WHITE PAPER

Scrapping Incremental Steps to Revolutionize SME Banking

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Ellis owns a business supplying the hospitality industry and is ready to fulfill her dream of expanding. She grabs a coffee and logs onto her banking app to check her balances. She could use some extra cash to add to her product offering. A pop-up on her app tells her she has prequalified for a loan. Having completed the application and submitted the form, she receives a decision in hours and funds in two days. Toward the end of the week, when she logs on to her accounting software, she receives a tip from her bank on potential ways to automate her payments.

As an SME owner, Ellis enjoys an excellent banking experience, but is it typical? Unfortunately, not. Despite significant investment, most US banks come up short on delivering a best-in-class SME proposition. There are multiple reasons for the deficit, but a common challenge is the way that banks approach modernization. Many take cautious and incremental steps, adding digitization to specific products and gauging impacts before moving forward. While this reduces risk, it fails to produce significant upside. Clients continue to experience pain points that include requests for too much information up front, being passed from person to person, and a disjointed experience across platforms. Meanwhile, financial performance is constrained, as banks struggle to keep pace with tech-natives and more cutting-edge peers.

The challenges banks face in creating an outstanding SME experience are often rooted in culture; and in particular the lack of a clear vision of the SME bank of the future. Many decision makers do not have a holistic view of what that should look like. However, without this starting point, the transformation process often lacks a sense of direction.

Here, we propose a clean-sheet approach, predicated on a North Star strategy. In practice, this means focusing on client experiences across five key dimensions: sales and discovery, onboarding, credit and financing, transaction banking, and client servicing. Backed by the necessary capabilities, these have the potential to delight clients, increase operational efficiency, and give a significant boost to the bottom line.

Higher Client Expectations

The past three years have seen an acceleration in SME demand for accessible and convenient digital banking solutions that are in line with the one-click Amazon experience. SMEs demand simple and effective services, are more willing to switch, and claim rising confidence in non-bank providers[1]. And while the human touch remains valued, SMEs increasingly favor round-the-clock digital convenience. A BCG survey shows the top-five reasons for dissatisfaction include “not getting hold of anyone to talk to”, “poor response times”, and “weak digital capabilities”[2].

As client demands increase, competition is intensifying. Non-bank providers are occupying lucrative niches, and in some cases integrating banking, lending, and payments services into SME SaaS solutions. Numerous FinTechs offer credit to small businesses, and ecommerce payment service providers use merchant transaction data to support lending and banking-as-a-service. These offerings are often simpler and more intuitive than those of incumbents.

1. COVID, Non-banks and Open Banking: A Shake-up to the Status Quo in Commercial Banking. BCG, 2020
2. BCG Commercial Banking Voice of the Customer Survey 2020

