



SME BANKING

With more than half of the world's people and businesses, Asia's prospects are bright if it can harness the energy and ideas of its SME sector. This requires an orientation for banks towards the scale and approaches of SMEs that differ from the traditional corporate sector. These new approaches require that banks establish proper strategies, oversight mechanisms and analytics, while also introducing new products, services and processes to capture this business.

This course will provide an overview of SME strategy development, bank governance and management requirements, customer relationship management and SME-oriented products, financing methods and impact on bank ratios, and credit risk management and scoring systems.



The Major Role of SME

Building and Managing Bank Relationships with SMEs

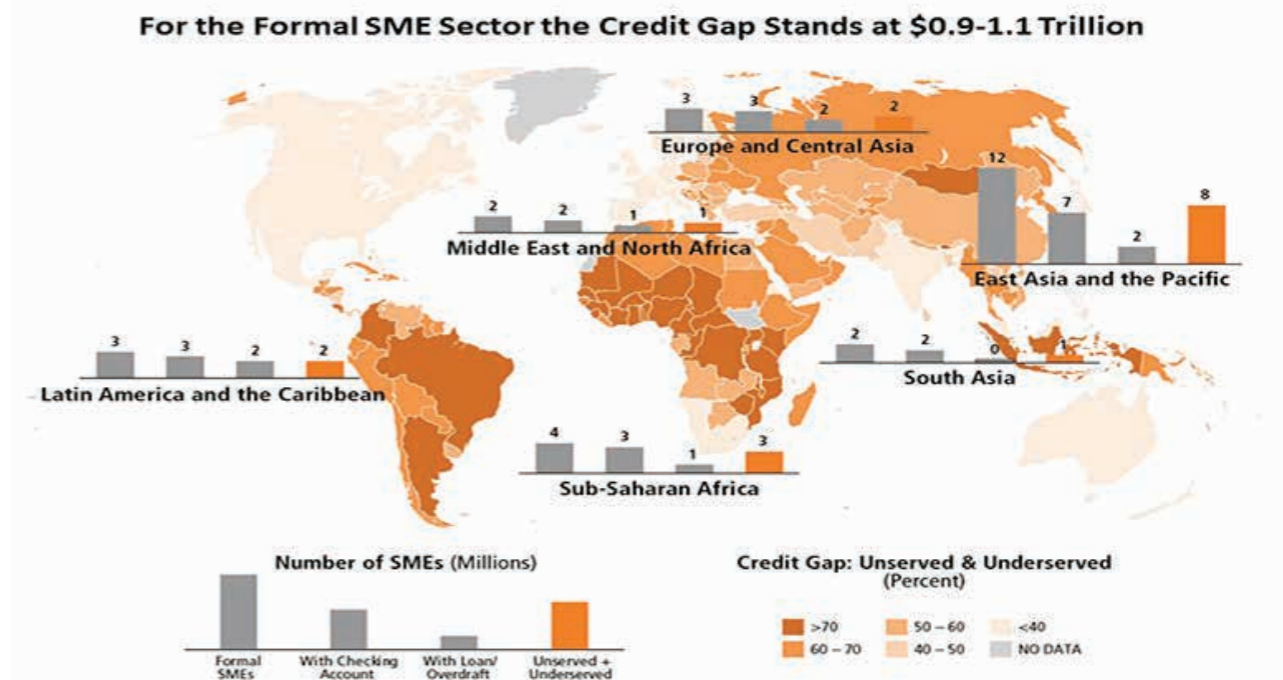
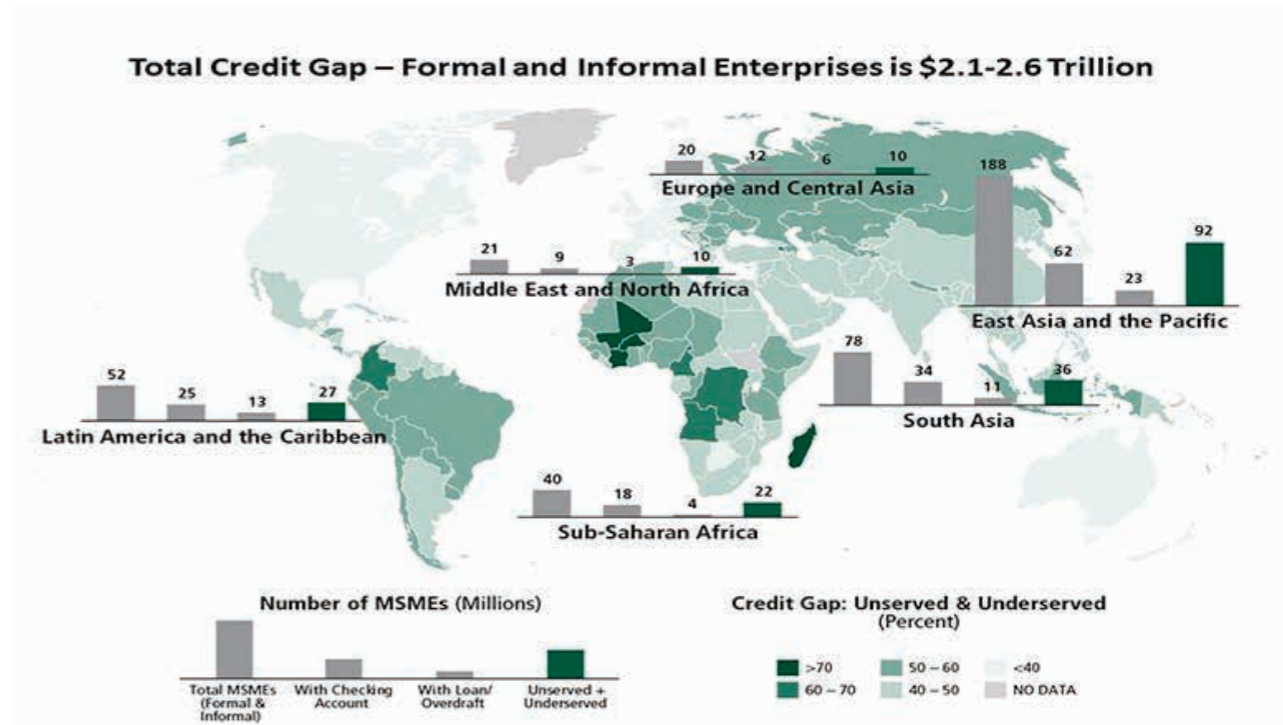
Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. Formal SMEs contribute up to 45 percent of total employment and up to 33 percent of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. According to estimates, 600 million jobs will be needed in the next 15 years to absorb the growing global workforce, mainly in Asia and Sub-Saharan Africa. In emerging markets, most formal jobs are with SMEs, which also create 4 out of 5 new positions. However, access to finance is a key constraint to SME growth; without it, many SMEs languish and stagnate.

