

The SME Financing Challenge: How to Use Technology to Improve Access to Finance

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The SME banking opportunity

The European SME landscape

Scale

There are over
25 milion
SMEs in the EU.

Making up
99%
of all companies.

And contributing
6.0%
of the value added to the non-financial
business sector.

Revenue

SMEs generate around
\$850bn
of annual revenue for banks.

Representing
20%
of global banking revenues.

And a profit pool forecasted to grow by
7.0%
annually for the next 7 years.

Growth

80%
of banks across Europe see the SME
market as a potential growth area.

35%
say it's among their top 3 priorities.

25%
of SME banking leaders say fintech and digital
innovation will have the biggest effect on how SME
banking develops in the future

The current state of SME banking

There's a lot to put on the transformation agenda

What's gone wrong?

Overlooked and underserved

- With their relatively low individual turnover, SMEs have been less of a priority for incumbents.
- SMEs have yet to benefit from digital innovation to the extent that retail customers have.

Poor product fit

- SMEs are diverse, but many banks don't tailor products to subsegments or match them to business life stages
- Globally, 20% of SME banking heads say they wish they'd better segmented their SME customers in the previous year to help design products and processes around their needs.

Complexity and friction

- Front and back office processes are usually adapted from retail or corporate, so SMEs experience long, complex and friction-filled customer journeys.
- 83% of European SMEs say they want to be able to apply for banking products more quickly and easily, but only 18% are happy with their bank's service

Legacy system blocking change

- Legacy remains a massive hurdle for SME banking transformation projects.
- The threat of digital challengers is focusing leaders' minds on the need to overcome legacy.

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- *"Because of their size, SMEs sit in the no man's land between retail and corporate"*
 - *"The SME unit is always the poor cousin, begging, borrowing and stealing capability."*

- *"When I was a relationship manager, the biggest challenge was trying to make what the bank had on offer fit the customer. It felt like all our products were designed to serve the bank"*
- *"Attitudes are changing. In the past, we've lacked a willingness to work with SMEs to understand their needs. But now we're trying to live and breathe them."*

- *"We're 100% being beaten on experience. Luckily, we've got trust and reputation that fintechs can't match, but our customer experience could chip away at that."*
- *"We want the bank to be as easy to navigate as possible. We know we've got a lot of work to do, but the end goal is banking that is simpler."*

- *"Initiatives typically get up and running and teams get energized, but once they lift up the bonnet and look underneath, realize the investment it'll take, it scares them off"*
- *"What we haven't had before is new players coming in and attacking the profit pools. That's making us focus on getting our house in order."*

Leaders' insights

As a result, SMEs are dramatically underserved by banks

The SME “financing gap”: SME’s need for external finance – to stay alive or fund expansion plans and other strategies – was €400 billion (\$481 billion) in 2019 in Europe.

The Bank of England puts the shortfall at £22 billion (\$30.5 billion) for the UK alone in the same year.

In Europe, about half of SMEs considered bank loans and credit lines for their businesses, according to a recent half-yearly report from the European Central Bank. And 71 percent of SMEs applying for loans said they were successful in receiving the full amount. Still, nearly a fifth were relying on family and friends for a helping hand.

Getting a SME banking loan can be a daunting task

In the UK, more than
50%
of SMEs apply to only one provider because of the “hassle” and

long application process while
29%
Of would-be borrowers are put off completely because of the “effort” involved.

The average **time-to-yes** is between
3&5 weeks

The average **time-to-cash** is nearly
3 months

COVID-19 update: A survey conducted by McKinsey in August 2020 found that 70 percent of SMEs in the five European countries it looked at (France, Germany, Italy, Spain and the UK) said the pandemic had hit revenues. One in five was worried about defaulting on loans and more than half felt their business might not survive another year.

