



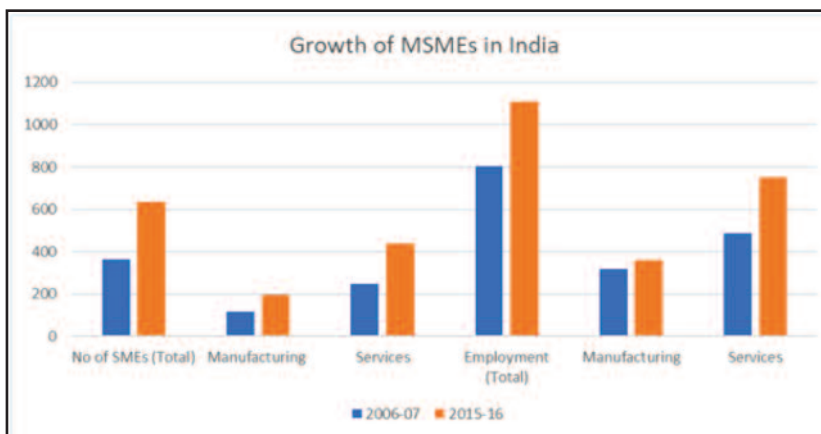
# The Big Small: SME

## Big Opportunity for Banks

**Sudhir Nikharge**

'SME' is the new buzz word in the town, not only in India but in many parts of the world. Governments are pushing Financial Institutions (FIs) to reach out to SMEs /MSMEs to make credit available to them. Under 'Vision 2030', Saudi Arabia has launched various programmes to boost SME loan-book to 35 percent from the current two percent. Similar to the 'Mudra' programme in India, Saudi has launched 'Kafalah', a Loan Guarantee Programme, while Malaysia launched an 'SME Masterplan' to focus on boosting SME Businesses. Similarly, various SME initiatives are being launched in different countries.

**Graph 1: Growth of SMEs in India**



Source: Annual Report 2017-18, Government of India Ministry of Micro, Small and Medium Enterprises

Coming back to SMEs in India, SMEs constitute 95 percent of the total Industrial Units in the country and provide employment to over 40 percent of the workforce. Noticeably the SME sector is in the limelight! To ensure that SME sector is getting requisite support, the Government is creating a lot of conducive infrastructure by making necessary changes to the legal / policy

framework, launching skill development programmes and easing out access to credit / access to information. Such initiatives have accelerated the SME growth in India, registering CAGR of 6.43 percent. Growth in SME has an obvious impact on financial institutions. The SME Lending Book is growing at 15 percent year-on-year.

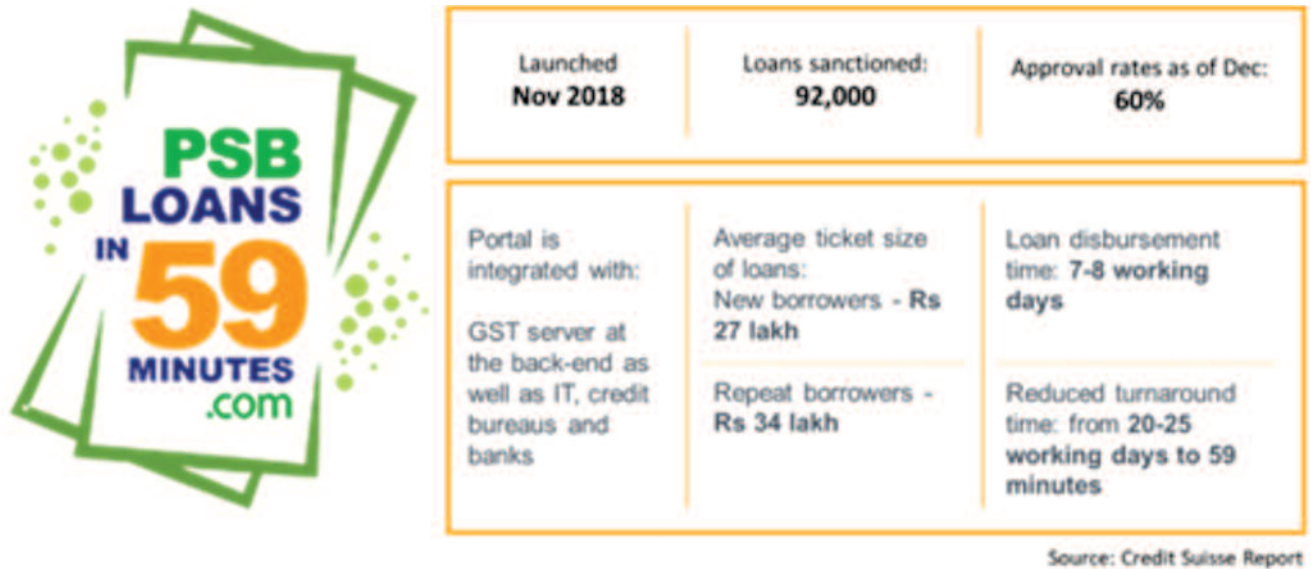
In a significant step to ease access to credit, the Government has launched 'PSBLoansin59minutes.com' whereby loans are approved in 59 minutes flat. This platform is integrated with GST Network, Income Tax

