



# Bank of the profitable SME base

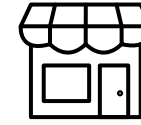
Extracted from Accenture research, this guide aims to help commercial banks serve the SME market effectively, efficiently and profitably

accenture

# Finding the sweet spot between heroic service and bank profitability

In the COVID-19 economy, businesses need banks like never before.

It is an opportunity for commercial banks to do good—be personal partners to the most viable small and medium enterprises (SMEs) and succeed together with them. This guidebook draws on our recent global survey of commercial bank executives and 1,300 small to medium enterprises, to offer actionable advice for banks seeking to do the right things for their customers. It includes recommendations that can save the bank money and increase margins.



SMEs continue to be the backbone of most countries' economies around the world. They represent an extremely large and highly diverse customer segment with tremendous profit and growth potential for banks. Across core countries in Europe, for example, SMEs account for 20% of total bank loans or roughly €102 billion (US\$121 billion) in revenue.



Yet, many banks have struggled to attract, retain and serve SMEs while also satisfying their shareholders; most have seen a drop in their pre-tax return on equity for the SME segment. Our analysis shows that only 30% of large banks are achieving sustainable positive returns in their commercial banking units.



Banks' primary hurdles to profitability in the SME segment? Compressed margins, high cost to serve, ineffective segmentation criteria and mismatch of services to SME needs. Although not surprising, these hurdles are being emphasized and, in some cases, amplified by COVID-19's economic impact.

To address the hurdles profitably and meet SME needs in today's context, we believe winning commercial banks will refine the way they present and execute key traits. Banks must be more empathetic, responsive, focused and efficient—all enabled by five core strategy, technology and data levers we've identified, as shown in Figure 1.

Below are our key survey findings that relate to these winning characteristics and how they can help banks profitably support and serve the SME market.

**Figure 1. Four key traits of a winning digital commercial bank**

**1. Empathetic**

- Proactive and pre-emptive
- Fair at all times
- Trusted
- Forward-looking

**3. Focused**

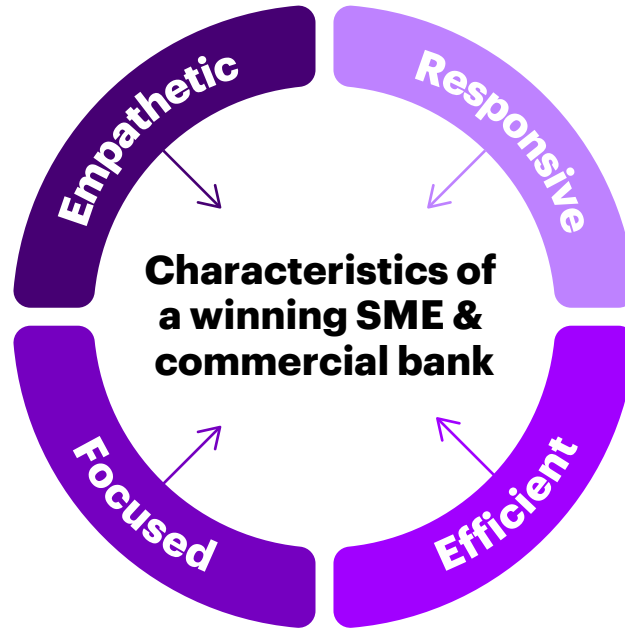
- Value-obsessed
- Seamless in delivering enhanced propositions
- Hyper-personalized, hyper-relevant

**2. Responsive**

- Deep customer understanding
- Active customer engagement and feedback
- Proposition flexibility
- Affordable innovation coupled with operational agility

**4. Efficient**

- Accelerated technology transformation
- Data-driven operating model
- AI, machine learning, intelligent automation and cloud tooling
- Third-party activation and integration



**“The SME segment is too important and strategic for the bank to ignore...any perception that our bank does not support SMEs might have long-lasting negative repercussions.”**

Large European Bank

**Five core strategy, tech and data levers**



**Relevant proposition underpinned by clear purpose**



**Technology transformation powered by next-generation platforms, cloud, AI and intelligent automation**



**Data-driven operating model enabling analytics and data supremacy**



**Openness to capitalize on digital ecosystems and best-of-breed technology & partnerships**



**Empowered bankers, optimizing the potential of “Human + Machine”**

# 01

## Empathetic

A bank that embraces its purpose, puts itself “in the shoes” of its small and medium business clients, and then acts boldly to help them be successful in very authentic and empathetic ways, will win the hearts of SMEs for the long haul.

