based on an Efma Survey
of 40 SME Bankers

To read the full report, please click [here](#).

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Foreword

SMEs are still underserved by banks, liquidity constraints representing a crucial concern for them. Official statistics show that about 40% of formal micro, small and medium enterprises in developing countries have an unmet financing need of \$5.2 trillion every year¹.

In the EU alone – which is home to more than 25 million SMEs, accounting for 65% of the private-sector employment² – a 2020 survey found that more than half of SMEs felt their business, severely hit by the pandemic, might not survive another year³.

The smaller a business is, the bigger its pressure. When is this need of finance urgent – and how to serve it? Understanding an SME life cycle is key, Sue Douthwaite, a longtime SME banking executive explains in the "[Digital-first SME banking report](#)" produced by FintechOS and Efma.

In theory, banks play a vital role in an SME's life, since "cash flow is their lifeblood", as Ed Herman, Global FSI Leader at Microsoft, also explains⁴. If so, then why – for decades – SMEs have faced a financial gap from banks, thus limiting their ability to address risks and grow? And what's to be done to fix this complicated relationship between banks and SMEs?



We tried to understand which obstacles and sources of pressure bankers have in mind when addressing SMEs, as well as their potential areas of growth and solutions for this segment of customers.

Therefore, FintechOS partnered with [Efma](#) to run a survey of 40 global SME bankers to get their thoughts on the latest challenges and emerging initiatives in SME banking. We are inviting you to find out the results. Enjoy the read!

Finding
#1

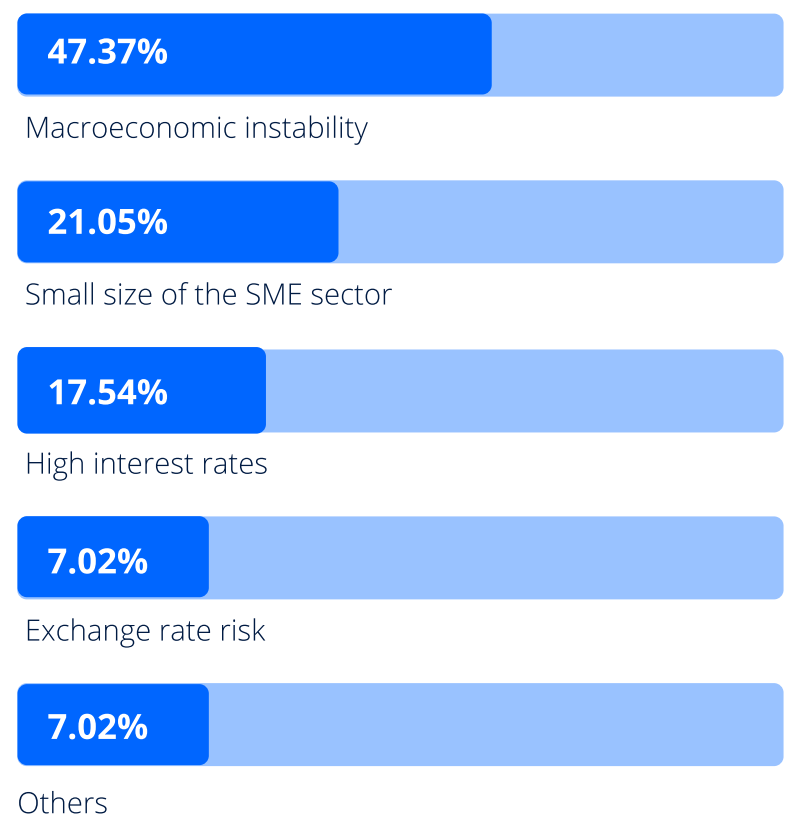
Macroeconomic instability is the most important obstacle to banks' exposure to SMEs

47% of the European SMEs think that bank loans are not a relevant source of finance, a recent survey from the European Central Bank shows.⁵ About 17% pointed to other loans (for example, loans from family, friends or related companies) as a relevant source of finance.

Is relying on peers a healthy habit for a society's economic ecosystem? And why are banks still underserving this segment of customers – despite its potential? In our survey among 40 SME bankers, done together with Efma, almost half of respondents indicated macroeconomic instability on top of the obstacles to their exposures to SMEs.