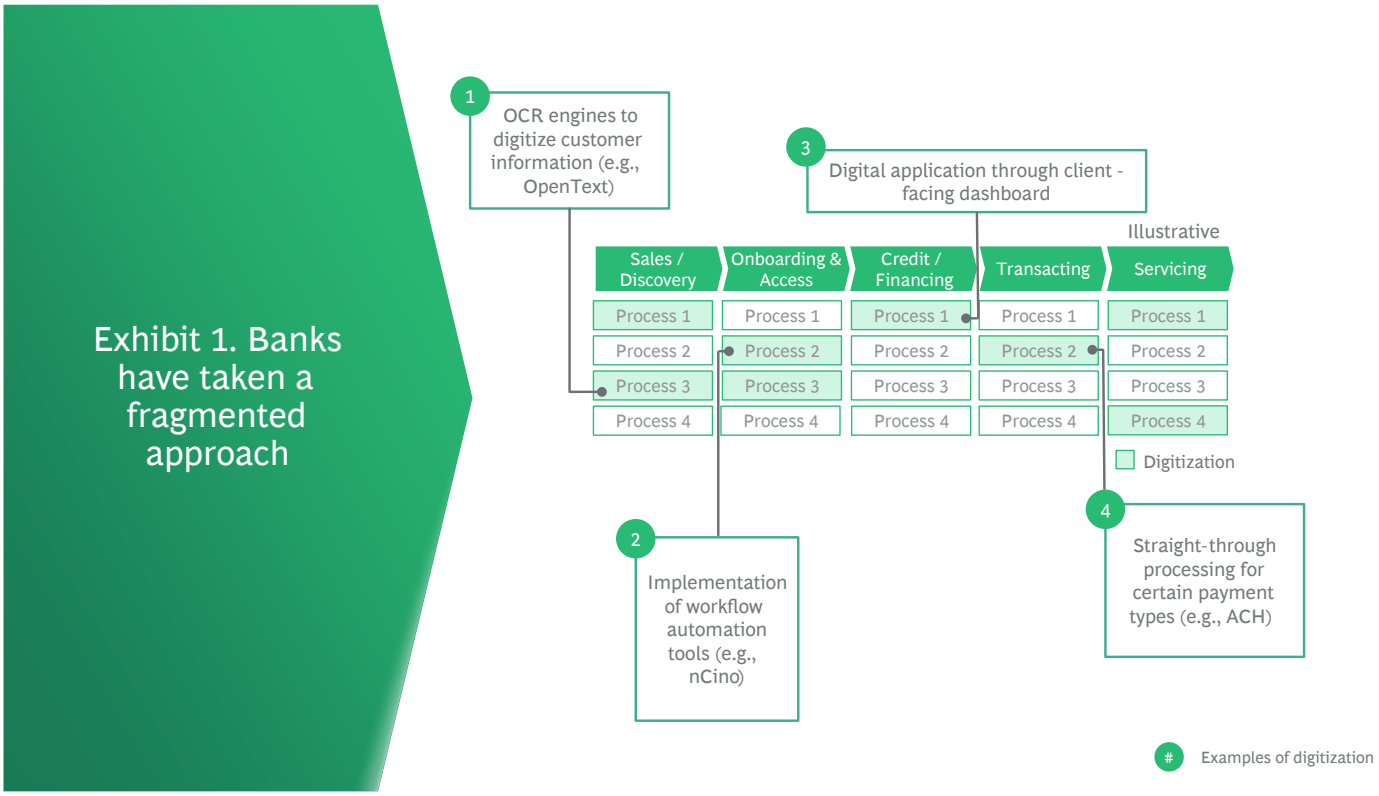
A Record of Incrementalism

In response to increasingly tough competition, banks have identified the need to improve the customer experience. However, many get off on the wrong foot, seeing the current offering as the starting point and looking to improve step by step, for example by applying automation to pain points such as documentation and contracting. The common result is a whole that is less than the sum of its parts, while internally there is a focus on simple metrics such as speed — for example, reducing onboarding SLAs or cutting the number of screens used by customer service agents — or on single point solutions.

Often, incrementalism comes down to mindset: Decision makers see customer and process solutions as a necessary tool but not as a defining element of the business. Moreover, they are often constrained by factors including legacy technology, the banks' embedded culture, a lack of technical and change management skills, strategic positioning (not fully appreciating changes in the competitive playing field), and external factors such as regulation.

As a result of these dynamics, and despite hundreds of millions of dollars spent (for mega banks often 10-15% of total budget), most institutions have a way to go in transforming the SME offering. (See Exhibit 1). This plays out in key metrics such as aggregate loan response times, which have remained little changed over recent years, data from Barlow Research Associates shows. For smaller companies, with revenues of up to $2.5 million, there has been a slight improvement, while for larger companies, with revenues of up to $10 million, response times have actually got longer, averaging 6.3 days.

