

fintech **OS**

WHITEPAPER

The 4 Steps to Future-Fit SME Banking

VERSION 0.2

Table of contents.

03	The SME banking opportunity	18	The 4 steps to future-fit SME banking
08	What's gone wrong with traditional SME banking?	39	Conclusion
14	What do SMEs want?	44	FintechOS can help you

The SME banking opportunity...

Scale

There are over

25 million

SMEs in the EU.

Making up

99%

of all companies.

And contributing

60%

of the value added to the non-financial
business sector.

Source: European Commission¹

Revenue

Globally, SMEs generate around

\$850bn

of annual revenue for banks.

Representing

20%

of global banking revenues.

And a profit pool forecasted to grow by

7%

annually for the next 7 years.

Source: McKinsey²

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.

Source: Efma³, IFC⁴

...has not gone unnoticed.

SME banking is at a turning point. Customer demands are shifting, new digital players are targeting unmet needs, and the clever use of tech looks set to decide who'll dominate the market of the future.

In Europe, the SME opportunity should sharpen every banking leader's focus. A large customer base with growing needs means untapped revenues, and digital innovation now offers the power to unlock them: banks can access new tools to create meaningful customer journeys that meet their clients' needs and build ecosystems of value-added services.

But it's an opportunity that hasn't gone unnoticed, and so the competitive landscape is changing. From fintechs to Big Tech and incumbents ahead of the digital curve, more players are entering the race and speeding up the pace of change.

Challenger banks are quickly gaining market share by offering simple, low-cost products, delivering fast and frictionless customer experiences, and in some cases providing easy-to-use financial tools. But they won't stop there. Challengers have the customer-centric culture and agility to serve the unmet and evolving needs of SMEs, and their long-term prospects will be determined by their ability to expand the

boundaries of the SME banking experience. With nimble, ambitious and well-funded competitors like these, traditional banks need to take decisive action.

So what should banks do?

In mapping out a strategy for change, SME banking leaders should consider two challenges:

- How can they confront the threat of nimble, digital-first challengers coming to market with offerings more tailored to SMEs' needs?
- And can they compete with challengers **while** laying the foundations for a service model that satisfies a broader need set and generates new sources of revenue?

The 4 steps to future-fit SME banking provide the answers. We believe responding to immediate competitive pressures and long-term strategic goals simultaneously is possible, and banks can do it in a way that unlocks value quickly and consistently over time. With the right technology, they can act on these 4 steps, tackling today's threats while seizing tomorrow's opportunities.

The 4 steps to future-fit banking

- 01 ROLL OUT END-TO-END DIGITAL, AUTOMATED CUSTOMER JOURNEYS AT SPEED
- 02 TAP INTO YOUR DATA TO UNLOCK THE POWER OF HYPER-PERSONALISATION
- 03 GIVE YOUR NON-TECHNICAL TEAMS THE TOOLS INNOVATE
- 04 USE CONNECTIVITY TO GET READY FOR A FUTURE DEFINED BY ECOSYSTEMS

It may seem ambitious, but the potential rewards and the risks of inaction are equally great.

About this whitepaper

We wrote this whitepaper to explain the why and how of the four steps we believe are critical for future success. We've gathered the latest research on the state of the SME banking industry and combined it with insights from SME banking leaders spearheading digital change in their organisations. The result is a clear-eyed view of where the industry is at this moment and the actions banking leaders should take to win in the digital future.

What's gone wrong with traditional SME banking?

Traditional SME banking has no shortage of problems: from inflexible products and rigid processes to customer friction and legacy tech blocking change, 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.

Leaders' insights

- *"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."*

- 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.⁵

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.⁶

- *"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."*

Legacy systems 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.

- *"Initiatives typically get up and running and teams get energised, but once they lift up the bonnet and look underneath, realise 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."*

The Quick Take

Over the years, the SME segment hasn't been a priority for banks.