SMEs are less likely to be able to secure bank loans than large firms; instead, they rely on internal or "personal" funds to launch and initially run their enterprises. Fifty percent of formal SMEs don't have access to formal credit. The financing gap is even larger when micro and informal enterprises are taken into account. Overall, approximately 70 percent of all MSMEs in emerging markets lack access to credit. While the gap varies considerably between regions, it's particularly wide in Africa and Asia. The current credit gap for formal SMEs is estimated to be US\$1.2 trillion; the total credit gap for both formal and informal SMEs is as high as US\$2.6 trillion.

A World Bank Group study suggests there are between 365-445 million micro, small and medium enterprises (MSMEs) in emerging markets: 25-30 million are formal SMEs; 55-70 million are formal micro enterprises; and 285-345 million are informal enterprises. Moving informal SMEs into the formal sector can have considerable advantages for the SME (for example, better access to credit and government services) and to the overall economy (for example, higher tax revenues, better regulation). Also, improving SMEs' access to finance and finding solutions to unlock sources of capital is crucial to enable this potentially dynamic sector to grow and provide the needed jobs.

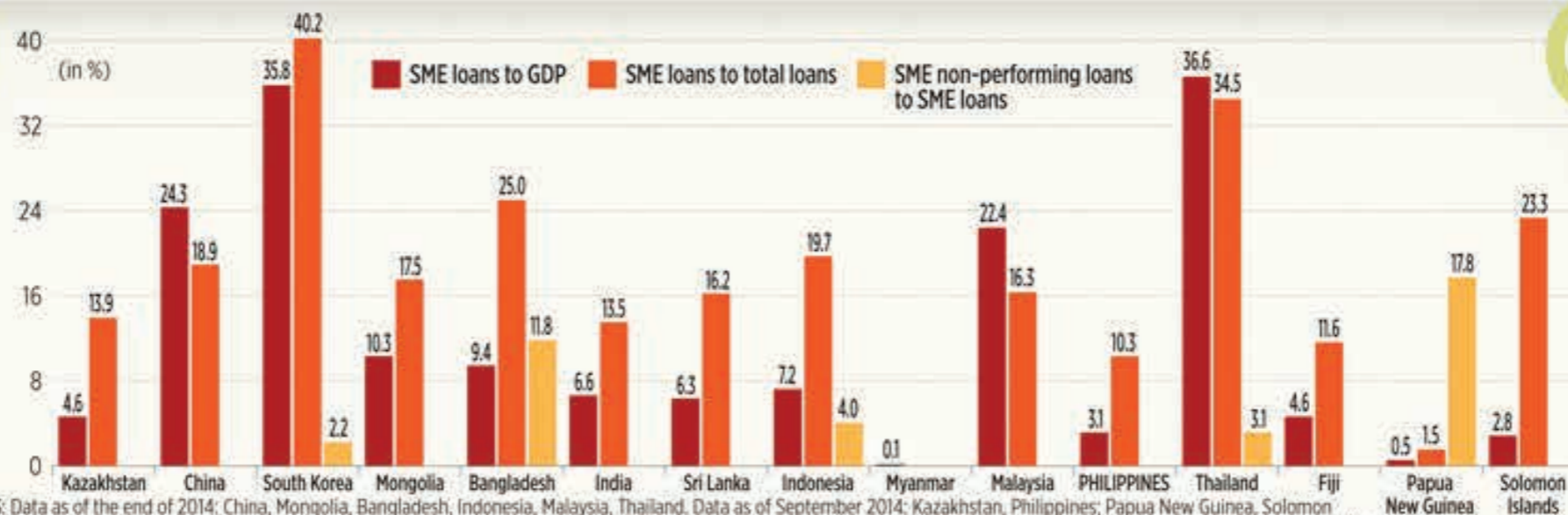
Key Messages

- ✓ 600 million jobs are needed in the next 15 years to absorb a growing global workforce.
- ✓ Most formal jobs in emerging markets are with small and medium enterprises (SMEs), which also create 4 out of 5 new positions.
- ✓ Yet more than 50% of SMEs lack access to finance, which hinders their growth. A key area of our work is improving SMEs' access to finance and finding innovative solutions to unlock sources of capital.





BANK LOANS TO SMEs IN ASIA AND THE PACIFIC



NOTES: Data as of the end of 2014: China, Mongolia, Bangladesh, Indonesia, Malaysia, Thailand. Data as of September 2014: Kazakhstan, Philippines; Papua New Guinea, Solomon Islands. Data as of June 2014: Fiji. Data as of March 2014: India. Data as of 2013: South Korea, Sri Lanka, Myanmar. Data refers to loans outstanding except Kazakhstan and Sri Lanka (loans disbursed). For Sri Lanka, data based on SME loans disbursed by top 13 commercial and development banks. For Myanmar, data based on SME loans by SMI Development Bank. For the Philippines, data based on total funds set aside for MSMEs (mandatory lending; 10%). SME NPLs are calculated as the share to total SME loans, based on the national loan asset classifications. For Bangladesh, the SME NPL ratio refers to the share of borrowers with SME NPLs compared to total SME borrowers. For South Korea, it refers to the share of SME classified loans compared to total SME loans.

