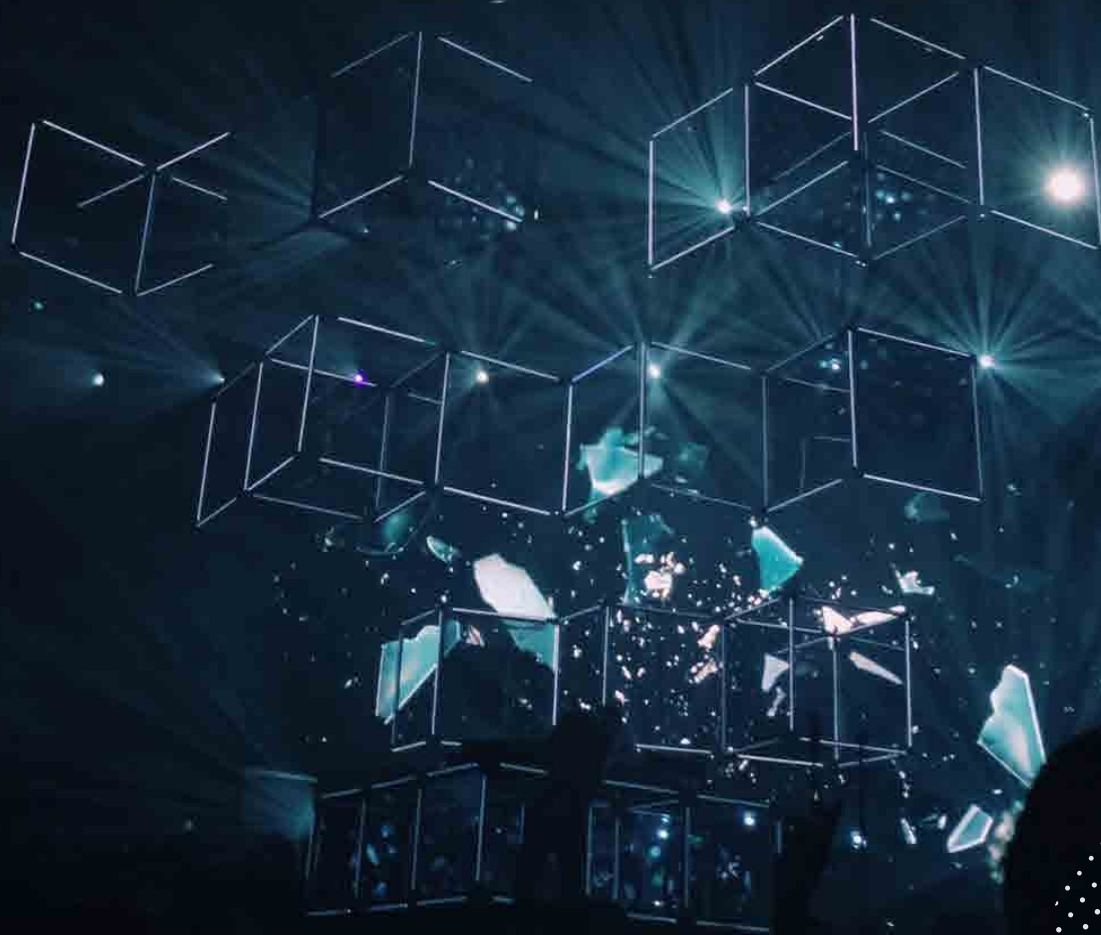


Digital-first SME banking

June 2021





Efma

A global non-profit organization, established in 1971 by banks and insurance companies, Efma facilitates 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 in 133 countries are Efma members.

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Foreword

As we traverse the road to recovery across the globe, SMEs are being created, reopened, and renewed. Their needs are not only evolving, but growing. In their financial partners, business owners are seeking more than just loan providers. They need partners who can provide holistic business services that enable owners to focus on what really matters: their customers.

To meet the evolving needs of SME customers, banks are transforming their business models, digitizing their offerings, and creating ecosystems with a whole range of beyond banking services. These banking transformations, however, don't just happen overnight. With their business clients at the forefront of their efforts, some banks are going it alone. Others are bringing in forward-thinking third parties, like FintechOS, to drastically speed up their digitization efforts.

We created this report to look at the SME banking landscape and, more critically, how banks are becoming digital-first. We partnered with FintechOS to bring you insights from a top expert in the industry, along with interviews with SME banking executives from around Europe and an institutional survey. I am sure you'll find the following pages to be a great resource on the changing SME banking landscape.



John Berry
CEO, Efma



The challenge of re-purposing support for SMEs

Sue Douthwaite, a longtime SME banking executive, looks at the major trends shaping the industry.

SME banking requires listening to business owners. And, most importantly, understanding their stories of hard work, determination, and resilience. How does banking support the needs of a consultant, an artisan cheese producer, a food manufacturer, an engineer producing high-quality speakers for performance cars globally and a nuclear scientist whose online clothing business has become so successful she is now running her business full time? Every sector and business ranging from start-up to multi-million turnover organizations with many staff.

Starting a business with a loan from family members or searching for capital to take a business on the next part of its journey – the life of an SME owner is complex and consuming, and each owner, partner or director is passionate, and each business is unique.

All these businesses now seek financial products that fit their business needs, not the other way around.

Developments in banking services include fully digital business accounts with superior user experience, data integration and automation, self-service and 24/7 on boarding solutions, and individual business finance solutions built on real-time data as well as modern digital interfaces that integrate with 3rd party business software. The question is who is really delivering what SMEs require.

The combination of a growing, fragmented market that incumbent players have traditionally neglected and an increasing digital adoption rate most certainly accelerated by the impact of Covid-19 and the subsequent global lockdowns, has resulted in the further development or formation of several innovative or challenger fintechs and SME banks that aim to re-design business banking in different ways.

Uncovering the true needs of SME's

To understand the complexity of SME banking, it is helpful to consider the life cycle of a business:

Phase 1: Planning, creativity and ideas – an entrepreneur would be generating ideas and insights for their chosen market. Considering the potential and seeking ideas and feedback from others in the sector. And building up reserves and savings for initial investment or in case of delays and setbacks.