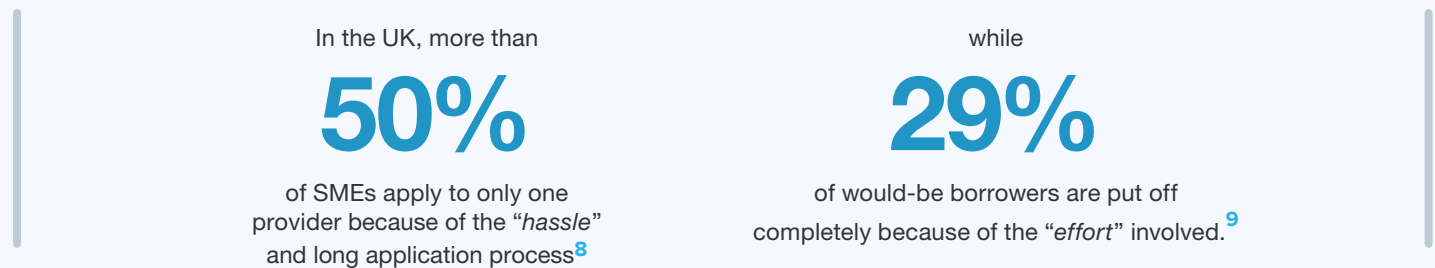
Products and processes aren't tailored to customer needs, so the SME experience is filled with complexity and friction, a situation that inflexible legacy tech makes difficult to change.

Accessing Finance in Focus

WHY IS IT SO DIFFICULT?

With complex applications and long delays, applying for loans can be a major drain SMEs' resources. And it's these kinds of barriers that are driving them towards new, customer-centric digital players.

In Europe, more SMEs face obstacles to getting a loan than large companies, and 8% say accessing finance is the most important issue facing their business, double the figure for larger enterprises.⁷



Is poor product fit to blame?

When it comes to applying for a loan, product fit is closely linked to an SME's chances of approval.

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.

What does it mean in practice?

Going through an application process that hasn't been designed with them in mind and lower chances of approval. In short, complexity, friction and delays.

In a traditional bank

The average **time-to-yes** is between

**3 & 5
weeks**

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

**3
months¹⁰**

The Quick take

Fast access to finance is critical for many SMEs. They simply can't afford to wait for weeks for a decision and then months for cash. Delays like these can be fatal.

What do SMEs want?

What do SMEs want?

5 KEY MESSAGES FOR BANKS

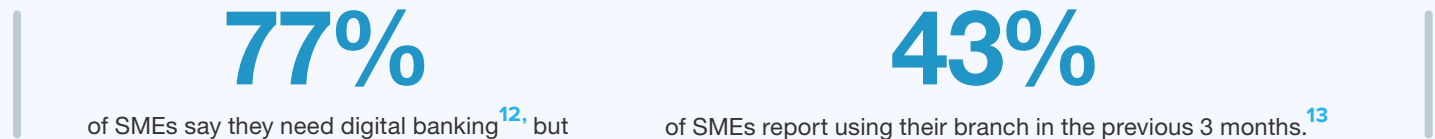
It's clear that the status quo has to change, and every bank should focus on what SME's want as a crucial starting. Recent research reveals a diverse segment with varied needs and signals the importance of hyper-personalisation as we move into the future.

Here are 5 key messages for SME banking leaders about to embark on a transformation journey:

1. Recognise diversity

Banking leaders should always keep in mind that the SME market is incredibly diverse.¹¹ In fact, thinking of it as relatively homogenous has caused some of the problems they now have to tackle.

2. Blend digital and branch services



The majority of SMEs prefers their bank to combine digital and branch services.

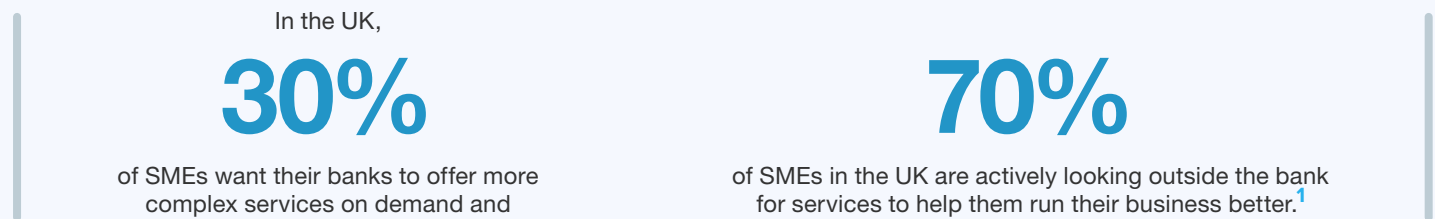
3. Don't axe the RM

A human point of contact remains important for many SME banking customers: only 1 in 4 would give up access to their relationship manager for a digital alternative.¹⁴

4. Tailor your relationships

SMEs differ in the level of interaction they want: 61% of smaller companies have basic needs and want a low-touch relationship with their bank, while 35% of medium-sized businesses say they have complex needs and want support from their bank.

