

# SME Banking: Financing & Digital Banking



# Critical Points for a Successful SME Strategy

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 introduce new products, services and processes to capture this business and establish proper strategies, oversight mechanisms and analytics. To address this need, the course will provide an overview of bank governance and management requirements, customer relationship management, financing methods, SME-oriented products, SME strategy development and impact on credit risk management and scoring systems, bank ratios etc. This eBook will mainly focus on the use of new technologies by SMEs and by banks, and on prerequisites of design and implementation of successful SME strategy,

## 2 Main Problems Regarding The Design & Implementation of Successful SME Strategy

The design and implementation of a successful SME strategy depends upon an efficient overview of the strategic planning process and role of Board and Management. The Board often tells what is required to support and sustain the adopted strategy, and how business characteristics impact the financial statements. The strategy also includes the targets, objectives, associated risks, and return requirements for the strategy to be effectively implemented. Moreover, regulatory issues such as banking limits, considerations and requirements are areas of prime importance while building an effective strategy. Below, we have discussed in detail about the two most important factors in the design and implementation of a successful SME strategy. These are as follows:

**1 Financing Methods for Banks & Impact on Resource Flows to SMEs**

**2 New Technologies & Digital Banking for SMEs**



# 1. Financing Methods for Banks & Impact on Resource Flows to SMEs

Financing methods for banks and impact on resource flows to SMEs contain various features such as Funding issues; their liability structures and capital requirements of banks, Liquidity management; how do banks ensure their obligations are covered with adequate funding, and how does this impact weighted average cost of capital. Off-balance sheet risks; pricing and commitments on contingencies, and how these affect capital and liquidity planning.



Below Are Some of The Financing Methods That SME Banks Can Use:



## 1. Institutional Route to SME Finance

- To finance the pre-shipment and post-shipment export-related activities, export credit
- To facilitate trade and meet the performance and financial obligations, use bank guarantees and Letters of Credits (LCs)
- Lease the assets bought by SME finance companies on behalf of the SME back to the SME
- To secure advances from SMEs, use factoring and securitisation where illiquid assets are used.
- Venture capital investments from individual investors or companies.



## 2. Collateral-Free Financing Solutions

- In Collateral-free financing solutions, those SMEs who do not want to provide any security can claim unsecured loans from SME finance companies.
- Finance companies have also created technologies that can assess the credit-worthiness of the loan applicants and disburse the loan amount within 48-72 hours.
- It is a handshake agreement between a borrower and a lender. If the borrower pays his dues in time, a cordial relationship develops between both the parties which leads to easier financing, and better terms in the future.
- Collateral-free loans come with other advantages as well like attractive and subsidized rate of interest, flexible repayment tenure, bill discounting, product development funding, quick and hassle free processing of applications etc.



### 3. Merchant Cash Advances

- In Merchant cash advances, SMEs using Point-of-Sale (POS) terminals can avail unsecured loans or advances.
- The quantity of the loan depends upon the monthly credit card sales generated.
- Until the advance is paid back in full, the exact amount of money paid back is based on a fixed percentage of your sales.
- There is no fixed due date or fixed payments for paying back the advance.
- The borrower has the freedom to manage the business' cash flow.



### 4. Online Seller Finance

- In Online seller finance, e-commerce vendors can avail loan for managing their day-to-day operations and leveraging business opportunities.
- These type of loans mostly do not contain any pre-closure fees. Also, remaining balance can be paid even before the completion of the repayment tenure.
- It helps the borrowers to expand their online business across e-commerce marketplaces at a speedy rate.



### 5. Supply Chain Finance

- The SME bank and not the borrower will be charged for early payment of invoices.
- Without adversely affecting the financial stability of the supplier, the buyer has the potential to extend the payment.
- In Supply chain finance, up to 80% of the borrower's invoice value are liquidated by SME finance company.



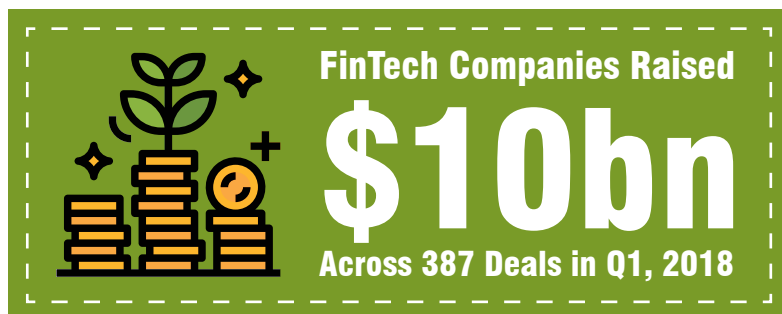
## 2. New Technologies & Digital Banking for SMEs

The SME sector has emerged as a highly vibrant and dynamic sector over the last decades. Despite of their inherent capabilities to grow, they are facing myriad challenges like increasing domestic & global competition, sub-optimal scale of operation, insufficient skilled manpower, change in manufacturing strategies, working capital shortages, and uncertain market scenario. To survive with such issues and compete with large and global enterprises, SMEs need to adopt innovative approaches in their operations. This includes introduction of digital banking and new technologies such as Blockchain, Fin-Tech, Crypto-currencies, Machine Learning, and AI. Let's observe in detail, how these new technologies are changing the face of SME lending.