Indicate to what degree the following factors are important obstacles to your exposure to SMEs.

Macroeconomic (economy-wide) factors



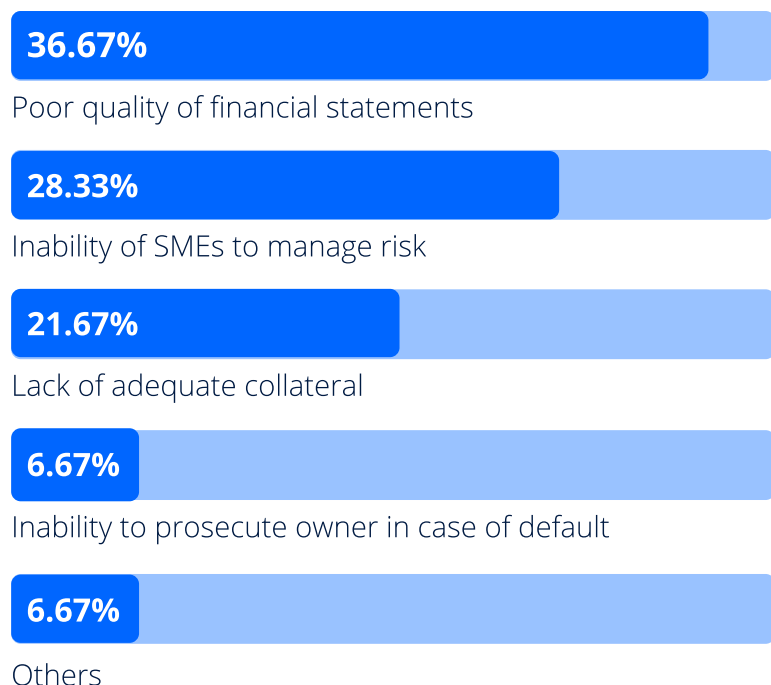
Finding
#2

Many banks are lacking the right IT tools to service customers in a personalized way

Loans represent a major growth opportunity, but many banks report they lack the credit scoring tools to service customers in a personalized way. Almost half of those surveyed said that a “lack of appropriate IT tools, such as scoring and rating models” were the biggest hindrances.

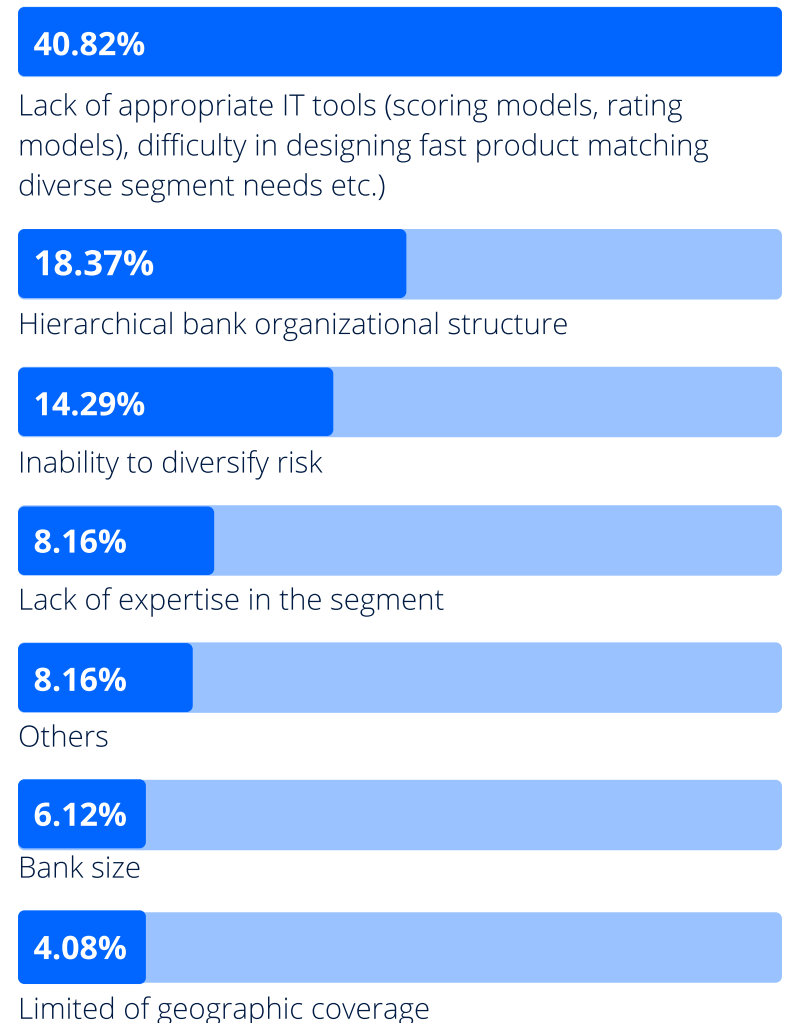
When it comes to SME-specific factors, the most-mentioned were “poor quality of financial statements” and their “inability to manage risk”.