Exhibit 1: Banks have taken a fragmented approach



A North Star for SME Banking

In an era of rising client expectations and intense competition, banks need to break free from a culture of incrementalism. To get there, decisions makers need a fully refreshed vision of what North Star SME banking would look like, without any of the constraints that apply today. (See Exhibit 2). We call this vision SME smart banking, which is built on a richer experience across five key elements of the client journey:

1 **Sales and Discovery:** Clients should be able to explore ideas through their preferred channels, and easily compare solutions and receive offers and recommendations based on their usage patterns, behaviors and needs for example, on how best to combine tools for payables, receivables, and cash flow management.

Once a decision to apply for a product is made, clients should be able to follow a clear step-by-step process—with applications completed in minutes. They should find the process quick and easy to follow, with many data fields pre-populated, meaning they do not need to hunt for endless pieces of information. If they do run into issues, they should be able to resolve them quickly through virtual assistants or chat bots that are available with a single click.

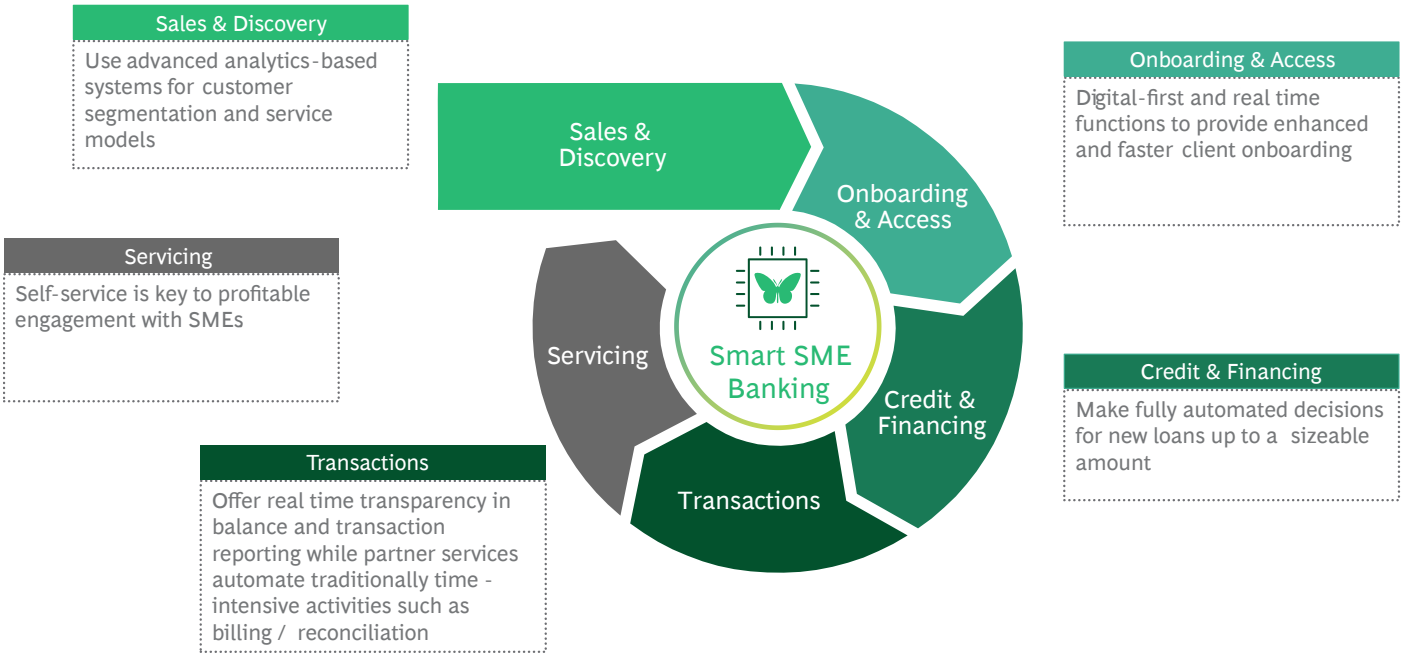
2 **Onboarding and Initiation:** Clients should know what to expect as they kick off the process, including how long they will need to wait, what they will need to do, and how they can get help across multiple channels and options (for example, an onboarding specialist for guided implementations or a chat bot for self-service). They should be able to execute digitally and get up and running fast—within hours for basic usage of products such as ACH, wire transfers, and portals. Indeed, the experience should be highly digitized throughout, from document and contract execution to completing first transactions through desktop and mobile apps and reviewing on-demand training.