Phase 2: Pre-revenue planning and launch – would involve the launching of the business and the creation of a separate identity and a separation of consumer and business banking. There will need to be establishment of administration for invoicing or payments.

Phase 3: Post-revenue growth – Understanding cash flow requirements and managing expenses. Seeking support on financial matters.

Phase 4: Expansion – Employing staff for the first time and the legal implications. Access to loans and working capital. Seeking time saving automation of finance administration. Accounting support. International payments made easy.

Phase 5: Realizing the value and next iteration growth – the greatest challenge for a successful and growing business is raising capital to realize the potential. Also, the business requires succession and exit planning.

The business banks or fintechs who understand this life cycle are the ones who have been able to create meaningful and exciting next generation services.

SME banking

Initially, most of the emerging fintechs had a launch and expand strategy which featured a simple current account product with limited features free or low cost, and then premium account features at an additional cost.



This is a crowded and competitive market and just to reach feature parity takes a lot of development resources. Digital business banking has become a red ocean with several fintechs active in most global markets and especially European and UK markets and as such the first mover advantage may have gone.

Nevertheless, Tide Bank, for example has created an efficient all digital and straightforward account opening application with frictionless document upload and free banking. Account opening takes minutes, and a debit card is issued on completion of identification. As a business grows and moves into phase 2 and 3 of the life cycle outlined above, account costs are introduced as more sophisticated products are required, including invoicing and accountant package integration. There is phone support again at a cost.

Fast digital onboarding, and mobile apps as well as accounting integrations, are now the new norm, just offering a business bank account with a few digital features may no longer be a differentiating factor. However, great branding and marketing support and a reputation for delivery have ensured they are well placed in the UK market.

Revolut Business as an early disruptor is not only providing fast online sign up and efficient customer acquisition, but has also actively upgraded their client service with tailored financial products and impressive multi-currency options and is diversifying beyond banking services with its marketplace using API integration. There are also reports that the UK digital banking service will allow crypto

customers to transfer bitcoin purchased on the platform elsewhere for the first time. While not specifically aimed at SME banking this is another sign of its potential to continue to disrupt the market.

Serving the needs of the users – the next battleground

So where are the new viable business models? Where are the product strategies? Do SME banking providers own the customers, or do they become a product provider? Or a combination of both i.e. Revolut and Starling have a 'marketplace' and they have a customer base.

There are new banks emerging now who have chosen not to provide transactional accounts but rather serve the life cycle needs of a business. They provide solutions to their customers challenges rather than features.

We can look first at Lidya, an international technology company established in Nigeria in 2016 that is rapidly expanding into Europe. We see a Nigerian digital SME lending platform with an office in New York and operations in Warsaw and Prague as well as a tech hub based in Lisbon, aiming to create 100 million jobs globally.

Lidya's fintech platform lets small and medium-sized business register online for loans from \$150 and receive that credit within 24 hours after application. This process also helps SMEs build a credit history often for the first time. As of April 2021, Lidya has disbursed over 25,000 loans globally across its key markets of Nigeria, Poland, and the Czech Republic.

At the height of the pandemic in March 2020, Lidya commenced operations in the Czech Republic and Poland – its first European markets – and has experienced tremendous uptake in its services, especially among SMEs severely impacted by lockdown restrictions. In the first six months, Lidya issued US\$2 million worth of loans to SMEs in both countries.

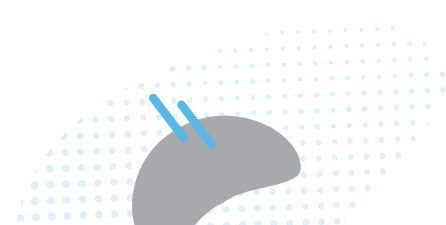
Another interesting bank who is challenging the incumbents in the Australian market is Judo Bank. Offering digitized banking solutions and quick responses supplemented with field or market-based specialists who have personal relationships with their customers and differentiated higher levels of service. Again, they are providing cashflow lending and loans starting at min Aus\$250,000. Their emphasis is again on the specific needs of SMEs who want to develop and grow their business with less of a focus on historic track records. They are supported by an nCino platform and have experienced huge growth in lockdown. They have a loan book of Aus\$3bn and aim to disrupt the lending market.

It's clear to see the next generation of business banks are making deliberate decisions regarding their role in the FS value chain as well as their business models and products. And both these organizations have chosen to specialize in funding growth through lending.

Conclusion

There remain multiple growth and innovation opportunities in SME banking. We are now seeing new iterations focusing on seamless workflows and product level innovation, not just on mobile. There is also a return in some cases to traditional style valued service offerings.

SME owners and entrepreneurs want time to focus on their business at whatever stage of development in which they find themselves.



Fintech banks and financial service providers who are successful are providing support for their customers extremely efficiently and transforming fragmented experiences into frictionless, cohesive support. It is clear that the newest entrants are intent on moving away from merely selling to serving customer needs by removing obstacles, mainly administration, and offering solutions to SMEs at the stage of their evolution they have reached.

The banks mentioned in this review are providing functions that 'do stuff' rather than having multiple hardly used features and solve the problems because they understand their customer base.

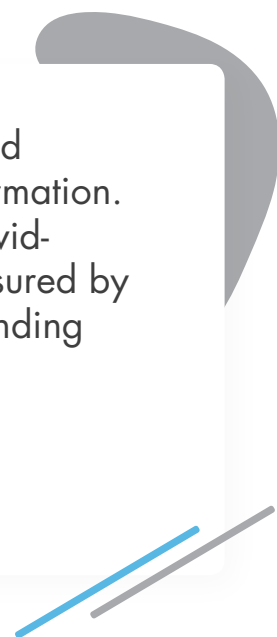
Creating emotional connectivity to create customer loyalty and meaningful support for growth and aspirations is the next great challenge. SMEs are all unique and have an enormous number of tasks to be completed that can be solved by intelligent development and heightened connectivity.



It's not enough to focus on product features and technology to ensure successful digital transformation. In the new world heightened by months of Covid-related lockdown, success is going to be measured by delivering remarkable experiences and outstanding frictionless service.