SME-specific factors



Indicate to what degree the following factors are important obstacles to your exposure to SMEs.

Bank-specific factors

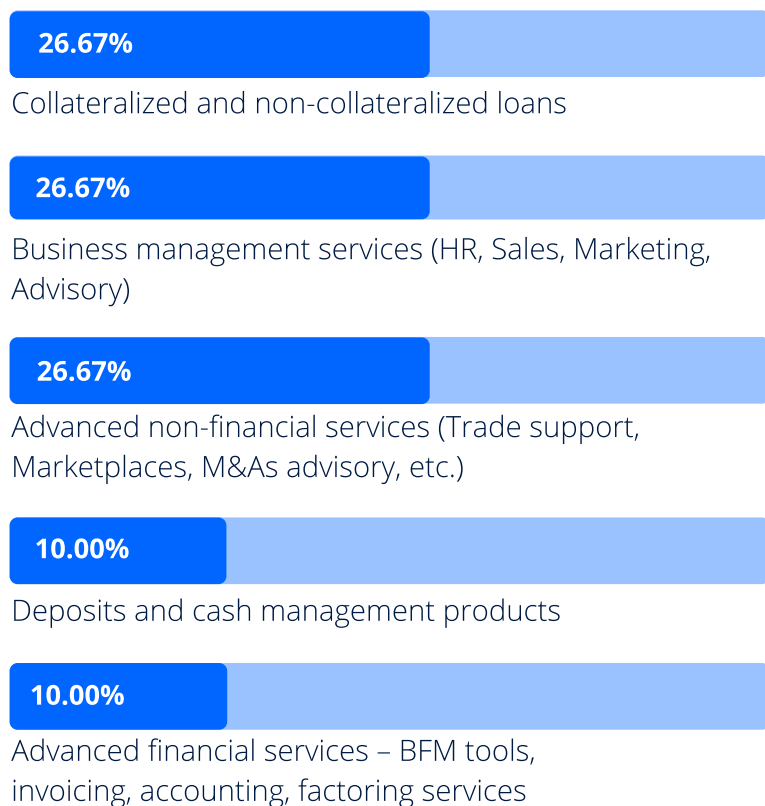


Finding
#3

Fintechs bring in additional pressure

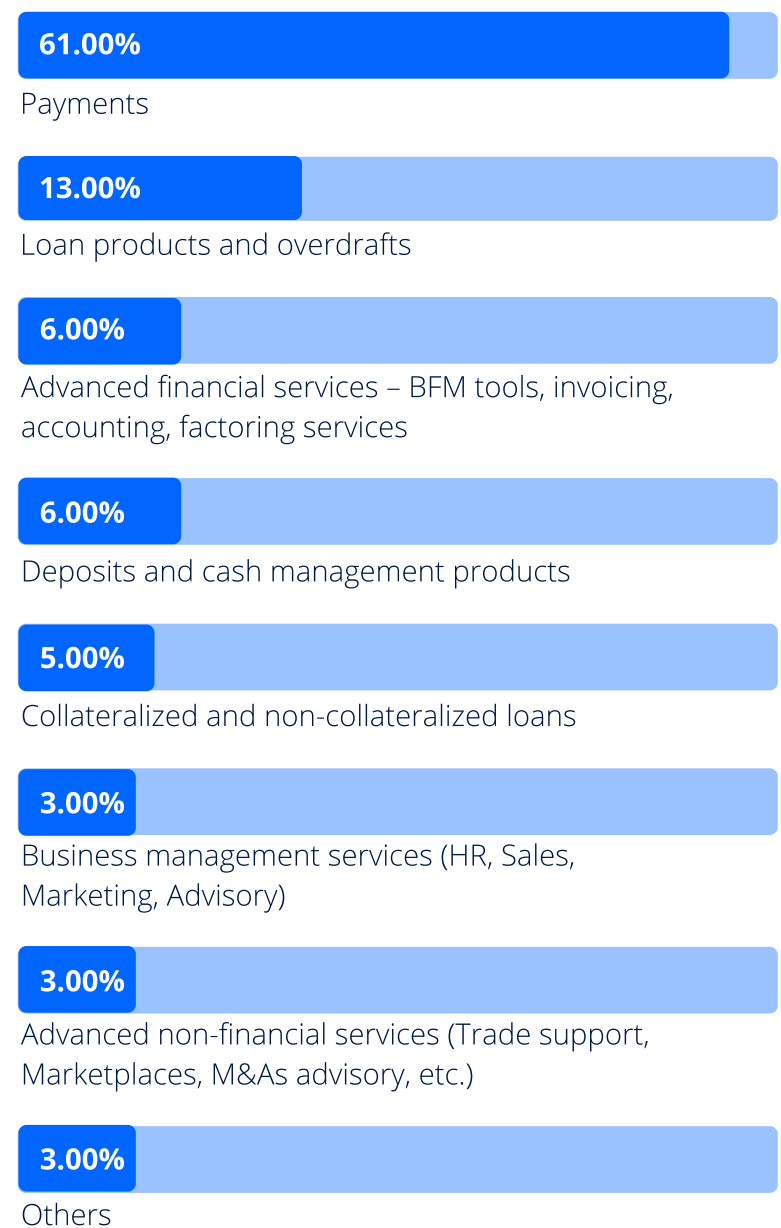
Fast, smooth, on-demand payments are quickly becoming the norm in all industries. Banks who can't provide straightforward and rapid payments to their SME customers risk losing them to a fintech who can.

Least important