Philippines' compliance with SME loans requirement

	2008	2009	2010	2011	2012	2013	2014*
Net loan portfolio (in million pesos)	1,637,533	1,728,628	1,881,139	2,303,436	2,912,347	3,309,653	3,837,922
Min. amount required to be set aside** (in million pesos)	163,753	172,863	188,114	230,344	291,235	330,965	383,792
Total funds set aside for MSMEs (in million pesos)	310,882	309,357	308,554	348,915	387,681	387,030	396,219
Compliance for MSEs (in %)	10.0	9.7	8.5	7.6	6.4	5.6	4.6
Universal and Commercial Banks	7.1	7.1	6.8	5.8	5.3	4.6	3.7
Thrift Banks	16.4	16.1	14.0	16.2	11.3	9.8	7.1
Rural and Cooperative Banks	51.8	41.1	34.1	29.6	22.3	26.0	22.5
Compliance for MEs (in %)	9.0	8.2	7.9	7.6	6.9	6.1	5.7
Universal and Commercial Banks	8.3	7.9	7.7	7.4	6.7	5.9	5.4
Thrift Banks	12.9	8.9	8.6	8.0	7.8	7.0	7.2
Rural and Cooperative Banks	11.4	12.8	12.0	10.5	9.5	11.2	9.0

NOTES: ME = medium-sized enterprise, MSE = micro and small enterprise, SME = small and medium-sized enterprise
*Data as of September 2014 **8% of net loan portfolio to micro and small enterprises and 2% to medium-sized enterprises

SOURCES: ASIAN DEVELOPMENT BANK INTEGRATING SMES INTO GLOBAL VALUE CHAINS: CHALLENGES AND POLICY ACTIONS IN ASIA, ASIA SME FINANCE MONITOR 2014 BUSINESSWORLD GRAPHICS: BONG R. FORTIN



OVERVIEW

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LEARNING OBJECTIVES

- ✓ Be able to establish an active and dynamic SME Banking business within their bank.
- ✓ Be able to identify loan, deposit and fee based products most suited to their respective markets.
- ✓ Identify, within their own markets the SME business segments to focus their marketing efforts.
- ✓ Establish policies, procedures and approaches for gathering industry, business and financial information that streamlines and supports the SME credit applications process.

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COURSE LEADER



Michael Borish is Senior banking consultant with twenty-seven years of experience within the financial service industry, initially as a commercial lender and subsequently as a consultant & training and development specialist. He has worked with some of the world's leading financial institutions including: World Bank, Bank of America, International Finance Corporation, Canada Mortgage & Housing Corporation, and J.E. Austin and Company. He is president of a consultancy firm where he has overseen dozens of projects involving banking assessments, financial sector reform, private sector development, lines of credit for SMEs, and numerous publications. Assignments have included visits to more than 60 countries across the globe, and his key focus has been on credit and problem loan management for SME business.

He has led highly rated public seminars & in-house programs all across Asia Pacific & Middle East, as well as in China, Singapore, India, Australia, Ghana, Kuwait, Mexico, Malaysia, Pakistan, Bangladesh, Philippines, Thailand & Singapore. His ability to educate market players on how to identify and control fraud risks is unsurpassed. His work has been published in more than 15 internationally recognized journals, including the World Bank, Federal Reserve Bank, The Financial Regulator, The Economist, The Wall Street Journal, Europe-Asia Studies, Times Publication and many other sources.

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