Sue Douthwaite


Non-Executive Director and Board Advisor



Executive views on the SME banking landscape

The financial services industry is undergoing a major period of evolution. While banks continue to provide the same financial services they did 20 years ago: current accounts, debit cards, and loans, the real evolution has taken in place in how these services are delivered. Digital services and methods of delivery are now firmly front and center. Banks exist entirely within apps on smartphones. Customers rarely step foot in physical bank branches anymore. These trends were present pre-Covid-19 and have been supercharged by the pandemic.

Along with that evolution in delivery, expectations about what a financial institution can and should offer have also changed. Business owners are choosing banks with the expectation that they will receive more than mere money management tools. Small businesses need help not just with financial needs, but with whole-of-business needs.



2020 has been a critical time for banks to rethink their business models and expand their digital offerings. So, we asked heads of business banking from top European institutions about the next evolution of SME banking on the continent:

- **Nordea** – Nina Arkilahti, Head of Business Banking
- **ABN AMRO** – Patrick Pfaff, Director Commercial Banking Clients
- **OTP Bank** – Tibor Csonka, Managing Director, Corporate Directorate
- **HSBC** – Martin Hyde, Head of HSBC Kinetic

Across the board, efforts are underway to expand and digitize services.

An evolving service model

Service models, while still maintain core banking services, have evolved and are increasingly centered around digital service offerings. This evolution is happening very quickly. Nearly every banker we interviewed mentioned the pace at which everything is turning digital, especially with the pandemic proving to be a major catalyst.

“ With this strong foundation we can and will accelerate the digitization of more of our services, enabling our customers to be in control of their finances and spend more time doing what they love – running their businesses.

Nina Arkilahti – Nordea

“ We are investing billions of dollars a year in technology and digital transformation to make banking simpler, safer, and more personalized for our customers around the world. Our business customers are innovating and adapting at pace and the Covid-19 pandemic has been an additional catalyst for that.

Martin Hyde – HSBC

“ Never stop learning, that’s extremely important. That means sometimes you have to look beyond the borders of your sector. For example, inspired by the telecom sector, we developed a payment proposition where clients can choose between three payment packages.

Patrick Pfaff – ABN AMRO

New digital initiatives developed just for SMEs

Banks like ABN AMRO are introducing impressive new offerings. They have created a digital funding platform expressly for SMEs. They also developed TikkieZakelijk, a WhatsApp-based payment channel. Competition, customer expectations, and regulations are spurring institutions to innovate and offer better tools to their customers. If your bank isn’t providing the latest and best tech to your customers, there is someone else in the market who is.

“ New10 is our 100% digital funding platform for SMEs. Over the past 18 months, the platform has seen solid growth, partly thanks to a new business mortgage proposition. Simultaneously, we used New10 to rapidly process Covid-19 emergency credit requests with government guarantees.

Patrick Pfaff – ABN AMRO

“ Changing regulation leads to the growing importance of beyond banking services as financial third-party providers are entering the SME and corporate finance market. Thus, we intend to enhance our value-added services to be able to keep existing customers and acquire new clients similarly to how third-party providers are trying to acquire our customers.

Tibor Csonka – OTP

“ HSBC Kinetic was developed using insights from over 3,000 small business owners, who told us they need a digital bank that helps them stay on top of their finances and understand what actions to take based on what their finances are telling them.

Martin Hyde – HSBC

Unique challenges as a traditional institution

Traditional institutions don't have the luxury of being a start-up with minimal back-end architecture and extreme agility. They have legacy IT systems to contend with as well as regulatory considerations that fintechs are often able to avoid. Looked at another way, though, the challenges inherent at traditional institutions can represent an opportunity. They have extensive banking expertise and built-in trust that has been accumulated for years. The challenge is to recognize your strengths and capitalize on them.

“ Maintaining the flexibility to keep up and get ahead in this rapidly changing world. Especially as a large organization, sometimes that means outsourcing or partnering for the development of a proposition.

Patrick Pfaff – ABN AMRO

“ Nordea is a universal bank, and we have services that cater to basic banking needs all the way to the most complex large company needs. This complexity is something we need to tackle in our digital development – simplifying this complexity is a challenge fintechs normally don't have.

Nina Arkilahti – Nordea

“ The biggest challenge we face is that we already have an ongoing business with ongoing operations and existing processes and IT systems that are built to serve different types of clients with different products on multiple channels, thus our existing architecture is much more complex than a potential solution that starts from zero.

Tibor Csonka – OTP

Partnership plans

As banks work to bring new products to market, they face a choice: develop in house or find a partner. Partners can produce a holistic, digital bank offering (like FintechOS), or a partner can be brought in for one specific product that a bank seeks to offer. Each bank is defining their own path, and from our interviews and the survey we conducted with SME bankers across Europe, we see that there isn't one common path being chosen. Everyone is creating their own partnership mix based on their own situation.

“ Primarily we believe that agile product development will be a key to speed up time to market. On the other hand, we have an Innovation Lab that is not just involved with supporting innovation within the organization; one of their key activities is to organize partnerships with start-ups and scaleups.

Tibor Csonka – OTP

“ Together with our partners we offer a digital accounting program, online HR, legal services and the sustainable investing tool. A number of these banking and beyond-banking services are available to clients as subscriptions, and will be included in our packages strategy, tailored to the sector in which the client's company operates.

Patrick Pfaff – ABN AMRO

“ We have existing partnerships for providing services to SME customers, so we can say that we have started to experiment with partnerships and assess the impact they have on time to market.

Nina Arkilahti – Nordea

Partnership plans

As banks work to bring new products to market, they face a choice: develop in-house or find a partner. Partners can produce a holistic, digital bank offering (like FintechOS), or a partner can be brought in for one specific product that a bank seeks to offer. Each bank is defining their own path, and from our interviews and the survey we conducted with SME bankers across Europe, we see that there isn't one common path being chosen. Everyone is creating their own partnership mix based on their own situation.