5. Target broader needs



If banks can broaden their service offering, they can capture new business from both groups and tap into new sources of revenue.

The Quick Take

To succeed in the future, banks will require advanced hyper-personalisation tools to tailor products, journeys and interactions in line with SME needs. But they'll also need the vision and the tech to think beyond the limits of the traditional SME bank offering to a new era of providing value-added services.

The 4 steps to future-fit SME banking

The 4 Steps to Future-Fit SME Banking

Banks need to take decisive action on two fronts. First, they must react to the threat to their market share from digital-first challengers. Second, they must prepare for a future defined by SME banking ecosystems that provide a broad range of value-added services through integrated customer platforms.

We've organised the 4 steps we believe banks should take in this context into 'quick wins' that can deliver immediate value and 'long game' moves that lay the foundation for future success. It's important to note we don't see these steps as a sequence; by engaging with the right technology provider, SME banks can take action on each one simultaneously. If the 4 steps are executed correctly, banks can tackle today's challenges while seizing tomorrow's opportunities.

QUICK WINS

- 1 Roll out end-to-end digital, automated customer journeys at speed to enable fast and easy access to finance and other products.**

Meet the competitive threat from digital-first challengers head on and hit the market in

weeks with plug and play solutions.

If banks can act fast and get to market with new digital offerings, they can exploit their high levels of customer trust to protect, and perhaps expand, their market share. This was the aim of an executive at a greenfield spin-out of a global bank:

“Our vision is to bring together the best of what challengers have, which is primarily a customer experience built around an intuitive look and feel and some simple features, and combine it with the best of what an incumbent has to offer, which is trust and security. Because you can build a nice app relatively quickly, but there’s no quick fix to achieve the kind of trust that comes with doing business for over 150 years.”

Challengers are targeting the lower end of the SME market (for now) with a value proposition based on a simple, straightforward customer experience and low costs. To compete, traditional banks will have to roll out customer journeys that deliver on experience and streamline processes by tapping into the power of automation. And they’ll have to do it all at speed.

Create End-to-End Digital Journeys – but don’t forget the RM

Drawing on the principles of design thinking, banks should focus on creating end-to-end digital journeys with intuitive interfaces and pared-down data entry. BBVA has succeeded in streamlining its SME onboarding process, creating a fast and frictionless digital journey that opens an account in under 10 minutes.¹⁵ Similarly, Santander combined a customer-centric vision with disruptive tech to launch a fully digital onboarding process, reducing its account opening time from 7 days to 15 minutes.¹⁶

Digital and traditional channels should also be integrated into an omnichannel offering that provides seamless interactions across multiple touchpoints, whether it's online or in branch, allowing banks to meet demand for a blended approach to service delivery. Customers can be encouraged to make use of simple, self-service tools while access to a relationship manager remains open for more complex interactions. As one interviewee explained:

"We're making banking so simple that the customer won't need our help, but there are still some minefields where they might feel like they need support. That's when the RM kicks in, helping SMEs navigate these minefields, but the bank itself won't be complex to navigate."

Whatever the touchpoint, the customer journey should deliver the same seamless, frictionless customer experience that can compete with the offerings of digital newcomers.

Innovate at Speed with Plug and Play Solutions

On the face of it, reinventing the onboarding or lending experience for SMEs appears a daunting task, but the reality can be quite different. Rather than involving a total overhaul of existing systems, these kinds of transformations can now be achieved quickly and affordably, with no service disruption. Plug and play solutions that integrate seamlessly with legacy infrastructure make it possible to go live with a digital offering in a matter of weeks: where once banks undertook long, complex transformation projects, partnering with fintechs now gives them fast access to new capabilities and allows them to launch digital customer journeys at speed.

