

Enticing SMEs- The Online Banking Way

Five years ago, many banks would have avoided the risk associated with small and medium enterprises (SME) as a deliberate strategy. Zoom to the present: corporate banking spreads are down and competition is cut-throat. With reducing mortgage rates and slower off-take of consumer loans, retail banking is no different. The global economic slowdown and better potential for profits have forced the financial institutions to give a serious look at the Small & Medium enterprises segment.

Segmenting the market

Traditionally SME segmentation is based on the turnover of the company, turnover criteria varying from bank to bank. Such simplistic segmentation criteria, however ignores critical factors such as Business Scope and legal structure of the firm. The SME strategy and services offerings is closely linked to Scope of business i.e. whether the SME is a Retailer, Wholesalers, a Supermarket, Real estate developers/owner, Self employed professionals, Garage Owners, Small manufacturers, a Hotel/Hotel Chains owner, Restaurants owners or mom-n-pop shops. Similarly the legal entity of the firm viz. proprietorship, partnership or limited liability companies have different degrees of control structure within the organization and SME banking offering needs to meet this requirement. Service segmentation based on broader parameters helps meet the specific needs and also betters the chances of cross-selling.

Approaches to SME Banking

Many banks view SME Banking as a toned down version of corporate banking. Typically these banks have no separate division for SME Banking. A specific set of relationship managers (within the same division) handle SME customers. This approach is typical of Corporate focused banks. The target customers for SME banking are limited liability companies typically having smaller turnover than a regular customer. Online SME offering of such banks is a toned down version of their Corporate Internet Banking offering.

Some banks view SME banking as a specialized division within the bank. They claim that SME customers have specific needs, demand greater flexibility and need personal touch. This approach is most likely to consider all the segmentation parameters. However, this could mean higher operating cost and needs higher breakeven volumes. Also, most of the SME lending initiatives are marketed through large corporate

relationships (vendor/supplier financing, rent discounting etc.) and such opportunities may not be optimally utilized in this approach.

Some other banks consider SME banking as an extension of high net worth (HNW) banking. The basic idea is that owners of businesses are retail customers of the Bank. As satisfied HNW customers of the retail bank, they are highly likely to use the Bank for their business banking requirements. This approach is typical of retail focused banks. On-line SME Banking offering is a toned up version of the Retail internet banking offering.

What is your SME strategy?

The approach best suited for a Bank is dependent on existing customer profile and the strategic objective behind SME initiative. If your bank is a dominantly corporate bank or a dominantly retail bank, the decision is easy. However, most large banks have a sizeable presence in both sectors. Tapping the SME sector is best served if looked as a mixture of all three approaches, with relative priority attached to each approach. Priority allocation is based on the banks relative strength in a customer segment, scope of the customer business and targeted product type. For example, a bank having substantial presence in HNW banking may like to give higher priority to toned up retail banking approach, leveraging its strength in retail banking. Similarly if a bank wants to target Real estate developers, it is likely to give higher priority to division based approach to SME Banking. This is because real estate financing requires specialized skills for property valuation and legal title creation.

Similarly, targeted products type has an impact on SME strategy. If a bank is primarily interested in capturing the share of the transaction oriented business (Payments, Current accounts, Remittances, Fully collateralized lendings), a focused division approach can help the bank garner greater share of this business through targeted marketing. However, if the bank is focused on lending to SME sector, this initiative can be best managed by leveraging the corporate banking set-up. Property renters, Vendors and suppliers of large corporates are most natural and efficient targets. Corporate banking departments can build on their existing relationship to acquire these SME customers.

Multi-Channel delivery is critical

While the relationship manager is an important element in servicing a SME customer, it is also the most expensive. Delivery of service across multiple non-traditional channels is critical to acquiring customers, servicing a larger customer base and reducing the servicing cost. Indeed, certain products can be delivered only through non-traditional channels like the Internet or Mobile phone. Be it a HNW individual or a small scale manufacturer, it is true that the branch banking hours are his or her busiest hours, that for most inquiry or follow-ups with the bank will be done by his or her sub-ordinate and that he/she is mobile. This is where the importance of channels becomes paramount for an effective SME banking strategy.

Managing service expectations

The service expectations from On-line SME banking can be classified into few brackets: (a) The basic needs (b) The expanded financial offering and (c) the value adds.

The basic needs include 24X7 access to the bank statements, download bank statements, transfer funds between own accounts or another account within the same bank, reorder cheques, Request to open a deposit, view credit card statement and write to relationship manager for other service requirements. Most of these services are usually offered free of cost. The benefits to the Banks accrue in terms of lower operational cost, customer acquisition and customer retention.

The expanded financial offering include direct payment functionality (a mechanism by which a large corporate makes direct payments to vendors), details of merchant credit card transactions (applicable to merchants using bank's swipe machines and getting the payment settlement details through the online interface, including various payment reports), paying utility bills, making payments to other bank accounts, merchandising products of SME customers on Bank's website and facilitating payments done by customer internet shopping malls hosted by the bank for the SME customer. Most of these offerings can be charged by the bank and are aimed at getting a higher share of the wallet of a SME. This helps the bank to expand customer profitability and increase the NPV by cross selling and charging for transaction processing.

Value adds is the area where banks can differentiate their offering from competition. One of popular SME initiatives of banks is Channel financing. Banks tie-up with the corporate customer's dealers and discount the receivables. Corporate provide certain amount risk insurance and help in the collection process. The dealers are usually geographically spread across location where the bank may not even have a presence. Similarly, financing vendors against its receivables from large corporates is another popular SME lending initiative. Electronic Invoice presentment and payment (EIPP) is a value added offering that can address the complexity involved in such financing. Similarly most SME owners although retain the payment capability to themselves, mundane activities are performed by sub-ordinates. Hence, it is important to support differentiated user access viz. users with profiles of a clerk, manager, owner etc. Real time alerting is another such value added offering. Other important SME value added offering could be online lending, check imaging, online payroll services and up selling of other services like brokerage, bank assurance and mutual funds. Value added services can be easily charged a premium and creates customer stickiness.

The future is bright

As a segment large and potentially profitable for banks, SME banking is nonetheless a high risk-high return arena. While online SME banking is one of the most efficient methods of delivering banking services and products to this segment, banks need to take high efforts to increase adoption. A comprehensive offering, an easy to use and secure service, a stable technological platform (downtimes can easily create life-long skeptics!) and marketing push in terms of product demonstrations and incentives to use are critical to its success. The future is bright for the Banks who can carefully balance the tread.

Author

Gautam Bandyopadhyay

Consultant

Finacle – Delivery Channels



Infosys Technologies Limited, Plot No. 44, Electronics City, Hosur Road, Bangalore - 560100. India • Tel.: +91 80 28520261 • Fax: +91 80 28521747
e-mail: finaclemktg@infosys.com • www.infosys.com/finacle

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