“ We believe the banks that will be successful will those that are able to create ecosystems and offer complex value propositions to their clients – combining their financial products with some value-added services.
Tibor Csonka – OTP

“ Our competition comes not only from traditional high street banks but also market challengers, who have brought great innovation to the market. The space is big enough for fintechs and big banks to coexist.
Martin Hyde – HSBC

“ Nobody has an absolute monopoly on wisdom, we’re bearing that in mind. What’s important is that we keep learning, stay flexible, and work together with our partners. Simultaneously, we find ourselves at a good starting point thanks to our expertise, large client base, and trust in the bank.
Patrick Pfaff – ABN AMRO

Click to read the full interviews below:



Nina Arkilahti
Head of Business Banking
Nordea
[Read more](#)



Tibor Csonka
Managing Director
Corporate Directorate
OTP Bank
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Patrick Pfaff
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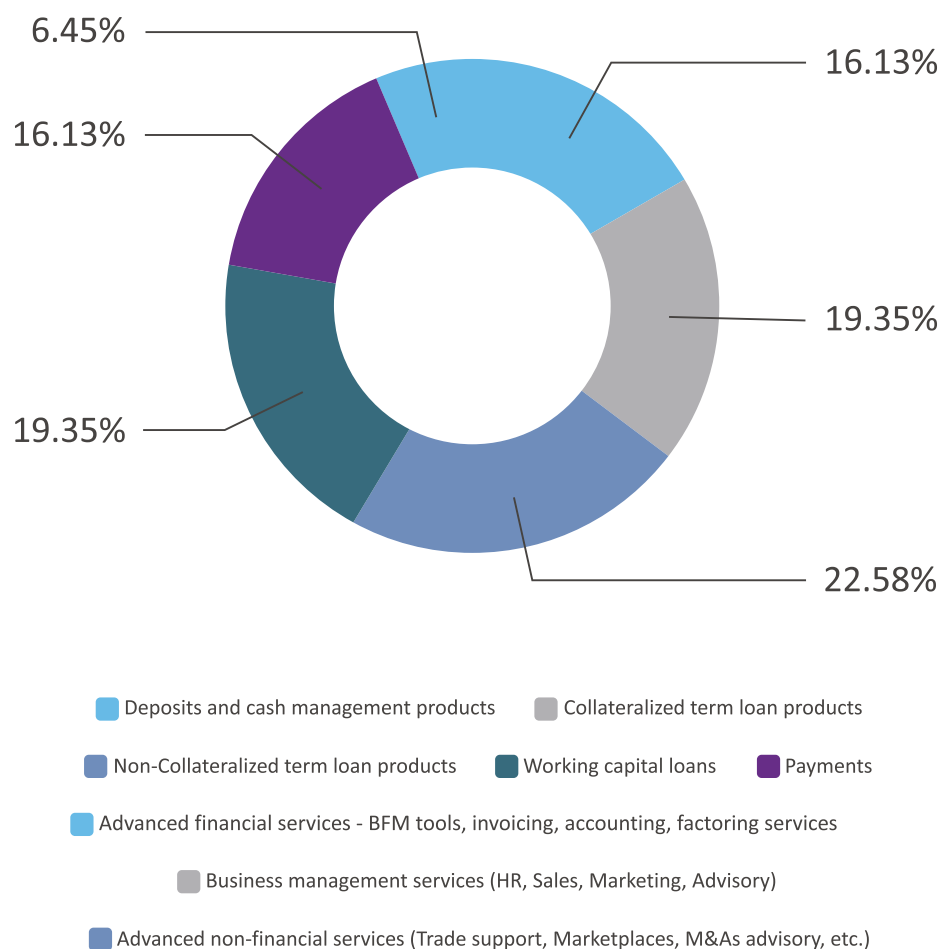


SME banker survey: key findings

Transformative trends in retail banking are also shaping SME banking. Customers expect on-demand, digital offerings that can help manage every aspect of their business. Understanding trends is one thing. Capitalizing on them to deliver new, superior offerings to customers is another. So, we polled 40 SME bankers from around the globe to gain a better understanding of the challenges they are facing and what is working best.