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. The digital leaders are

focusing transformation on three key areas - '*time to apply*', '*time to yes*', and '*time to cash*'¹⁷ and there have been some striking results: '*time to yes*' has been cut down to as little as 5 minutes; some banks have reduced '*time to cash*' to 24 hours; and one large European bank upped its win rate by 33% after reducing '*time to yes*' from 20 days to 10 minutes.¹⁸ More specifically, we can look to Barclays for an example of the speed that is now possible in SME lending. Last year, the bank launched £100,000 unsecured lending through its app and online banking platform. Using pre-assessed limits and automated applications, SME customers can receive cash in their accounts within 24 hours.¹⁹

Digital leaders are focusing transformation on three key areas

Time to Apply

cut down to 5 minutes.

Time to Cash

cut down to 24 hours.

Time to Yes

from 20 days to 10 minutes.

Automation underpins all of these successes, supplying the speed to improve customer experience and the efficiencies to achieve cost reductions. So banks should look to redesign back-end processes to eliminate manual input and enable near-real-time, automated decision-making.

While some may be reluctant to fully automate the decision-making process in lending, there's evidence to suggest that automated engines outperform humans in predicting default risk.²⁰ Of course, there's still a need for human input: in the most advanced uses, between 70% and 80% of SME-lending decisions are fully automated, with more complex cases being escalated for credit review.²¹ ING, for example, now offers instant SME lending up to €100,000 in several European countries: 100% automated and paperless, it has cut time-to-yes to 10 minutes.²² Many SME banking leaders are already aware of the opportunities presented by automation, in particular those around improving experience, increasing customer retention, and streamlining process in onboarding and lending.²³ All that is required, then, is action.

The Quick Take

Improvements to customer experience should focus on creating journeys with intuitive interfaces, reduced input and greater speed that operate seamlessly across channels.

Plug and play solutions that work alongside legacy can help banks launch digital journeys in weeks.

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.

In some cases, time-to-yes has been cut down to 5 minutes, and time-to-cash has been reduced to 24 hours.

2 Tap into your data to unlock the power of personalisation.

Tackle the problems around poor product fit with data-driven recommendations and tailored offerings.

Banks have the opportunity to grow market share across their existing products by better tailoring them to specific segments, business life stages or individual customer profiles. The key to achieving this lies in extracting deeper customer insight from data. While building the advanced data capabilities needed to do this takes time, the availability of sophisticated plug and play solutions in the market means that SME banks have the opportunity to tap their most precious resource quickly, affordably and to maximum effect.

Use the Right Tech to Unleash Internal Data

Banks have a strong competitive advantage against any new entrant to the SME banking sector: they sit on vast stores of transactional data. Readily available tools can process transactions, classify them into detailed revenue and expense items, and provide rich risk data for real-time analysis.²⁴ With deeper and more up-to-date insight into company performance of this kind, 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. Launching products of this kind can yield significant results: in one example, conversion rates tripled within two months of it going live.²⁵

Legacy systems, with stranded data locked away in silos, typically prevent traditional banks from pursuing these kinds of data-driven innovations. However, the right data platform capabilities can unlock a wealth of opportunities to exploit these internal resources: if they can extract internal data and enrich it by connecting to the wider data ecosystem, banks can provide themselves with continuous streams of information to fuel everything from customer segmentation processors to credit engines. This will allow banks to offer tailored, relevant and timely products and services to their existing customer base.

Tap into the Power of Tailored Recommendations

The ability to provide more granular, tailored recommendations to SME clients has in some cases yielded striking results: several banks have achieved a ten-fold increase in their recommendations' success rate, while others have managed to boost new sales

by over 30%.²⁶ 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%.²⁷ Lloyds and Barclays in the UK, as well as ING, Santander and BBVA in Europe, have all tapped the power of predictive modeling to boost commercial performance.²⁸ By deploying these capabilities and tapping their internal data resources, banks are proactively servicing their SME customers' financial needs, and they are doing so in a way that is more convenient, cost efficient and profitable.

The Quick Take

Data insights can be applied across the value chain, but there are opportunities to reinvent lending products that banks can act on quickly and easily with plug and play solutions.

Connecting to the wider data ecosystem will give banks access to continuous streams of information and fuel the hyper-personalisation of products and services.

Data-powered recommendation engines are delivering results in the SME lending market and deploying them will enable banks to proactively service SME customers' financing needs.