Department, Credit Bureaus, and Banks for Statements and Fraud Management Systems for completely automated credit appraisal and decision process. Since its launch, this platform has clocked loan approvals of 300 Billion INR (4.2 Billion USD), and disbursement is estimated at around 250 Billion INR (3.5 Billion USD).

### Is growth sustainable?

Is this wave temporary? I don't think so. India as a country still lags way behind a lot of other countries in the race of SME contribution to GDP. (In India SME's contribution to GDP is at 8 percent against an average of GDP contribution of 12 countries listed in graph 1 is around 48 percent). Similarly, if we look at the employment by the SME sector, the average of the same 12 countries is around 60 percent whereas India is still at about 40 percent. Even if India sustains the current growth rate, it will take us a decade to be at par with the global average, which means SME business will be in focus at least for another decade, if not more.

**Figure 1**



**Are banks prepared to cater to the needs of SMEs?**

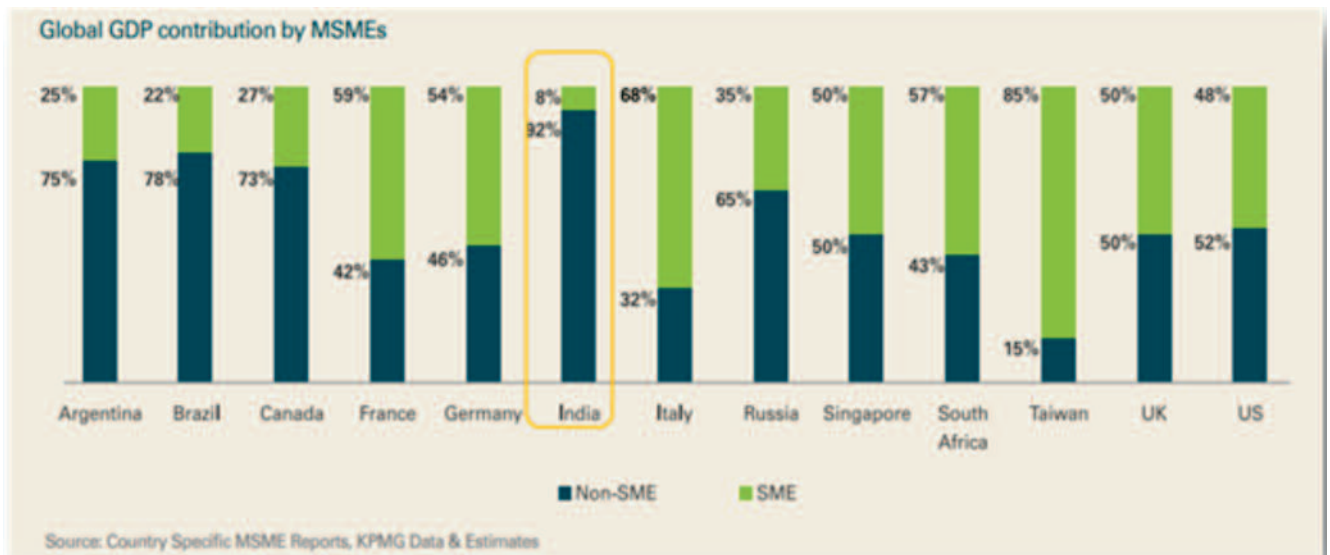
While we agree on the growth perspective of this sector, let us see how prepared our banks are to cater to the needs of SMEs. Conventionally, Banks have always focused on two major segments, Retail and Corporate. Therefore, if we look at the way banks are organised from an Operations, Product or Servicing point of view – by design, most of the Banks cater to only Retail and Corporate. To cite an example, most of the Banks will have only two major segments or lines of business in their core banking system. All accounts will be either Personal Banking (PB) Accounts or Corporate Banking (CB) Accounts. Similarly, from a channels point of view, there will be Internet / Mobile for

Retail and Corporate segments. SMEs are usually in ‘NO MAN’S LAND’. Some banks try to accommodate them into the retail business, while some push them to use corporate business. There are very few banks that have SME Banking / Business Banking as a separate line of business.