In what areas do banks feel the greatest competition from Fintechs in the SME banking market?

Most important



Loan products are an important growth area in SME banking

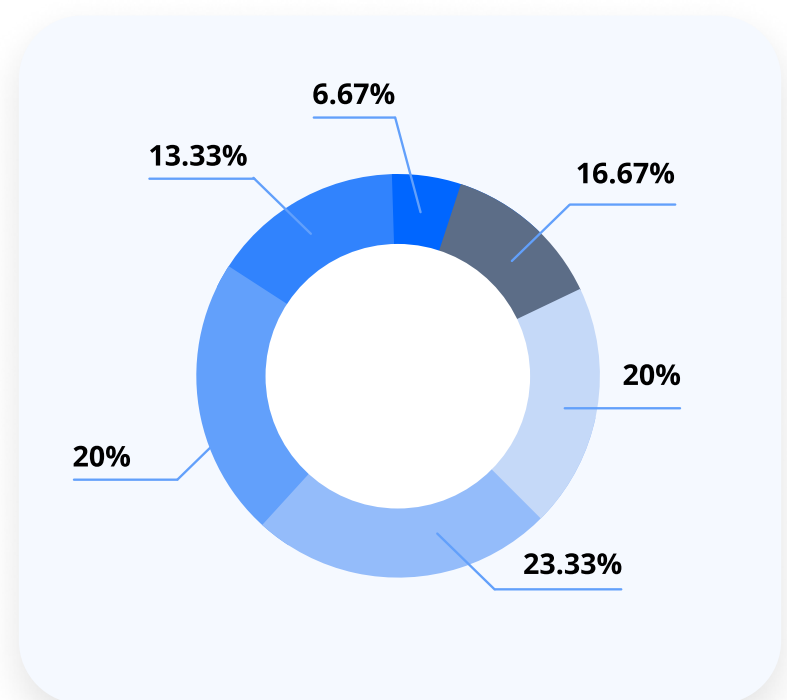


63% of survey respondents

listed various types of loan products as the primary growth area in SME banking at their institution. The challenge is to tap into data and provide the right loans at the right moment for SME customers, thus providing a catalyst for growth.