THE LONG GAME

3 Give your teams the tools to continuously improve customer experience.

Take a bold new approach to technology deployment. Empower non-technical teams to innovate by implementing no-code development frameworks.

Fintech challengers have a clear advantage over incumbent SME banks: they can build modern platforms from scratch, unburdened by legacy. With that comes the ability to develop and launch new products and services quickly and frequently. To compete in a constantly evolving landscape, traditional banks will have to build the capabilities to maintain an equally rapid pace of innovation, with new features delivered in a matter of weeks, rather than months or years. Doing this will require a new approach to technology, a willingness to open up access to innovation tools for non-technical teams, and the creation of safe IT environments for cross-functional teams to test, learn and launch at speed.

Embrace Transformative Technology

There are now sophisticated technology solutions in the market capable of

fundamentally transforming banks' approaches to IT. For incumbents, this means it is possible to launch and run digital products and journeys alongside their core systems: they can open up the wealth of innovation opportunities surrounding data integration enabled by API gateways with no massive system overhauls required. Tapping into these new solutions would also enable banks to embrace DevOps practices, with continuous delivery and integration cutting time to market for new products and features.²⁹

Using no-code frameworks can lead to cuts in development costs of up to

75%

representing significant savings for banks struggling with tight IT budgets.

Open Up Innovation with No-Code Frameworks

Banks should make innovation more inclusive and open up access to the tools needed to drive digital transformation to non-technical teams. This is easily achieved, thanks to the emergence of low-to-no-code app development platforms that use visual builders to make the creation of new products or customer journeys a simple and speedy

process. Dutch co-operative Rabobank has successfully used a low-code platform to bring together non-technical teams and '**business-oriented developers**' to build an online banking portal for over 500,000 corporate customers.³⁰ By embracing intuitive self-service product and journey builders, banks will be in a position to harness the domain expertise of their SME banking teams and channel it into the development of new and innovative service offerings that respond to evolving market demands. In addition to getting new products to market faster, there are also considerable financial benefits: using no-code frameworks can lead to cuts in development costs of up to 75%, representing significant savings for banks struggling with tight IT budgets.

Create Innovation Studios for Cross-Functional Teams

Across the globe, the giants of financial services are founding in-house innovation labs to solve the sector's greatest challenges.³¹ In the race to digitise lending, for example, the leaders have built cross-functional teams and equipped them with the tools and decision-making authority to deliver innovative products in a safe IT environment. ING, for example, has organised its teams into multi-disciplinary '**squads**' to boost its agile transformation³², while Danske Bank has reoriented how it undertakes development around cross-functional teams.³³ Bringing employees from business, risk, IT and operations together around "**innovation studios**" allows banks to overcome the

challenges of organisational silos and foster the kind of collaboration that: balances customer and business objectives with risk control; makes rapid iteration through agile test-and-learn possible; and ensures a continued focus on improving customer experience and cutting time to market.³⁴

Traditional banks will only be able to keep up with the rate of change in the SME market by committing to building the capacity to continuously improve customer experience and increase their speed of innovation. Taking a new approach to technology deployment, making innovation more inclusive, and creating spaces for employees with varied skillsets to come together and innovate will form a solid foundation for banks to achieve this aim.

The Quick Take

Banks can run end-to-end digital journeys alongside their legacy systems and seize opportunities around API-enabled innovation and DevOps practices.

Low-to-no-code frameworks give non-technical teams the tools to create and launch digital products and journeys, cutting down on development costs and time-to-market.

Cross-functional teams equipped with these tools can drive culture change and digital transformation while delivering for the customer.

4 Get connected for the future built around ecosystems.

Embrace API-enabled platforms to achieve the connectivity needed to thrive in the ecosystem-based future.

Many now believe that the future of SME banking will be built around ecosystems: banks will move beyond a purely product-oriented approach and work alongside partner firms to offer a broader range of services aimed at helping SMEs manage their businesses.³⁵ Given the increasing competition in the SME banking market, building out a more comprehensive offering around relevant value-added services is seen as a way of securing a bank's position at the centre of their customer's world.