**So, what is so special about SME? What Banks need to do to service SMEs more efficiently?**

As we look at most of the graphs, we understand that SMEs have a wide range of businesses, right from sole proprietors, partnership firms to limited companies. They are engaged in multiple types of businesses like

**Graph 2**



**Figure 2**

manufacturing, trading and services. This further gets segregated into varied industries and sectors. This wide variety of elements makes this segment unique. Apart from access to credit, these SMEs have very specific needs, and Banks can play a key role in addressing these needs.

### Help them to get started

Though people may have the requisite skills to start a business when it comes to know-how about how to start a business, many of them face roadblocks. They need a helping hand whom they can trust – and who else than their trusted Banks to give them the required support. Banks can take this opportunity to engage with SMEs even before they become their customers and hand-hold them through the process of setting up.

A few leading banks (in the USA / Middle East) have created SME Resource Portals which provide information about every aspect of the business from creation of business plan, easy understanding of policies and procedures to start a business, creating marketing plans, managing the HR Function to arranging finances and tools required for managing business functions and networking with trade partners for import / export. These portals also include information about Government Schemes, their eligibility criteria as well as simulation tools for SMEs to do self-assessment.

### Create products specifically for SMEs

Most banks offer commoditised products to SMEs. They do not go beyond Current Accounts and Current Accounts with Overdraft / Cash Credit and regular loan products for capital expenditure or working capital financing. Banks need to now look at the products based on the various factors and re-invent their product strategy. For early-stage businesses as an example, Banks can create Entrepreneur Accounts with certain freebies; Business Advantage accounts for more SMEs who are already in business for some time, with Overdraft facility or e-Business Accounts with Nodal Accounts for SMEs in e-Commerce space.

### Ease the onboarding process

In most cases, the onboarding process is complicated and lengthy. Banks need to tweak the digital ecosystem to simplify and shorten the onboarding process. I am sure if the Government can create a platform to approve a loan within 59 minutes, then a customer can be onboarded in similar time, if not lesser (*assuming the complexities involved in on-boarding a company and the bank requiring company information, address proofs, KYC of the directors, board resolution to open the account and so on*).

If the section of your customer is not tech-savvy, the Bank should look at having a hybrid approach where primary

information is captured through self-onboarding and concluded by Business Correspondents / Agents using by offering assisted onboarding (*including verifications processes*).

### **Help the customer to choose the right product**

If the Bank decides to create SME Centric products, it is imperative for the Bank to help their customers choose the right products. During and after onboarding, the bank can provide an interactive AI based tool to prompt the customer in replying to certain questions, ascertaining their needs to suggest suitable products.

### **Provide access to credit beyond conventional lending products**

Though the Government is easing out the access to credit, SMEs may sometime find it difficult to access the credit for various reasons. In such cases, Banks need to be either innovative or resourceful to cater to SMEs credit needs. Some progressive banks have created innovative solutions for supply-chain financing and working-capital financing.

On the other hand, inventive banks have collaborated with FinTech partners to offer solutions to SME's financing needs. Many FinTech / private investors are willing to take assets on their books, but they need a customer base. In the wake of asset quality monitoring, the bank may not be willing to book risky assets on their books. In such cases, customers are deprived of credit. Banks take this opportunity to bring together Fintechs and SMEs to create a 'win-win-win' situation for all.

### **Offer comprehensive banking services**

There are many Banks who are offering credit facility to SMEs under Government Schemes / Mandates. However, if the bank offering credit is not the primary bank for transaction banking relationship, post disbursement all the money will be swept out to Primary Bank of the SME.

Such banks are losing out on the opportunity to enjoy the float as well as earn fee income from transaction banking service. Hence, the Banks who are offering credit need to figure out the strategy to retain the float.

One of the private sector banks created a product whereby SMEs were offered Salary Payment product by which they acquired all employee accounts. This product had ensured that even after salary disbursements, the Bank managed to keep the float for a few more days (until the employee spent his money). Though this example is not directly related to credit, it underlines the strategy of maximising the float.



### **Become a one-stop-shop for SME needs**

Banks should identify the needs of their SME customers and ensure that they are being catered to. Some of those services may not fall under the direct purview of the Banking Services, but Banks can extend themselves, tie up with third party service providers and offer a bouquet of services to SMEs. For example, in GST filing, the Bank may not have a direct solution offering but can partner with a Tax Filing Services Provider or ASPs for GST related services. This will help the Bank to create a stronger bond with their SME customers.

### **Create a separate channel for SMEs**

As discussed above, SMEs are usually in 'NO MAN'S LAND'. Based on the convenience of the Bank or size of the SME, they are either pushed to use retail banking channels or accommodated into corporate banking platform. SMEs, however, have specific needs when it comes to channels.