What are the growth areas in SME Banking in your institution?

- Deposits and cash management products
- Advanced financial services – BFM tools, invoicing, accounting, factoring services
- Payments
- Working capital loans
- Non-Collateralized term loan products
Advanced non-financial services (Trade support, Marketplaces, M&As advisory, etc.)
- Collateralized term loan products
Business management services (HR, Sales, Marketing, Advisory)



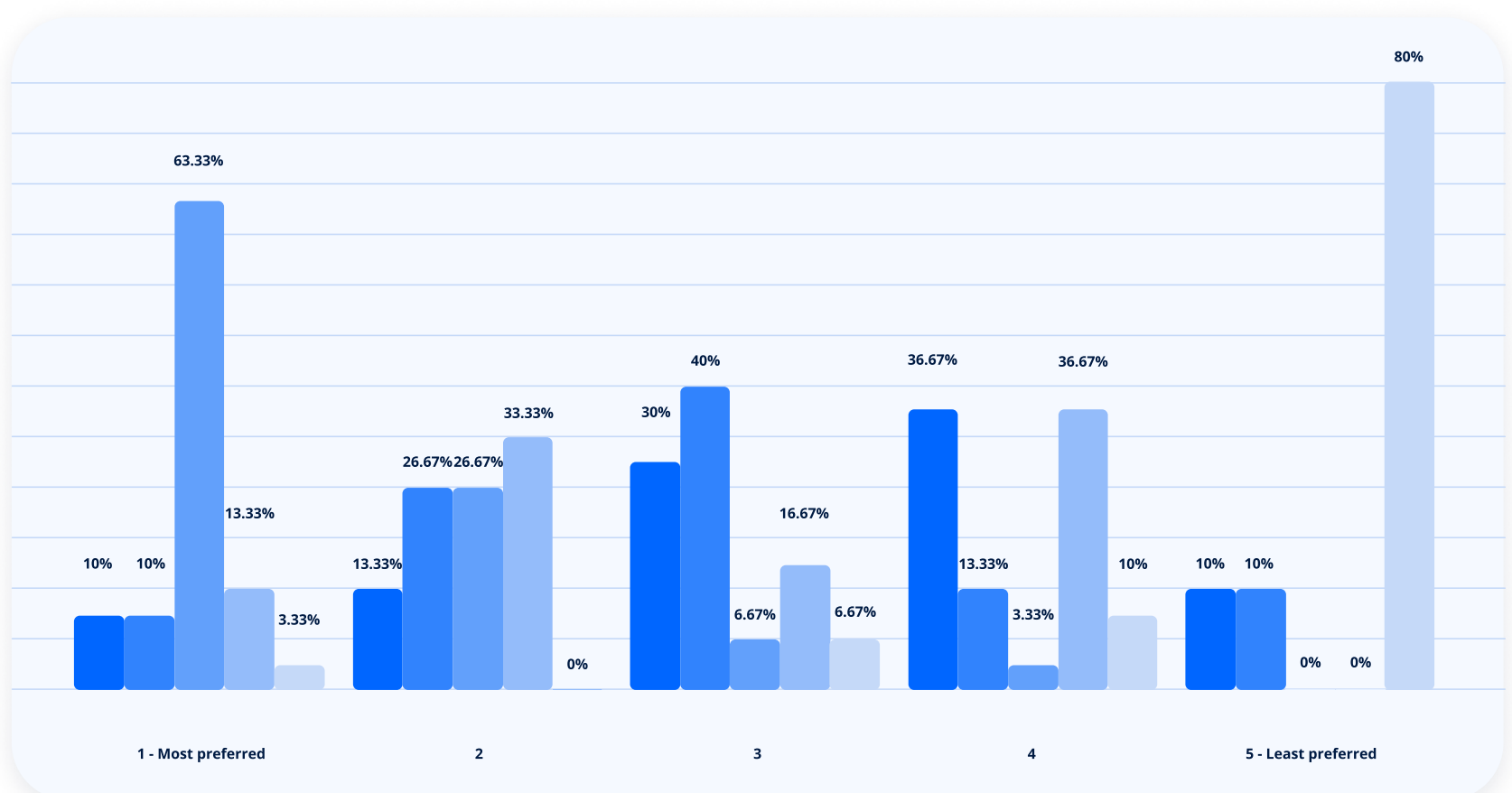
Finding #5

Resources: a major challenge

SMEs are an important source of business for financial services players. Each year, they are estimated to generate **\$850 billion** globally in revenue for banks. That accounts for 20% of worldwide banking revenues.