## An empathetic bank is...

- Proactive and pre-emptive in engaging with its business customers throughout the credit cycle.
- Fair at all times, balancing the need to help businesses while delivering against stakeholder expectations.
- Trusted by being consistent, transparent, customer-centric and purpose-driven—preferably shifting to address businesses' imminent needs.
- Considerate of the COVID-19 context for SMEs and forward-looking to what is required to help SMEs thrive.

# 42%

of SMEs surveyed believe alternative providers can offer a better service than traditional banks.

Empathetic

## Why it matters more now

- Through no fault of their own, half of all SMEs we surveyed in May have seen a significant decrease in sales.<sup>1</sup>
- Bankers we talked to expect 10% to 30% of SMEs to go bankrupt due to the lack of cash flow and disrupted supply chains brought on by COVID-19.
- Banks have not managed to improve SME clients' perceptions of their services, leaving SMEs feeling overlooked in the midst of the crisis.

For example, SME respondents we polled in May downgraded slightly their main bank's digital banking and relationship management (RM) services.

- Failing to provide what SMEs value—our research says it's primarily the availability of digital banking services, transparency and affordability of banking fees, and faster, higher-quality services—leaves space for eager competitors to address SME needs and give them what they want.

- Unlike in the past, when banks had been stable and unchallenged in serving the SME segment (because the hurdles made it tough to enter without a strong model), SME banking is becoming fragmented as alternative lending and new players in FX and supply chain finance gain relevance. More than 4 out of 10 SMEs (42%) believe alternative providers can offer a better service than traditional banks.



## Where it's being done

- Barclays recently launched its Back to Business online toolkit to SMEs in the UK.<sup>2</sup> The platform, developed in partnership with Cambridge Judge Business School, offers business owners an easy-to-follow course on topics ranging from managing cash flow and debt to navigating unexpected business challenges to help entrepreneurs get back on their feet.
- Aspiring to be an empathetic bank, Asia Digital Bank Corporation is teaming with Tencent Cloud to better serve SMEs in Asia with tailored financial solutions and money management tools.<sup>3</sup> It is focusing on inclusive and green finance and on creating a regional flagship digital bank based in Singapore.

**“SME clients will become much more sensitive and will move away from the relationship banking model, as there were too many instances across all banks which made it clear that the assumed ‘two-side loyalty’ simply is not in place. SMEs were left alone and that will be remembered for a long time.”**

Large Global Asian Bank



Empathetic

# 02

## Responsive

A bank that reshapes its segmentation and interaction models can gain a richer understanding of SMEs and can respond to them in more relevant ways by matching its services to their needs. This delivers maximum value to both customers and the bank.



## A responsive bank has...

- A deep understanding of business customers' needs, sensitivities, behaviors and such, beyond traditional segmentation criteria.
- Active client engagement with feedback loops that collaborates with customers to create their best financial solutions.
- Proposition flexibility that shows up in its products, pricing, channels and service models, seamlessly optimizing its offerings.
- Affordable innovation coupled with operational agility to remain relevant and respond much faster to SME needs.