3 **Credit and Financing:** Clients should receive loan offers based on their specific needs and business maturity. For smaller loans, their experiences should be fully digital from application to decisioning, all within a single interface that is clear and easy to use. Where there is a need for further validation, they should receive a speedy notification and be offered a clear path to resolution. They should have easy visibility on loan review and disbursement status across digital self-service channels.

Where loans are for less than $1 million, clients should get access to funds in one to three business days. For vanilla loans of more than $1 million they should receive funds within a week.

4 **Servicing:** Clients should seldom need to make queries directly to the bank. For most issues (for example, adjusting user entitlements in the banking portal, adding an account, checking payment status), and certainly for administrative support, they should be able to self-serve, ideally in real time through embedded tools they use every day. The advice they receive should be personalized and accompanied by guidance on implementation. They should feel they are being continuously engaged, helping them identify appropriate products and use them as effectively as possible.

Exhibit 2: SME banking should deliver a seamless and consistent digital-first experience across all key dimensions of the relationship life cycle



Delivering on SME Smart Banking

Through a North Star vision based on client and internal associate needs, banks can lay the foundation for a more productive and efficient SME proposition. The winners will start with the clients and associates at the center of the process, working backwards from the vision. Decision makers should identify the capabilities that create a truly fit-for-purpose SME experience, rather than retrofitting from existing middle market and/or large client experiences. The vision should be shaped to the specific jobs that SMEs need to get done and should be designed to create stickiness in the banking relationship.

One of the biggest obstacles facing traditional banks is that they remain encumbered by legacy tech stacks. Without modern data and IT architecture, banks will find it impossible to achieve a smart-banking proposition that enables them to connect to ecosystems (software players delivering AP and AR, payroll, and other solution providers), rapidly build new products and solutions through microservices, or develop advanced capabilities to harness the power of transaction data. These would enable them to more effectively identify at-risk clients, drive retention, and create insights that empower sales teams to optimize time spent on high-value opportunities.

It is not necessary to build all of the required capabilities internally. Instead, decision makers should carefully assess their priorities and resources and bring a consistent approach to making build/buy/partner decisions. While there may be advantages to a proprietary platform, particularly if the bank believes the capability is a critical source of differentiation, many banks are not adequately resourced, so the approach will mean a longer time to market and high levels of funding. There are tens of thousands of software companies playing in the SME space, many of which have designed best-in-class user interfaces and solutions and have a deep understanding of unique SME needs at a highly segmented level (e.g., job costing in construction, gig worker payments in restaurants). These players are driving traction and satisfaction, and are looking to grow through strategic partnerships, creating a win-win.

Beyond identifying and implementing the right technology, banks will need to avoid some of the common pitfalls that traditionally hamper transformations. A successful approach will require:

- An agile approach that allows teams to fail fast and adapt
- Consistent and intentional cross-functional teaming, avoiding the tendency to fall back on siloed ways of working and enabling input from critical functions such as risk, legal, and compliance early in the design process
- Feedback mechanisms for sales, operations, servicing, product teams, and clients to make quick course corrections as new experiences and journeys are implemented
- Ongoing commitment to investment in change management and the ability not to underestimate the degree of upskilling/reskilling, training and communication needed to support clients and associates and drive the desired level of engagement and adoption.

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In an era of high digital expectations and intense competition, banks can maintain share by setting and achieving a vision for SME smart banking. In practice, that means optimizing technology, automation, and data analytics to create a standout client experience, as well as more engaged and better equipped employees. Many banks understand this but are locked in a cycle that inhibits effective change. To move forward and stand out from the crowd, they need to take a strategic leap— establishing a vision and working backwards to achieve it.