SMEs Want More: The Opportunity for Value-Added Services

As we've seen, research shows that SMEs are increasingly looking for easier ways to manage their businesses. Many banks recognise their current offerings do not meet their customers' evolving needs, and so building an integrated platform that brings together a broad range of services is seen as the right response. An executive leading the roll out of a global bank's SME ecosystem strategy explained that their focus was on tackling problems that fall outside the boundaries of traditional banking:

“It doesn’t matter what it is - SMEs want the end-to-end problem solved for them. They want someone to bolt the whole thing of running their business together for them, because they’re already juggling a lot of balls.”

20%

say they would be happy to pay an additional monthly fee for value-added services.³⁶

This view is supported by recent research. In the UK, for example, 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.³⁶ This obviously represents a significant revenue generating opportunity in its own right (an extra £8.5bn for UK banks, by one estimate³⁷), but it also offers a strategic response to the growing threat posed by new entrants to the SME banking sector. The same executive expressed this view clearly:

“We believe that as the battle for the customer relationship becomes more intense, the ability to solve customer problems becomes more important. So, the question is, how do you become more able to service that broader need set? The answer is, ‘build an ecosystem’.”

The Route to Building an SME Ecosystem

“Being able to seamlessly connect with your accounting software, update tax returns, access legal advice – this is where most banks say they want to be”

SME executive at a multinational bank.

There are several approaches banks pursuing an ecosystem strategy can take, but, based on the market research, 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.³⁸ For example, HSBC has partnered with Tradeshift to create an integrated platform to manage procurement, accounts payable, supply chain finance and settlement.³⁹ Expanding beyond core financial products is a way of providing services SMEs want, as well as protecting against fintechs and digital players moving into banks' traditional domain.⁴⁰

Of course, there are opportunities to target nonbanking adjacencies, too, in areas such as business process outsourcing and cyber security,⁴¹ though these might initially strike some as unusual. Santander, for example, has launched a platform to create a digital ecosystem of non-financial services with its Trade Portal.⁴² Offered to SME customers across 15 countries, the portal, along the Trade Club network, aims to connect SMEs with opportunities for international expansion. One executive interviewed outlined an ambitious and wide-ranging approach to ecosystem development:

“We’re mapping out what SMEs are spending most of their time and money on and asking, what does that landscape of provision look like? From there we’re developing plans to buy, partner or build across the board. We want to get more intelligence and control in those key areas.”

In either case, for banks with significant market share in core financial products, moving into adjacencies is an opportunity to capitalise on a strong market position and extend new services to customers. For many, the fastest route to success lies in partnering to deliver the non-financial services demanded by SMEs. As one interviewee noted:

“Partnerships are critical. It’s about being able to leverage the best in breed out there. We’re going to be good at what the bank is good at, and we’re going to work with

who is best in breed to deliver that holistic experience.”

But before banks can tap the potential of partnerships to deliver a holistic experience aimed at better serving SMEs’ needs, they have to ensure the right infrastructure is in place.

Connectivity is the Key

Offering value-added services to customers marks a significant change in the SME banking business model, and this will also require deep cultural change: banks will have to look beyond the boundaries of their organisations to forge partnerships with the providers who can help them meet their customers’ broader needs.⁴³ In this partnership building process, connectivity will be essential. Banks will need the ability to connect with interlinked 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.

Fortunately, this can be achieved without any major overhauls of legacy systems, as API-enabled platforms can work seamlessly alongside existing IT estates: API gateways can securely and automatically expose internal data while managing access for external

providers. The solutions that can give banks the connectivity to build an ecosystem of third-party service providers around an integrated customer platform are readily available in the market. All that is left, then, is for banks to take decisive action.

Banks Have the Upper Hand (if they act now)

Banks enjoy strong trust-based customer relationships.

55%

of SMEs have a high level of trust in
their main bank compared to

25%

in the banking industry generally.⁴⁴

Building ecosystems is not the sole preserve of tech companies. Banks are well positioned to expand beyond the established boundaries of the sector into adjacent businesses to provide value-added services to their customers. In fact, they have a number of distinct advantages over other would-be ecosystem builders. Firstly, they enjoy strong trust-based customer relationships: in the UK, for example, 55% of SMEs have a high level of trust in their main bank compared to 25% in the banking industry generally.⁴⁴ Secondly, they sit on rich stores of transactional data that yield real insight

into companies' behaviour. Thirdly, the kinds of services they can provide to SMEs are in demand. And finally, they have the financial capacity to invest in ecosystem development.⁴⁵ This does not mean banks should be complacent, however, as these advantages will not last forever. Open banking requirements will undermine banks' hold on their proprietary data, and some big tech players, as well as fintechs, have begun to rank higher in terms of image and trust.⁴⁶

Yet banks that do begin to take the necessary steps toward building an ecosystem now stand to gain substantially in the longer term, with rewards including deeper customer relationships and new revenue streams.