Responsive

**“Acquiring more clients and revenues will be conducted differently after the crisis. Priorities will need to be reviewed as to which clients RMs should go after and what products will in the new normal be standard and profitable. This work has not started yet.”**

Large Financial Institution,  
North America

## Why it matters more now

- Traditional segmentation techniques are no longer effective in meeting the fluid and varying nature of SME customers’ characteristics and needs, making it difficult for RMs to add value to them.
- Across the commercial banking industry, segmentation of SME customers tends to be inconsistent and unclear. It can be typical for small businesses to be served by the retail side of a bank, whereas medium-sized enterprises are directed to the commercial side. We also found that 60% of banks strongly link traditional offerings with their capital market offerings or advisory services.
- The vast majority (85%) of banks we surveyed use revenue as their segmentation basis, sometimes augmented with additional criteria such as loan exposure, deposit and owner’s wealth. The rest use other criteria, such as EBITDA and business debt.
- Such segmentation approaches can lead to underfunding of the segment and rigid strategies that don’t give RMs enough insight to address the varying needs of SME customers.

- The bank’s servicing level depends on the category into which a SME falls. For example, a few bank respondents suggested that small businesses are served digitally or at the branch level, while RMs can cover as many as 200 of them. Bankers indicated that medium businesses are typically served by RMs with a book of approximately 100 customers.

## Where it’s being done

- Bridgeway Capital launched a COVID-19 Response Fund to make patient and responsive capital available to small businesses and non-profits in western Pennsylvania that may not be adequately supported by other economic recovery efforts.<sup>4</sup> The fund offers low-interest loans with flexible payments to entrepreneurs, with preference to small businesses that are owned by minorities, women or veterans.

# 03

## Focused

A bank that is data-driven and automated in the way that it serves SMEs remotely, providing tailored outreach and personalized offers, can focus more on helping businesses emerge stronger after COVID-19.



### **A focused bank is...**

- Obsessed with creating value for both the customer and the bank, drawing on data-driven insights to effectively prioritize scarce resources.
- Able to seamlessly offer enhanced propositions to the most valuable and viable business customers.
- Committed to personalized service, having abandoned its one-size-fits-all mindset to provide the “right” service to its customers.

## Why it matters more now

- The SME segment is a broad market with a wide variety of needs and preferences. For example, 52% of sole traders are satisfied with simple financial products and services, while only 14% of medium-sized SMEs would regard that level of service as adequate.
- The diversity in the SME segment is causing banks in general to miss the mark in understanding and addressing customers' needs. For example, while 62% of SMEs we polled currently receive or would consider receiving access to remote advisory services, banks believe that remote advice is not scalable. Only 25% of SMEs have given a "very good" rating to RMs post COVID-19, possibly because banks' rigid segmentation criteria impede RMs from providing SMEs with the service they want.
- The bottom line? SMEs are either overserved or underserved, which delivers optimal value to neither customers nor banks.

## Where it's being done

- OakNorth Bank has developed a platform that supplements historical data sourced from borrowers with scenario analysis, using technology and massive data sets to model a forward-looking view that's informed by industry benchmarks, macroeconomic drivers and business-specific scenarios. For restaurants, as an example, the platform summarizes qualitative text data, like sentiments expressed in customer reviews and its social media following, and turns that summary into scores which are more readily included in its holistic credit analysis.
- Digital SME lender Lidya offers loans as small as \$150 in Europe and Africa through an easy and inspiring lending process.<sup>5</sup> Its algorithms process nearly 100 data points to assess credit risk—evaluate the businesses, build a credit score unique to each business, and disburse loans in 24 hours or less.

**“Remote advice is not scalable; the only scalable model is creating a resource center to push out information to customers in real time around topics of interest... The bank has all the data internally to customize advice.”**

Large Bank, North America

# 04

## Efficient

A bank that optimizes customer-facing ecosystems, collaborating within a network of interlinked companies, can improve its operating model and drive efficiency.

## An efficient bank prioritizes...

- Acceleration of technology transformation to unload legacy baggage.
- A data-driven operating model to support continuous internal improvements and cost leadership.
- Sophisticated application of relevant AI, machine learning, intelligent automation and cloud tooling.
- Efficient third-party activation and integration to effectively partner for best-in-breed capability.