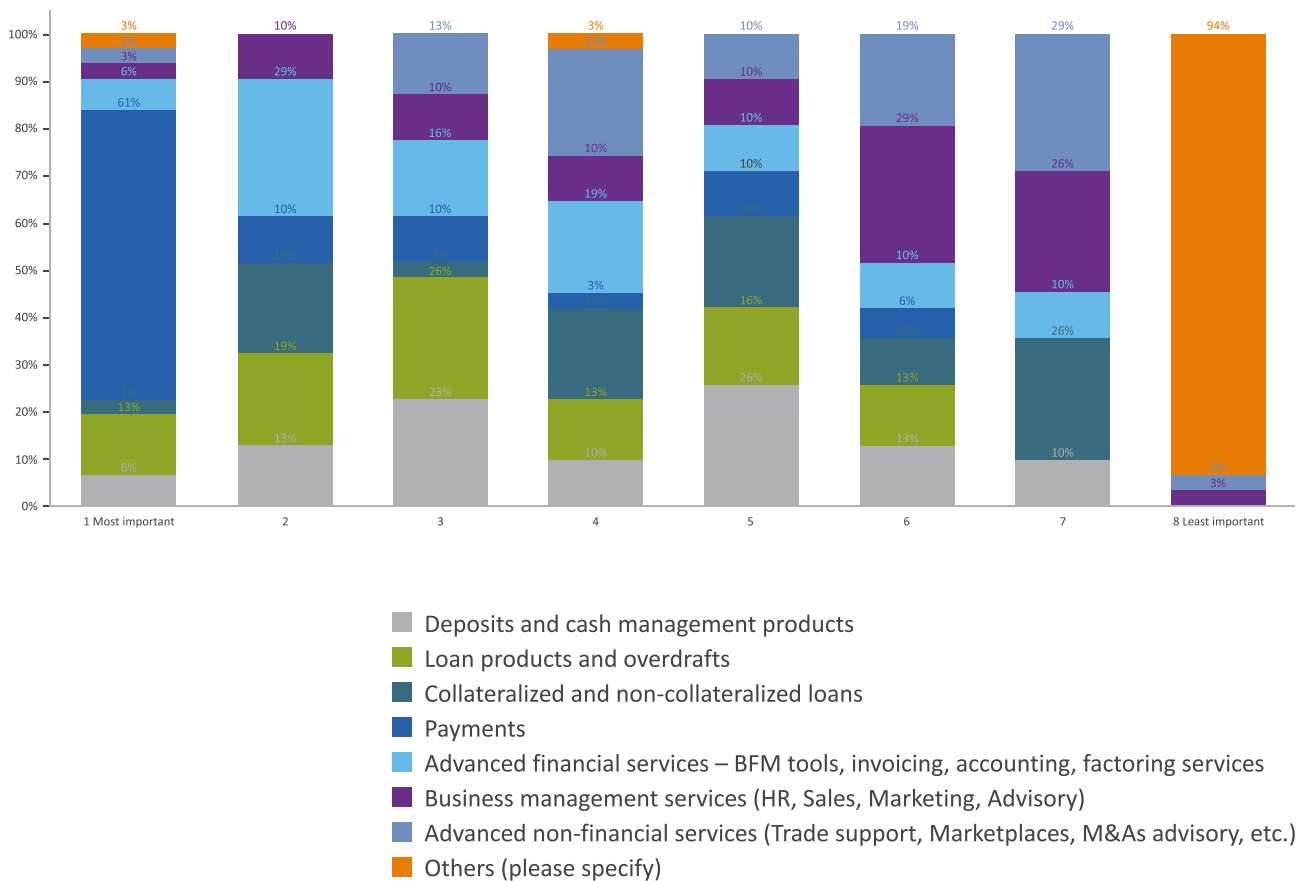
We know that ready and accessible financing underpins SME success. Securing a loan at the right time can be a key accelerator in the SME life cycle as outlined by Ms. Douthwaite. This is why 63% of respondents listed various types of loan products as the primary growth area in SME banking at their institution. The nature of SMEs, however, often means a minimal credit history that leaves bankers with the never-ending problem of determining who is worthy of a loan. Banks everywhere are sitting on troves of data. The challenge is to tap into that data and provide the right loans at the right moment for their customers, providing a catalyst for growth.

Chart 1: What are the growth areas in SME banking in your institution?



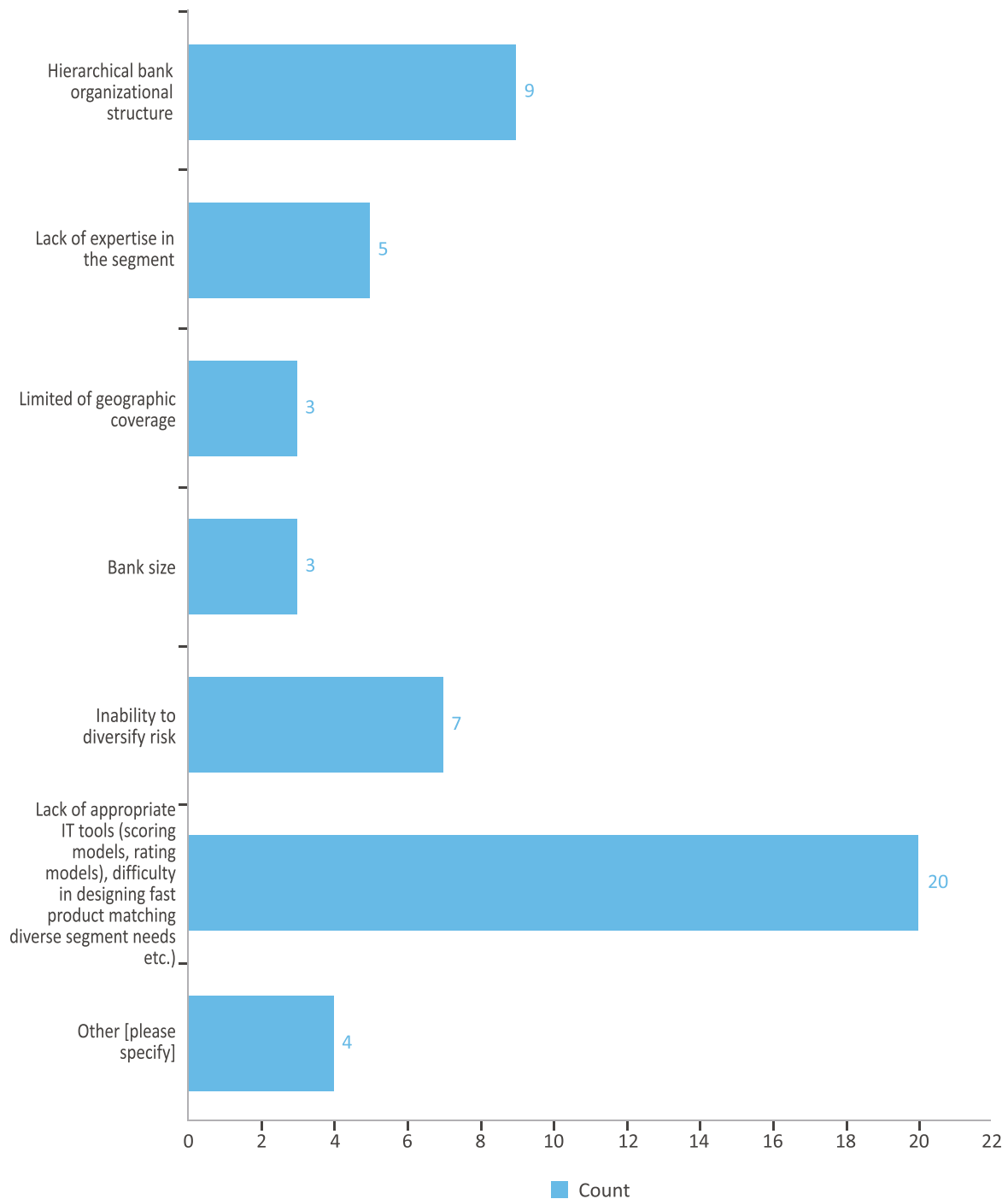
As for competition, there is a clear frontrunner in terms of the area bankers see the most pressure coming from fintechs. By a considerable margin (60%), they listed payments as the area in which they see the most competition from fintechs. Payments is a space in which many successful fintechs have gotten their start, such as Wise from the UK. Immediate, simple, on-demand payments are quickly becoming the norm in both the retail and SME banking sectors. Banks who can't provide straightforward and fast payments to their SME customers risk losing them to a fintech who can.