### A. Fin-Tech Helping Banks Bridge The Gap in SME Lending

Fin-Tech firms can provide a lot of benefits to the financial institutions. By a subtle mixture of the product variety, stability, financial strength, and customer knowledge of conventional banks with the user experience, data enrichment, and modern platforms that Fin-Tech firms can provide, both can build an amazingly rewarding experience for customers.



**1. Fin-Tech solutions have shown a way forward to conventional banks by providing improved customer retention through data enrichment. It can help in the following ways:**

**A** By providing adequate and relevant self-service support through mobile devices, an effortless and a cross-channel experience is built for consumers.

**B** By delivering marketing offers that are both relevant and appropriately timed, banking business outcomes and customer conversion cycle can be improved greatly.

**C** By bringing new material improvements and increasing the customer experience, not only new customers can be attracted but existing customers can also be contained.

**D** By comprehending customer intent, highly targeted and relevant marketing offers can be sent.



## B. Crypto-Currencies & Initial Coin Offerings Bridge The Gap in SME Lendings

Recently crypto-currencies especially Bitcoin reached an all-time high of nearly \$20,000. A lot many business owners, encouraged by those figures, delved in the crypto world, and scoured all of its tokens, ICOs, blockchains, hashes and cryptographic keys. They soon understood that crypto currencies not only have the potential to disrupt the present day industries, but can also be a rich source of investment capital for their companies. Let's see some advantages of Crypto-currencies and how they can play a vital role in SME lendings:



**Irreversible**

**Pseudonymous**

**Fast & Global**

**Secure**

**Permissionless**

### 1. Safe & High-Speed Transactions

**A**

With the power of blockchain, transactions occur in just a few seconds.

**B**

Due to absence of a central authority to confirm and manage transactions, hackers cannot manipulate ledgers in their favour.

**C**

In case of Bitcoin, it takes approximately 10 minutes to verify and facilitate a transaction. In other cryptocurrencies such as Litecoin and Ethereum, it takes only 20 seconds. This is way faster than credit card transactions that take about 2-3 days to process the transactions.

**D**

You can send your money to a Bitcoin ATM from your wallet and fetch cash instantly.

### 2. No Requirement of Intermediaries

**A**

Due to absence of middlemen, speed is improved drastically and there is a massive reduction in product and service costs.

**B**

Due to smart contracts, matters are sorted without any recourse to the courts.

**C**

Since it is decentralized, there is no processing fees that has to be paid to anyone to facilitate transactions.

## C. Role of Blockchain for SMEs

To achieve remote, autonomous consensus between users, businesses have figured out that blockchain is one such self-reliant data infrastructure that can assist them. It can offload the conventionally high costs of security and help bring products and transactional services to market in less time and at low cost. Also Know Your Customer (KYC) protocols, data storage and other overheads can be properly controlled through Blockchain. Let's see the role of Blockchain in SME in detail:

### 1. It is Economical

# A

It saves a lot of funds for the SME as there is no need to purchase a CMS or CRM platform, hiring new employees. Blockchain can automatically create, check and enforce contracts between users.

# B

It can settle interest fees, invoicing, payment of bills, create insurance policies, handle fulfilment of inventory, and close new deals.

# C

It allows companies to remain lean and competitive by replacing a lot of business processes, expensive software licenses, and subscriptions.

# D

Instead of paying hefty fees to Amazon Web Services or Google, an SME can instead choose to rent custom-sized decentralized hosting space from a blockchain platform.

The WePay SMB & Money Survey Shows

# 41%

of Businesses Report Having Experienced Cash Flow Challenges

# & 16%

Have Experienced Payment Fraud

### 2. It Ensures Privacy

# A

Blockchain ensures that most sensitive personal, financial or identifying information remains safe and secured by the use of a system of public and private keys.

# B

SMEs neither have time nor the resources to fend themselves from fatal intrusions. Blockchain being a decentralized ecosystem makes it extremely difficult for a hacker to strike a website or application hosted on blockchain. Since all the peer nodes on the chain need to be hacked simultaneously, it is exceptionally difficult to carry out DDoS attacks.

Today, there exist myriad programmes on SME Banking Excellence but unfortunately, most of them are devoid of tools, which can train Head of SME Product Development on how to create a tandem between Market, industry and firm-specific information for business development, relationship management and strategic planning Purposes. In our 3 day masterclass, Michael Borish, will teach you how to sail your way through the nitty-gritties of SME Banking, through real-life case studies on hot topics like role of Fin-Tech, Crypto currencies, Blockchain, Machine Learning and Artificial Intelligence on SMEs. We urge you not to miss this opportunity, and take-home expert SME banking skills and increase the productivity to higher level.



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