However, when it comes to innovation, **63% of the bankers** we polled for this survey mentioned “resources issues (time, team size, budget, IT capabilities)” as the major challenge to innovation and exposure to SMEs.

What are the biggest challenges to innovation and expanding banking services to SMEs?



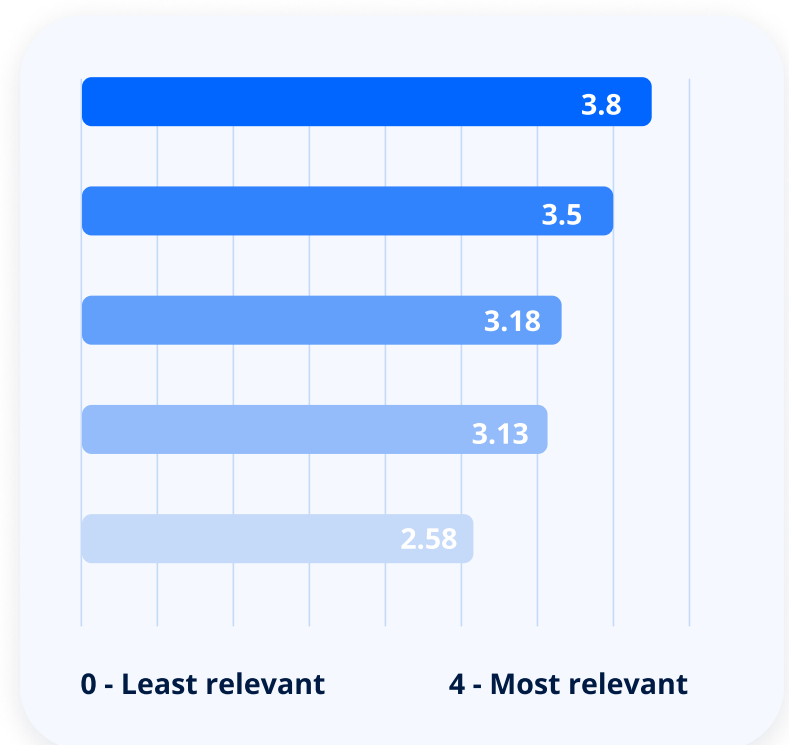
■ SME segment is not among key priorities
 ■ Lack of support from top level/ buy-in from top management
 ■ Resources issues (time, team size, budget, IT capabilities)
 ■ Difficulties in finding the right partner to bring it to market
 ■ Others

The high cost of technology implementation is a top challenge

We asked the bankers what technology challenges they were facing. The top answer was “high cost of technology implementation.” Bankers are aware what they should deliver for their customers, but they face cost constraints. Banks have finite resources, and the means necessary to develop new offerings – people, capital, technology – can be daunting and often deters banks from accomplishing their digital transformation projects.

Technology for innovation in SME Banking: what technology challenges are you currently facing?

- High cost of technology implementation
- High fixed costs per transaction (relative to loan size)
- Difficulty in standardizing products and procedures (screening, origination, monitoring, risk management etc.)
- Difficulty meeting the technological expectations of SME customers (i.e. speed)
- Others



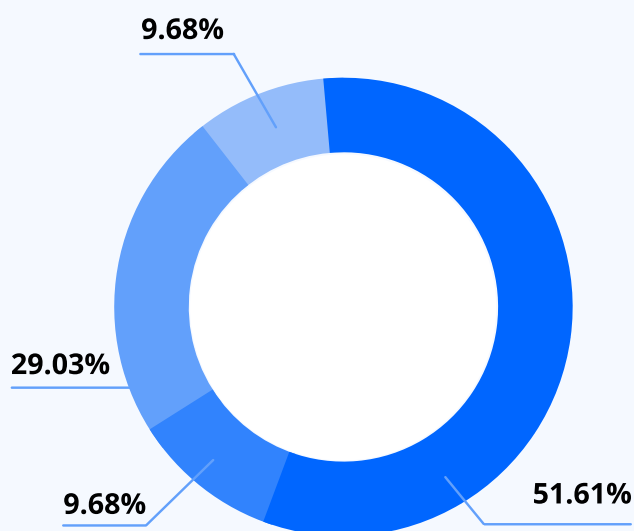
SMEs are mostly offered fully standardized products

SMEs are diverse, but many banks don't tailor products to subsegments or match them to business life stages.