The Quick Take

Many SME banks are adopting an ecosystem-based strategy for the future: this will see them offer value-added services to customers through integrated platforms.

Banks can become active partners in helping SMEs manage their businesses, much as insurers are building ecosystems to become active managers of their customers' risks.

Connectivity is the key to a successful ecosystem strategy, so banks should embrace the use of API-enabled platforms

Conclusion

Conclusion

For too long, SMEs have been underserved: poor product-fit, complexity and friction, and long delays to accessing finance have created a window of opportunity for digital challengers to disrupt the market. But this new threat has had the positive effect of sharpening banks' focus on digital transformation. Legacy systems and culture are still a drag on digital innovation, but with the right technology banks can make rapid progress.

Hyper-personalised products and journeys that are driven by data and powered by automation can now be launched in weeks. Delivering simple and streamlined customer experiences, they're traditional banks' best defence against digital challengers in the near term. And by giving their non-technical teams the tools to enable continuous innovation, banks won't have to worry about slipping behind.

We've shown it's possible to meet new threats in the market while taking action to ensure relevance in the future. By recognising the diversity in the SME market, forward-looking banks can map out a route to a future defined by ecosystems providing value added services. There are untapped revenues in the unmet and evolving needs of SMEs, and by enhancing their connectivity banks can unlock them.

So the challenge for SME banking leaders is clear: can they defend their market share against neobanks and align with the ecosystem-based future? We believe they can. By taking the 4 steps to future-fit SME banking, they can tackle today's threats and seize tomorrow's opportunities.

References

1. European Commission, 2019, Annual Report on European SMEs 2018/2019
2. McKinsey, 2019, Beyond banking: How banks can use ecosystems to win in the SME market
3. Efma and Axis Corporate, 2015, Next Generation SME Banking: The future of SME revenue growth in the digitalization era
4. International Finance Corporation (World Bank Group), 2019, Banking on SMEs: Trends and Challenges
5. International Finance Corporation (World Bank Group), 2019, Banking on SMEs: Trends and Challenges
6. [International Finance Magazine, 15 January, 2019, 'Digitising the banking experience for SMEs'](#)
7. ECB, Survey on the Access to Finance of Enterprises in the euro area – April to September 2019
8. BVA BDRC, March 2019, SME Finance Monitor
9. EY, 2018, The Future of SME Banking
10. [McKinsey, 2018, 'The lending revolution: how digital credit is changing banks from the inside'](#)
11. Accenture, 2019, Finding the Balance: the forces at play in UK commercial banking
12. Accenture, 2019, Finding the Balance: the forces at play in UK commercial banking
13. EY, 2018, The Future of SME Banking
14. Accenture, 2019, Finding the Balance: the forces at play in UK commercial banking
15. [BBVA Press Release, 21 Oct, 2019](#)
16. Efma, July 2019, 'Banking Innovation of the Month'
17. [McKinsey, 2018, 'The lending revolution: how digital credit is changing banks from the inside'](#)
18. [McKinsey, 2018, 'The lending revolution: how digital credit is changing banks from the inside'](#)
19. [Finextra, 14 August 2019, 'Barclays releases £100,000 for unsecured SME lending through app and online banking'](#)
20. [McKinsey, 2018, 'The lending revolution: how digital credit is changing banks from the inside'](#)
21. [McKinsey, 2018, 'The lending revolution: how digital credit is changing banks from the inside'](#)
22. ING, 24 Oct. 2017, 'ING expands instant lending to SMEs in France and Italy'