Let us understand the requirements of SMEs for a separate channel:

- *Single channel platform for personal and business relationships:* Most of the MSMEs have their personal banking and business relationship with the same bank. They dislike using different CIFs / User IDs or even worst, different platforms, for personal banking and business banking. SMEs prefer a single channel to access their personal and business relationships. The challenge for Banks is to tackle the problem of multiple channels for the same person in different roles and to maintain consistency of experience across all touch points.
- *Replicating SME structure / operations:* Depending on the size and type of the SME (single-user sole proprietor, multi-user sole proprietor, partnership firms, limited companies), they may have different needs for providing access to information and approval authorities (especially for financial transactions). The channel platform should be able to cater to various access rights as well as approval right scenarios. Just to give you an example – Multi-user Sole Proprietorship firms have a unique requirement. If a transaction is created by an accountant, it requires the owner's approval. However, if the transaction is created by the owner, it does not require any approval.

- *Integration with ERP / AR-AP Solutions:* With several mini-ERPs, hosted ERP Solutions and sophisticated AR – AP solutions, SMEs are also looking for direct integration between their applications and bank's systems. These can be achieved by integrating with popular ERP / AR-AP solutions or offering API Banking. Such automation will help the SMEs to reduce their overheads on banking services.
- *A self-service platform for SMEs:* SMEs need access to products / services specifically designed for them, like a supermarket would need physical point of sale (POS) Machines and all services around POS Solution (POS application, POS Statements, ability to raise disputes, reporting POS issues etc). Likewise, if the SME is an online retailer, their needs would be completely different.
- *Mobility:* In today's world, mobility is an integral part of any channel strategy. One needs to understand that mobile is a very powerful channel and the Banks should use it effectively. In the name of omnichannel, Banks try to replicate IB Application on Mobile and in many cases this strategy backfires. Large forms (Trade Finance) or processing heavy functions like bulk payments or historical statement downloads are not suitable for mobile. Mobile is meant of quick actions, notifications, reporting, single payment, scan and pay, service requests, approvals etc.

Banks should look at how mobile devices can be used by merchants to replace physical POS. The focus should be on what mobile suitable functions can be integrated with the mobile banking application instead of loading mobile with everything.

- *Focus on customer experience:* Today, SME customers are exposed to the best-of-breed digital solutions offered by Fintech, Government Agencies and technology giants such as Google, Apple, Amazon and Facebook. This has raised the bar in terms of customer experience. Hence, the Banks will have to focus on creating seamless customer experience across channels created for SMEs.
- *Scalability to cater to the needs of growing businesses:* As SMEs grow, their needs become more complex. Once they start exporting / importing goods, they require trade instruments, while to settle their trade obligations, they may need Forex. The channel platform selected by the bank should be scalable to cater to the future needs of their growing businesses.
- *Open platform:* With digital infrastructure created by the Government and FinTech ecosystems, it is important

that banks are able to leverage it wisely. For this, they need to look at channel platforms based on an open architecture that can integrate various external services and offer them to the customer through a single channel. There are the banks that are toying with the idea of providing hosted ERP / CRM solution for SMEs, which can use these business tools based on the subscription model.

- *Thinking beyond Banking:* SMEs are always looking for avenues to increase their business footprint. Banks with their large SME customer base can create SME Networks and allow them to tap on each other's businesses. Banks can create the forum for SMEs to connect, spell out their needs, push their products and services and create campaigns / promotions for other SMEs / other customer segments. This will help the bank to engage with SMEs beyond banking services and create a strong network amongst its customers.

To summarise, in India (and in many parts of the world), the burgeoning SME movement is catching speed very fast, and it will be a long journey before it reaches a plateau. The atmosphere is conducive; things are falling in the right places to strengthen and sustain this SME Movement. The Government is creating policies / infrastructure to support SMEs; social initiatives are undertaken to encourage entrepreneurship and access to technology and credit is becoming simpler. This offers an incredible opportunity for Banks to leverage the ecosystem created for SMEs and create a strong value-proposition for this emerging segment. The opportunity here is to create a complete value chain to support SMEs throughout their life-cycle and grow with them.

#### About the Author



**Sudhir Nikharge** is working as a VP, Presales & Product Marketing at Clayfin. Prior to Clayfin he has worked with SunTec, CashTech Solutions (now Finastra), Polaris (now Intellect) and S1 Corporation (now ACI) in various roles such as business analyst, product manager and in presales.

He has over 20 years of experience in the industry and has worked in areas like Cash Management Operations, Product Management, Customer Engagement and Presales. He has contributed various white papers and articles on topics like Payments, Cash Management, Revenue Management, Customer Centricity and Enterprise Sales. He has also assisted banks to evangelise the revenue management business, build business cases and define target operating models.

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