Without a tailored offering, an SME is forced to shoehorn itself into what's available, even though it might look more like a retail or corporate product.

Half of our survey respondents said that they are mostly offering SMEs fully standardized products.

Indicate the most relevant statement regarding the standardization of your SME products



- SMEs are mostly offered fully standardized products
- SMEs are mostly offered some tailored products
- SMEs are mostly offered a similar proportion of standardized and tailored products
- Others

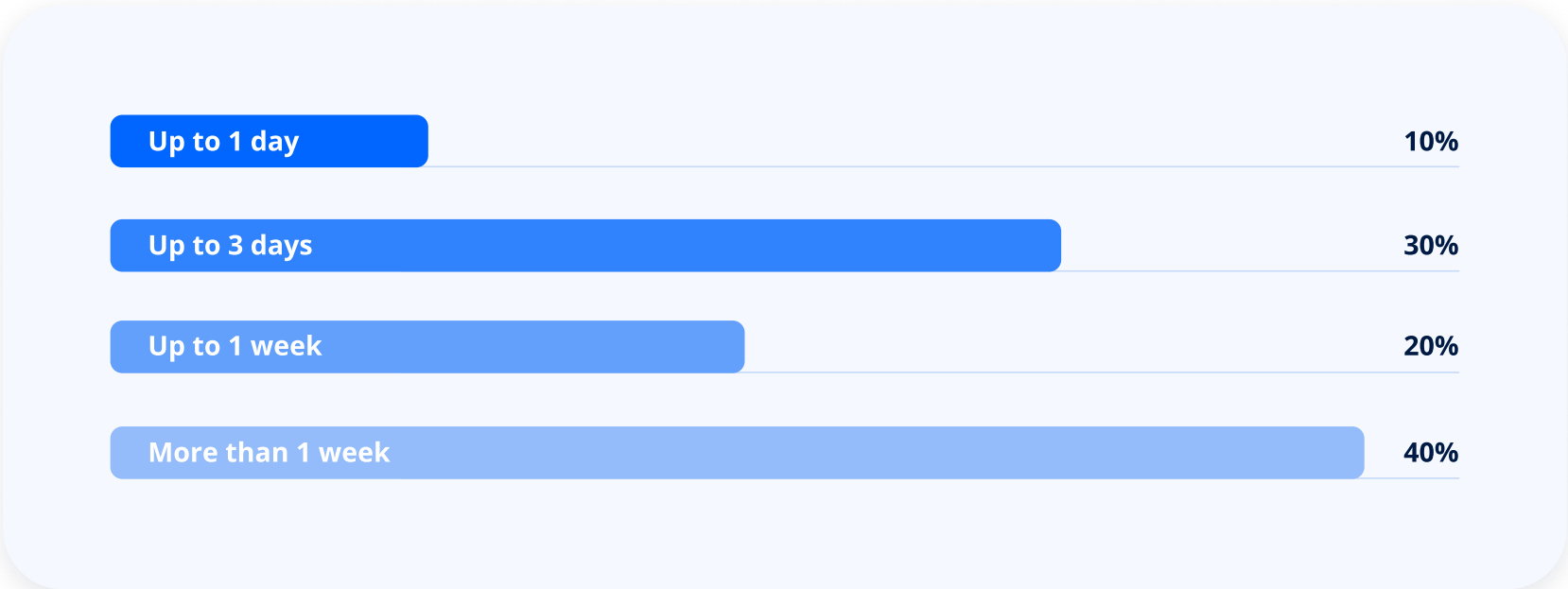
Finding
#8

Banks still need more than one week to approve an SME loan

A large segment of SMEs feels overlooked and underserved by the digital revolution in banking. In a recent FintechOS [webinar on next-gen digital SME lending](#), all panelists agreed that many SMEs don't necessarily apply for loans or credit lines because the hassle is too great. And of those who do apply, **roughly 30%** of them do not get the loan or the credit line that they wish.