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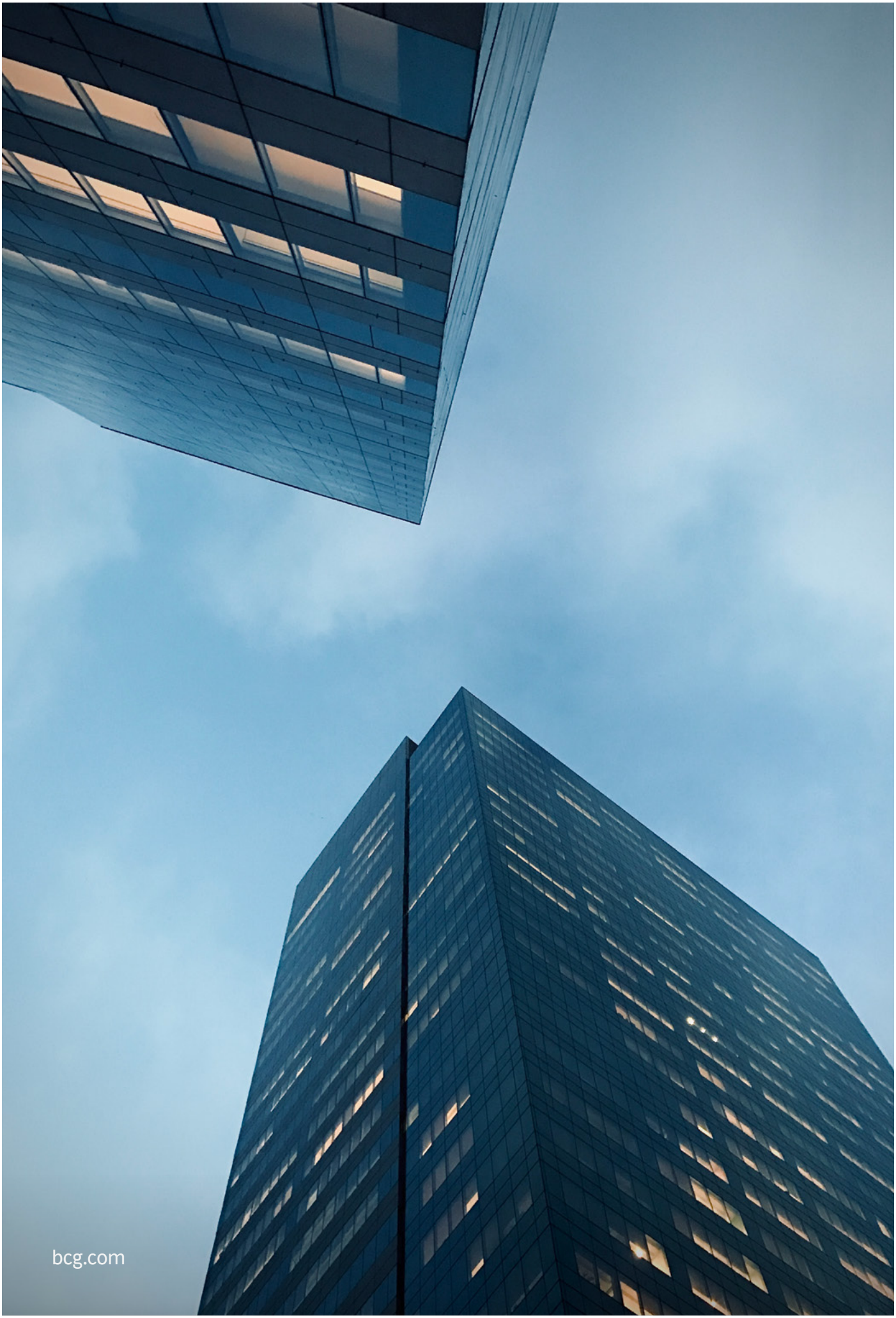
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