**“The bank will experience 5% to 10% reduction in FTEs in the coming three years...”**

Large Corporate and Institutional Bank in the UK

## Why it matters more now

- A strong rise in costs (including strategic initiatives, goodwill impairments, technology investments and operating expenses)—8.1% in Europe and 6.3% in growing markets, like Latin America—is contributing to the global decline in commercial banking efficiency.
- Complex, manual processes with data and work redundancies increase banks’ time to respond and keep costs high.
- New and increasing regulatory requirements, such as those for KYC and the Patriot Act, add to the compliance effort and cost.
- The SME customers of the banks we surveyed use, on average, fewer than five banking products each. However, they tend to be needy and, as such, are frequent users of higher-cost channels—particularly branches and RMs.
- RMs typically meet with SMEs in-person and report back to them as much as possible to prevent negative financial outcomes like loan defaults and bankruptcy. Even in post-COVID-19, with RMs working remotely, the traditional RM model will be inefficient for SME customers, particularly for those banks whose RMs have yet to be fully digitally enabled.

Efficient



## Where it's being done

- Top lenders in India are partnering with Google to launch SME lending on the Google Pay for Business app, expected before the end of the year.<sup>6</sup> Banks stand to gain a wider reach of customers and better credit analysis capabilities.
- DBS Bank is partnering with cloud software provider Infor to integrate digital trade financing capabilities into the Infor Nexus global network of more than 68,000 businesses, offering “faster” and “more cost efficient” funding options for SMEs.<sup>7</sup>

**“Banks are eager to improve their competitive positioning by collaborating with the right fintech companies and other partners whenever possible, on an exclusive basis so that their investment pays off.”**

Large Financial Services  
Company in Brazil





# Five enabling levers: How ready are you to pull them?

These traits of a winning commercial bank can be acquired by exercising...

## 1 A relevant value proposition

underpinned by a clear purpose. What is your bank's aim? How does it resonate with customers and their needs, and build their trust in the bank?

## 2 Technology transformation

powered by next-generation platforms, cloud, AI and intelligent automation. Which of your key processes, such as onboarding, KYC and credit decisioning, would return higher payoffs with intelligent tools, automation or direct integration with corporate banking and ERP? How would ruthless and efficient legacy decommissioning boost your bank's efficiency and responsiveness?

## 3 A data-driven operating model

that enables analytics and data supremacy. How well is your bank using data-driven insights and decisioning to focus on right-sizing customer offers and capturing the most value potential?

## 4 Openness to capitalize on digital ecosystems

and best-of-breed technology and partnerships. What new or enhanced capabilities could your bank obtain to help it be more competitive? How might such collaboration accelerate your bank's innovation, reduce operational risk, expand the value chain or monetize existing capabilities?

## 5 Empowered bankers, optimizing the potential of "human + machine."

How might smart tooling, machine augmentation, virtual agents and next-generation outbound automation help your bankers perform more efficiently and be more responsive to customers?

# Starting your journey to be the go-to-bank for SMEs

Banks no longer have to view SME customers as difficult and costly to serve. By using technology innovation to demonstrate greater empathy, responsiveness, focus and efficiency in delivering services, banks can cultivate trusting, mutually-beneficial and highly-profitable partnering relationships with small and medium businesses—at a time when they’re needed most.

Accenture can help. We have the commercial banking experience, insights, skills and capabilities to help banks hone the winning traits and create win-win relationships with SMEs that last.

## Dream big, start small

### Create a vision

Build a cohesive vision that defines the north star and long-term goal

### Get started, now

Start with an achievable investment that has the potential to self-fund the transformation journey

### Build momentum

Manage expectations, beat the plan and broadcast great news stories

## Build a mindset of continuous transformation



### Balanced scorecard

Develop a methodology that allows you to quickly prioritize and track value realization



### Focus on the process

Results will follow; focus on the process of continuous investment to be the winning SME bank



### Self funding

Look for opportunities to self-fund investments across the transformation journey

## Implement broadly

### Breadth

Ensure initiatives have breadth of impact across the business and operating model (data, tech, people, process)

### Balance

Prioritize effectively, balancing quick wins with longer-term plays, understanding interdependency and managing impact on BAU

### Customer obsession

Throughout, maintain discipline and ensure investments in the business all have a customer-centric lens

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