Personalization

Market to a segment of one

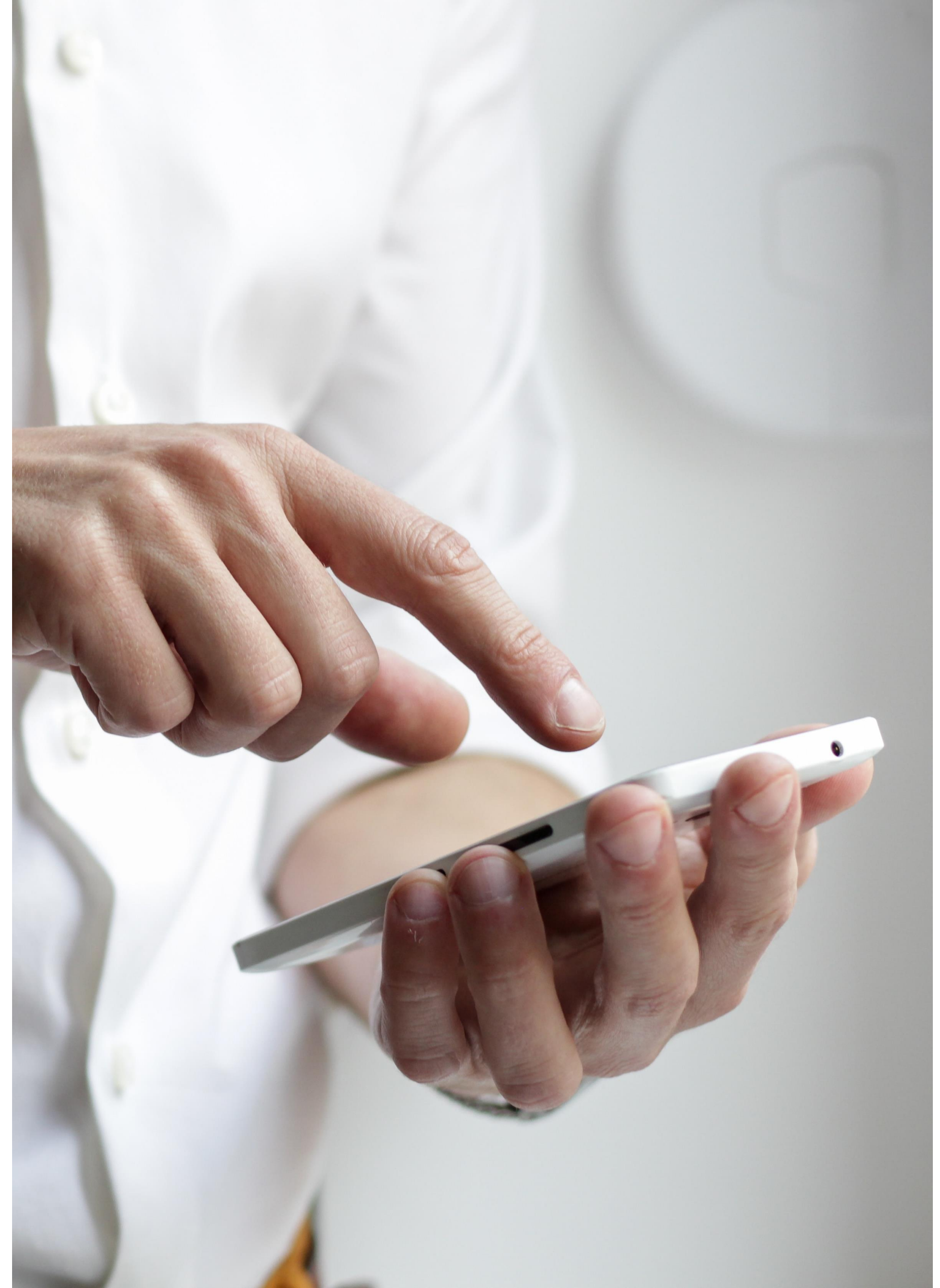
Offer your customers bespoke products and services that are contextually relevant to their needs

Use the Right Tech to Unleash Internal Data

Banks are well placed to reimagine their core lending products by, for example, offering short-term 'top-up' loans to SME customers that can be applied for and approved in a matter of minutes. This use case sees a bank using existing data and advanced analytics to refine a product to meet a specific, targeted need.

Tap into the Power of Tailored Recommendations

Several banks have achieved a ten-fold increase in their data-driven recommendations' success rate, while others have managed to boost new sales by over 30%. Where Relationship Managers (RM) have worked in tandem with these engines, banks have seen the number of RM-customer interactions increase by more than 50%.



Automation

Unlock the power of your data

Automation can improve customer experience while lowering costs, so banks should aim to redesign back-end processes to eliminate manual input and enable real-time decision-making

Tap the Power of Automation

For traditional banks, lending has emerged as a priority area for digital innovation because it represents an opportunity to tackle high costs, boost customer experience and catch up with the newcomers setting the pace of change.

An end-to-end automated digital loan origination process can reduce 'Time to Yes' to under 10 minutes, give SMEs the experience they need, and reduce lending costs by 40%

Digital leaders are focusing transformation on three key areas

 **Time to Apply**
cut down to 5 minutes

 **Time to Yes**
from 20 days to 10 minutes

 **Time to Cash**
cut down to 24 hours

Ecosystem integrations and value-added services

SMEs are increasingly expecting “beyond banking” services

20% of SMEs would be happy to pay a monthly fee to their bank for value-added services

SMEs Want More: The Opportunity for Value-Added Services

33% of SMEs are already using, or have expressed an interest in using, a range of services to help them run their businesses, improve customer service and boost sales, while 20% say they would be happy to pay an additional monthly fee for value-added services. (an extra £8.5bn for UK banks, by one estimate)

The Route to Building an SME Ecosystem

The most compelling option could well be growing beyond core product offerings into banking adjacencies: in this approach banks would provide services such as accounts-receivable management, factoring, accounting, and cash-flow analysis

Connectivity is the Key

Banks will need the ability to connect with inter linked businesses from across a diversity of sectors. To do this they should embrace the use of API-enabled platforms designed to allow multiple stakeholders, from providers to end-users, to seamlessly connect, interact and exchange value.



Thank you!

Any questions, anytime



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