Why are banks struggling to meet SMEs' needs?

Being a vast majority among businesses worldwide, SMEs generate only about a fifth of banks' income. Looks like a great big pool of unmet needs.

Something's wrong here. As reported by J.D. Power last year, only 32% of SMEs in the US feel that their bank understands their business. The UK market, according to Ipsos, faces a similar challenge in 2019: 30% of the local SMEs look for financing opportunities outside of the banking realm. According to World Bank, overall approximately 70% of all micro, small and medium-sized enterprises (MSMEs) in emerging markets lack access to credit.

It doesn't stop there. Globally, as many as 25% of SMEs have turned to fintech at some point – and that number may hit a staggering 64% in 2020 – or so say the companies surveyed by EY in the 'Global FinTech adoption 2019' report.

CHALLENGES

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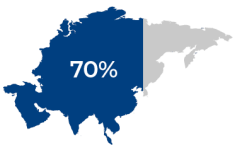
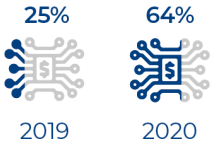


in Asia approximately 70% of all MSMEs do not have access to loans from formal financial institutions



in 2019, 25% of SMEs have turned to fintech – and that number may hit a staggering 64% in 2020

The adoption is not just about new products or services; it's about new technologies, which makes the figures even more impressive. Fintechs seem to be easing pains banks can't.

BOLD or frame:

According to McKinsey, small business owners spend more time struggling with red tape than doing actual business. More than 70% of what they do is administrative-related. Isn't that disappointing?

And then there's a huge problem SMEs have with creditworthiness. Banks simply don't want to lend money to anyone without a good glimpse into their historical data. No data – no money. Fintech lenders, anyone?

How come?

Simply put, banks are slowcoaches. KYC procedures, risk processes, all the red tape… It all seems like a medieval torture for an entrepreneur who needs cash quick. Which is the very reason why they turn to fintechs instead – EY says Fintech's edge is primarily 24/7 availability and convenience.

Now, how could any given fintech, a rich kid with some nerve, successfully compete with a grown, seasoned man – a bank?

My discussions with fintech people clearly show what their advantage is: yes, it's technology. Things like:

- Quick and easy digital onboarding
- AI risk assessment based on alternative data sources
- AI-based OCR that makes document operations less time consuming
- Automated processes

This is what gives fintechs a head start. It's a different, tech-based DNA that brings real value for customers and gives rise to products solving real-life problems.

So, why not copy that?

Because it's not as easy as it might seem. An average bank wanting to implement a single new product or service channel must allocate a few million euros for the operation. It's all those countless legacy systems that need to be integrated each time that makes the costs go through the roof. It's too much ballast on a boat that just can't keep up.

For fintechs, a few million euros can pay for the whole IT infrastructure.

So, pretending to be a fintech won't work. If banks start to compete with fintechs by their rules, they'll lose.

Change is happening now

Revolut, one of the most successful fintechs is now focused on adding an expense management tool to their app. They have embraced an end-to-end process, not stopping at the front-end part, but integrating it with the accounting software. Revolut solves problems banking hasn't been able to solve so far – and that's what changes the game here.

This is the way of thinking banks should apply sooner than later. It's about not focusing on the product itself but on the end-to-end process that will bring real benefits to customers.

Fintech's strength is its weakness too

The biggest value of what fintechs have to offer is a high-quality process and low price. What's not to love?

But, from the perspective of a small business owner, having countless great apps and solutions to run the business from is not that appealing. And this where banks come in.

Why not set up an ecosystem for SMEs; a bunch of complex solutions and services to run a company smoother?

But it's not just about luring another fintech in – to 'swallow' it. It's about going to the core value of small business.

Us vs. them

In recent years, bankers have been focused on their own structural changes, on merging departments, on organizational tetris. The result was turning the attention away from customers' needs.

And then it was sales all along. And more sales. It was all about 'us'. Meanwhile, fintechs made it all about 'them' – the customers and their pains.

Today, some banks have realized that the fintech way is the only way to return to the path of growth. But they won't be able to do it on their own. They need partners. They need to join forces with fintechs – and that means creating an ecosystem where banking operations go hand in hand with other services. Which ones?

The end-game

Building such ecosystem – comprised of banking and non-banking services – to spare SME owners some hassle while running their businesses, could be the next best move for banks.

The services could be:

- Accounting, invoicing, business analytics
- Legal services
- CRM tools
- Alternative financing methods

This is about supporting customer processes end-to-end. Example? Working on an accounting system can't stop on the part where a new invoice is added. Why not create an automatic payment feature – or a reminder for the user to pay their dues?

Now, introducing the said services pays, because what you get in return is:

- Bringing new customer experience off-the-shelf
- Splitting risk in half, with fintechs catering to more risk-prone customers
- Putting on a friendly face; no more lengthy procedures and distrust
- Getting new insights for scoring purposes – more data, more chances to sell low risk products

Not all rainbows and roses. No other way, either

Yes, as always, it can go wrong.

For a bank, there's a benefit of the doubt to be given here. Close tabs must be kept on what's what. It's doable with one partner, but what if there are dozens of them, with different products and services? This is a huge operational challenge. This is putting reputation on the line.

Still, it seems there is no other option for banks wanting to win customers over: find the right partners to solve customer problems you can't solve on your own.

Author:

Łukasz Rozlach, Head of Banking Industry, Comarch
Linkedin profile: https://www.linkedin.com/in/%C5%82ukasz-rozlach-a14a672b/

With ten years' experience in financial IT consulting under his belt, Łukasz has deep understanding of the banking realm and its future challenges.
He works as Head of Banking at Comarch Financial Services, where his job is to keep his eyes peeled on the big picture: the overall market strategy the company takes. As of now, he strives to find the best way banks could incorporate the platform economy to cater to SMEs.