23. International Finance Corporation (World Bank Group), 2019, Banking on SMEs: Trends and Challenges
24. [McKinsey, 2018, 'The lending revolution: how digital credit is changing banks from the inside'](#)
25. [McKinsey, 2019, 'Ten lessons for building a winning retail and small-business- digital lending franchise'](#)
26. [McKinsey, 2018b, 'Using data to unlock the potential of an SME and mid-corporate franchise'](#)
27. [McKinsey, 2018b, 'Using data to unlock the potential of an SME and mid-corporate franchise'](#)
28. [McKinsey, 2018b, 'Using data to unlock the potential of an SME and mid-corporate franchise'](#)
29. McKinsey, 2019, Beyond banking: How banks can use ecosystems to win in the SME market
30. [Finextra, 16 January 2020, 'Rabobank applies low code platform to rebuild Treasury portal'](#)
31. [CB Insights, '37 Corporate Innovation Labs in Finance'](#)
32. [McKinsey, January 2017, 'ING's agile transformation'](#)
33. [Deloitte, 'Danske Bank improves customer experience faster and gets happier employees with Agile'](#)
34. [McKinsey, 2018, 'The lending revolution: how digital credit is changing banks from the inside'](#)
35. EY, 2018, The Future of SME Banking
36. Accenture, 2016, SME Banking 2020 – changing the conversation (and capturing the rewards)
37. Accenture, 2016, SME Banking 2020 – changing the conversation (and capturing the rewards)
38. [McKinsey, 2018a, 'Six digital growth strategies for banks'](#)
39. [HSBC Press Release, 30 March 2017, 'HSBC and Tradeshift join forces to revolutionise working capital financing'](#)
40. [McKinsey, 2018a, 'Six digital growth strategies for banks'](#)
41. [McKinsey, 2018a, 'Six digital growth strategies for banks'](#)
42. [McKinsey, 2019, Beyond banking: How banks can use ecosystems to win in the SME market](#)
43. McKinsey, 2019, Beyond banking: How banks can use ecosystems to win in the SME market
44. BVA BDRC, March 2019, SME Finance Monitor
45. McKinsey, 2019, Beyond banking: How banks can use ecosystems to win in the SME market
46. McKinsey, 2019, Beyond banking: How banks can use ecosystems to win in the SME market

FintechOS can help you



FintechOS can help you

FintechOS can help you redesign SME BANKING SOLUTIONS around your SME customers.

GROW YOUR BUSINESS AND DO DIGITAL BETTER.

- ✓ Launch Products Faster
- ✓ Shift from bank to business partner - 360* view on SME customers
- ✓ Go from Product to Customer-Centric
- ✓ Cut Operating Costs
- ✓ Open Up Innovation
- ✓ Tap into advanced analytics and ML features, cloud based or on premise
- ✓ Ensure Security and compliance

FINTECHOS BELIEVES IN CHANGING THE WAY PEOPLE ENGAGE WITH FINANCIAL TECHNOLOGY.

The company's centrepiece technology, FintechOS 20, puts automation and personalisation at the heart of innovation, allowing banks companies to transform the digital customer experience quickly and affordably.

The FintechOS portfolio of global clients includes ERSTE, Vienna Insurance Group, Orange Money, Hyperion Group, TBI Bank, Transylvania Bank and Idea Bank.

For more information, please visit:

www.fintechos.com

We've worked with leading banks and insurers to hyper-personalise the customer experience, digitising and automating everything from onboarding and KYC to loans and claims.

TAKE A LOOK AT SOME OF OUR REFERENCES AND SEE WHAT WE'VE ACHIEVED TOGETHER.

Idea Bank

a specialist in retail and SMB banking, is using FintechOS technology to reshape their end customer experience and reduce time to money, allowing non-technical staff to take advantage of powerful low-code, omnichannel tools.

100% DIGITAL ONBOARDING SOLUTION. OMNICHANNEL.

100% DIGITAL LENDING SOLUTION.

300% CREDIT PORTFOLIO INCREASE.

50% INCREASED PRODUCTIVITY AND OPERATIONAL EFFICIENCY.

99% REDUCED TIME TO YES FOR OVER 40% OF CLIENTS.

TBI Bank

accelerates digital transformation by implementing FintechOS' cutting edge omnichannel lending platform.

100% DIGITAL LENDING SOLUTION. OMNICHANNEL.

TIME TO MONEY FOR NEW CLIENTS DECREASED TO 15 MINUTES.

50% DECREASED SALES CYCLE TIME.

ENHANCED CUSTOMER ENGAGEMENT.

SEAMLESS SYNCHRONIZATION OF MULTIPLE SYSTEMS THROUGH OPEN APIs.