Chart 2: In what areas do banks feel the greatest competition from Fintech in the SME banking market? (1 - most important, 8 - least important)



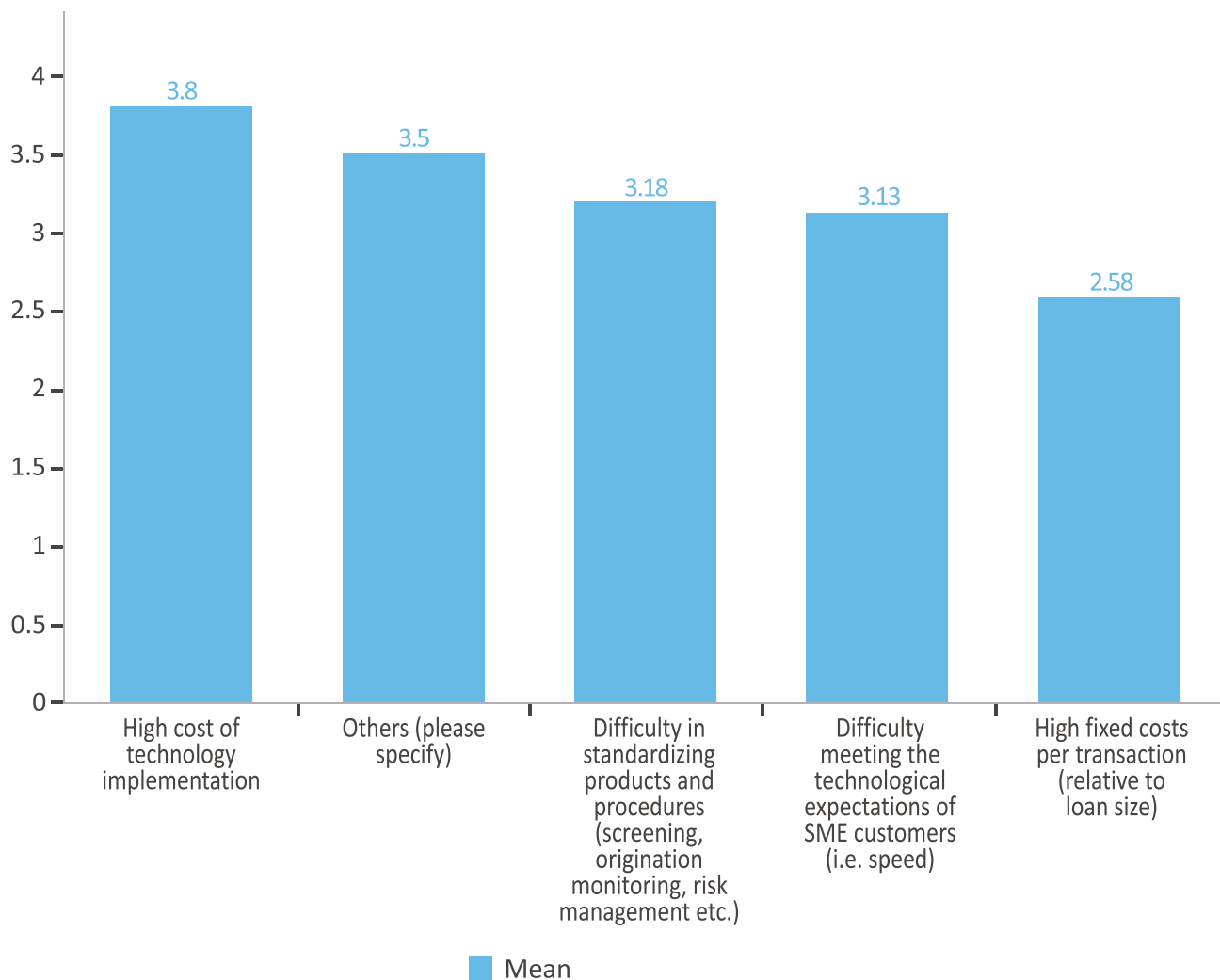
To deliver what their SME customers demand, banks need the right tools. Unfortunately, so many of them are lacking the right IT tools to offer the type of digital quality that customers expect. We asked the bankers to list their biggest obstacles to their SME exposure. The largest number – almost half of those surveyed – said that a “lack of appropriate IT tools, such as scoring and rating models” were the biggest hindrances. With loans representing a major growth opportunity, but many banks reporting they lack the credit scoring tools to service customers in a personalized way, there is a clear gap between desires and capabilities.

**Chart 3: Indicate the most important obstacles to your exposure to SMEs:
Bank-specific factors**



A key question then arises: “Why is there a clear gap between desires and capabilities?” We asked the group what technology challenges they were facing. The top answer was “high cost of technology implementation.” Bankers understand what they should be delivering for their customers, but they come up against 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 dreams.

Chart 4: Technology for innovation in SME Banking: what technology challenges are you currently facing? (0 - least relevant, 5 - most relevant)



That’s where partners like FintechOS can play a key role. 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.” Furthermore, half of respondents said that they are mostly offerings SMEs fully standardized products. Customer needs have advanced beyond needing the same products as all other businesses. Once again, customer data must be put to use in creating tailored products for SMEs and entrepreneurs.

Chart 5: How can tech companies (like FintechOS) provide support to improve access to financing for SMEs?