Our recent survey confirms this previous finding: banks are still far from offering loans instantly and smoothly. **40% of respondents** said it takes more than one week to approve an SME loan.

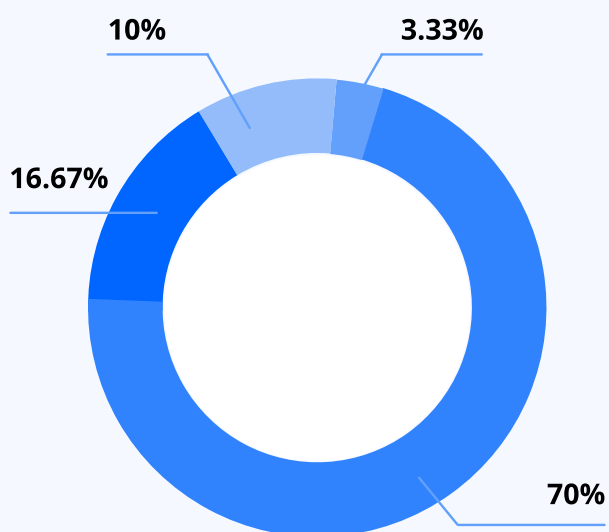
Please indicate the average time spent (in days) on approving an SME Loan



There is a limited flexibility in pricing SME products

As shown in a previous chart, half of our survey respondents said that they are mostly offering SMEs fully standardized products. When it comes to pricing, 70% agreed there is a limited flexibility in pricing SME products, too.

Indicate the most relevant statement for your bank when it comes to product pricing



- Pricing for SME products is fully standardized
- There is a limited flexibility in pricing SME products
- Full flexibility in pricing SME products
- Others

Finding
#10

Providing end-to-end digital customer journeys can contribute to a better access to finance

Access to finance remains a major challenge for SMEs, but banks can use customer data to create tailored products for them. The two biggest areas in which bankers said they could use support was “providing end-to-end digital customer journeys” and “facilitating access to third party data from the SME ecosystem”. That’s where partners like FintechOS can play a key role.

How can tech companies (like FintechOS) provide support to improve access to financing for SMEs?

25.30%

Providing end-to-end digital customer journeys for onboarding, loan origination etc.

21.69%

Facilitating access to third-party data from the the SME ecosystem (i.e. connecting to SME’s accounting tools, payroll tools, etc)

19.28%

Orchestrating the use of SME data across multiple system i.e. legacy banking systems, external solution providers, etc

18.07%

Providing technology for new products & services for BFM (business financial management)

15.66%

Providing lean core capabilities that support flexible lending products (i.e. product engine, loan admin, payment allocation, etc)

This survey was run by Efma in partnership with FintechOS in April-May 2021 and reflects the opinions of 40 SME bankers on the challenges they are facing and what is working best.

Survey methodology

The invitation email was sent to approx. 150 people from Efma's SME Community. The polled bankers are considered active members of the community – majority being from Europe, Asia, a few from MEA, Africa and Canada/US. All these contacts were C-level people (usually Head of SME).

Efma is a global non-profit organization facilitating networking between decision-makers. It provides quality insights to help banks and insurance companies make the right decisions to foster innovation and drive their transformation. 120 financial groups are Efma members.

References

1. The International Finance Corporation - "MSME Finance Gap", 2017
2. European Commission - "Annual Report on European SMEs", 2021
3. McKinsey & Co - "Survey of SMEs conducted in August 2020", 2020
4. FintechOS webinar on "Next-Gen Digital SME Lending" - featuring Microsoft, 2021
5. The European Central Bank - "Survey on the Access to Finance of Enterprises (SAFE) in the euro area", 2021

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FintechOS is driving a paradigm shift in the way financial products and services are created by making banks and insurers truly customer centric. Our tech integrates seamlessly with existing IT systems and our low code tools quickly empower organizations to design personalized customer experiences. These capabilities free our customers to tailor products, services, and interactions to a segment of one, increase ROI and decrease time-to-market.

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