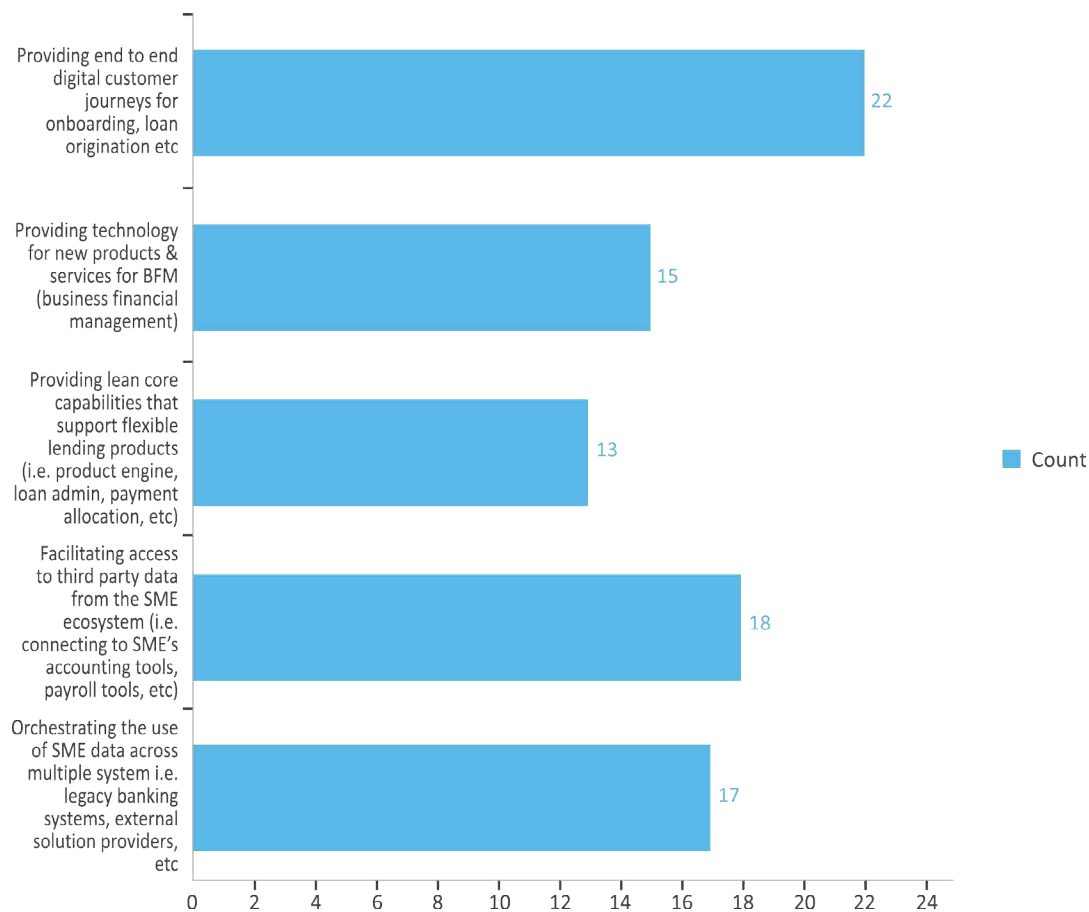
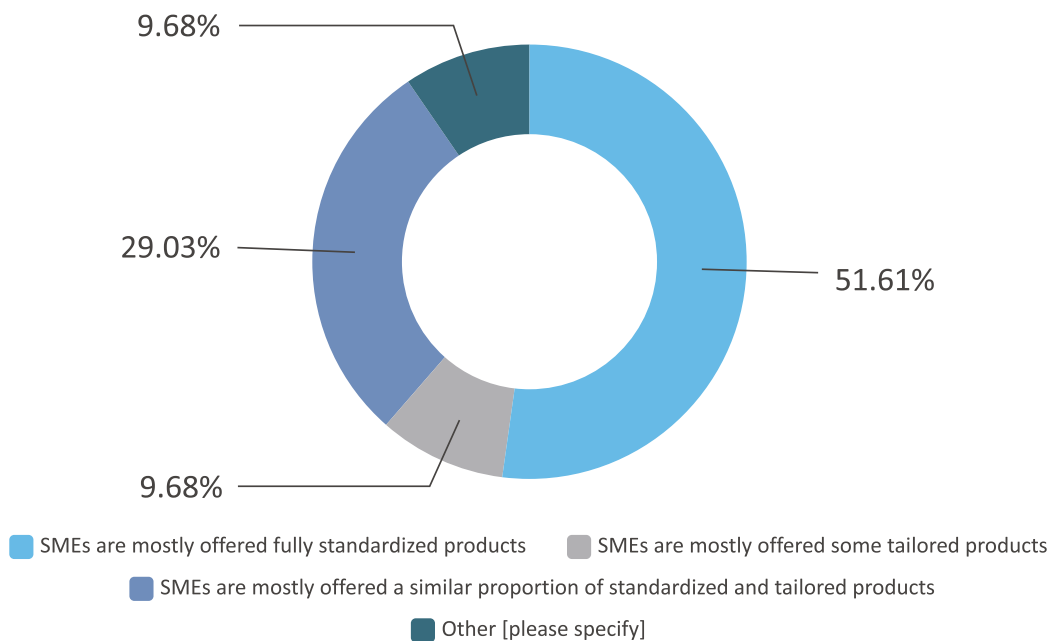


Chart 6: Indicate the most relevant statement regarding the standardization of your SME products



In the final chapter, FintechOS will outline some of the many ways they meet the digital needs of banks, employing data to create the types of IT tools that any modern day bank should have in their arsenal.

How FintechOS helps SME banks become digital-first players

Technology has played a crucial role in shaping the financial industry as we know it today. From the first telegram-powered money transfers that took place over 150 years ago to the cutting-edge innovations brought to market by a vibrant fintech sector today, finance has been at the forefront of technology and service innovation for decades.

However, with the SME banking experience firmly rooted in the branch office for too long, parts of the industry have fallen behind in the digital revolution that has improved so many aspects of our daily lives.

And while it's true that banks over the years have made heavy investments in computing platforms, enterprise software, and core communications networks to help them keep up with the pace of innovation in the market, today these investments are more likely to hold them back than to help them meet the challenges posed by the digital paradigm on the one hand and fast-evolving customer expectations on the other hand.

One of the main reasons for a lack of innovation is that the purpose of technology in the financial industry has shifted. Where its main value was once to provide operational efficiency, current digital technology is focused on bringing products and services closer to the consumer. New entrants in the banking market have pushed the boundaries of customer expectations with more convenient, fully digital, and more personal offerings. In addition, because the pace of innovation has increased so drastically over the past few years, technology can no longer be a truly in-house domain, but rather needs to be outsourced to specialists who can provide solutions at scale. Only the largest multinationals have the resources to build their own infrastructure and even these players have trouble delivering competitive digital solutions.

There are still options for banks that don't have the scale of a multinational player. First Bank in Romania is one such example of a bank utilizing the latest technology to deliver new, automated solutions to their customers. They partnered with FintechOS to launch the SME Creditum app, which simplifies the analysis of funding applications for small and medium-sized enterprises. By automatically aggregating data from multiple external sources, they were able to reduce credit approval time by up to 80%.

"SME Creditum and Micro Creditum are digital solutions that enable the transition from manual processes to optimizations based on the latest technologies, and innovations that support and strengthen our bank's strategy, "Digital with a human touch". There has been a fundamental change in the way business is conducted. Consumer behaviors have changed and, naturally, so have their needs. To remain relevant is to follow closely the journey taken by a customer in relation to the bank and to make this customer journey coherent and relevant. When a client evaluates a financial institution, they no longer compare the banks with each other, but the experiences offered by them. Therefore, the experience we offer to the client is essential," said Mădălina Teodorescu, Vice President, First Bank.

Technology today is driving an unbundling of the financial services industry. Specialists are targeting specific segments, like the SME market, and developing new processes and methodologies to develop innovative and compelling products and services optimized for specific use cases. In addition, financial services are increasingly being embedded into other products and services through partnerships and the clever use of APIs and as a result, banks are slowly being

disintermediated from their customer base. How can they leverage their existing technology assets and the latest market innovations to reverse these worrying trends?

FintechOS enables banks to redress these imbalances with a unique technology proposition that directly addresses the challenges linked with digital transformation. FintechOS provides SME banks and other financial institutions with a scalable, customer-centric and data-driven platform called Lighthouse.

Lighthouse enables SME banks and financial institutions to create products and services that are data-driven, personalized, and fast to deploy. Lighthouse allows banks to fully digitize processes and create highly tailored data-driven products and services for their client base, irrespective of their operational models.

Its unique approach to data integration brings siloed data together, combining financial data and customer 360 data into one place. Fast deployment is achieved by combining pre-built modular functionalities into end-to-end customer journeys. There where your business needs bespoke products and services to stand out in the market. FintechOS's Innovation Studio enables you create the perfect product with a low-code paradigm that allows business teams to create products with high autonomy.

Personalization

Lighthouse is built with data at the core of every digital touchpoint. Not only is customer data combined with financial data, breaking down the silos in legacy systems, it also makes sure that data can be acted upon in the design of product and marketing efforts. For the first time SME banks have access to a platform that allows them to design loan products with bespoke scoring and rating rules that take customer data into account. But personalization isn't restricted to scoring and rating; Lighthouse also allows SME banks to create customer personas and automatically market products and change customer journeys based on personas. This addresses one of the challenges unique to SME banks: serving a highly variable customer base with rigid products that are a poor fit for most customers.

End-to-end digital customer journeys

With Lighthouse SME banks can build fully digital customer journeys that bring the customer experience to the level of the fintechs they compete with. Lighthouse allows banks to create customer journeys from pre-built modular functionalities that combine seamlessly into a modern experience. Smart features such as OCR, digital KYC, co-browsing, video calls, digital document generation, and e-signatures ensure that customers can complete tasks in a single digital session. Whether it's onboarding, loan origination, or changing a password, Lighthouse offers a seamless digital experience.

Lighthouse also creates efficiencies in the backoffice. The platform allows SME banks to eliminate paper processes and automate tasks that don't require expert opinion. It also digitizes case management for those processes that do need personal attention.

Self-service through low-code

Innovation can only happen when subject matter experts are able to put their ideas into practice. For most SME banks this is a major challenge as their IT teams don't have the bandwidth to support business teams. Self-service changes this and enables non-technical teams to bring their ideas to market quickly.

The FintechOS Innovation Studio offers self-service with a low-code paradigm. Business teams can go straight to work and build out data models, design the workflows, create scoring and rating rules, and make product configurations. In this way business teams can efficiently and quickly assemble products and end-to-end digital journeys across any number of use cases with minimal reliance on IT.

Ecosystem services

Digitization and open banking have created an ecosystem of innovative API-connected services that can enrich the customer experience and help banks to create smarter and more effective offerings. Integrating these services into the bank's existing services however can be a real challenge. Lighthouse helps banks to benefit from modern ecosystem services by offering over 150 pre-integrated services in its Ecosystem Hub. The Ecosystem Hub enables SME banks to use ecosystem services as if they are part of the platform itself.

SME banks can create value with ecosystem players, for instance by bringing data from external services into scoring and rating to better control risk and make lending smarter. Ecosystem services can also improve the customer experience by offering additional functionalities, without the bank deviating from its core focus. With access to the ecosystem, innovation becomes a continuous process rather than a one-off project.

Deployment

Lighthouse is offered primarily as a cloud-based digital-on-top solution. It easily integrates with legacy systems and technologies and is extensible by design. This avoids the need to rip and replace existing infrastructure and gives institutions the ability to reduce their reliance on outdated systems over time. In this way companies can increase their control over costs and risks, whilst moving their digital transformation forward with smaller projects that have a realistic scope. Disruption to business continuity is greatly reduced and valuable historical data is no longer sacrificed in the name of progress.

In summary, FintechOS Lighthouse provides SME banks with a clear and controlled path to a digital future, in which banks can bring new products and services to market that are more customer-centric, more data-driven, and faster to deploy. FintechOS Lighthouse helps SME banks to compete digitally, with an extensible approach that doesn't require a big-bang transformation but does deliver the personalized experience SME companies expect in today's market landscape.

Learn more at [FintechOS.com](https://fintechos.com)



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