

SME Lending – bottlenecks and solutions in 2022

FUTURE BANKING SUMMIT

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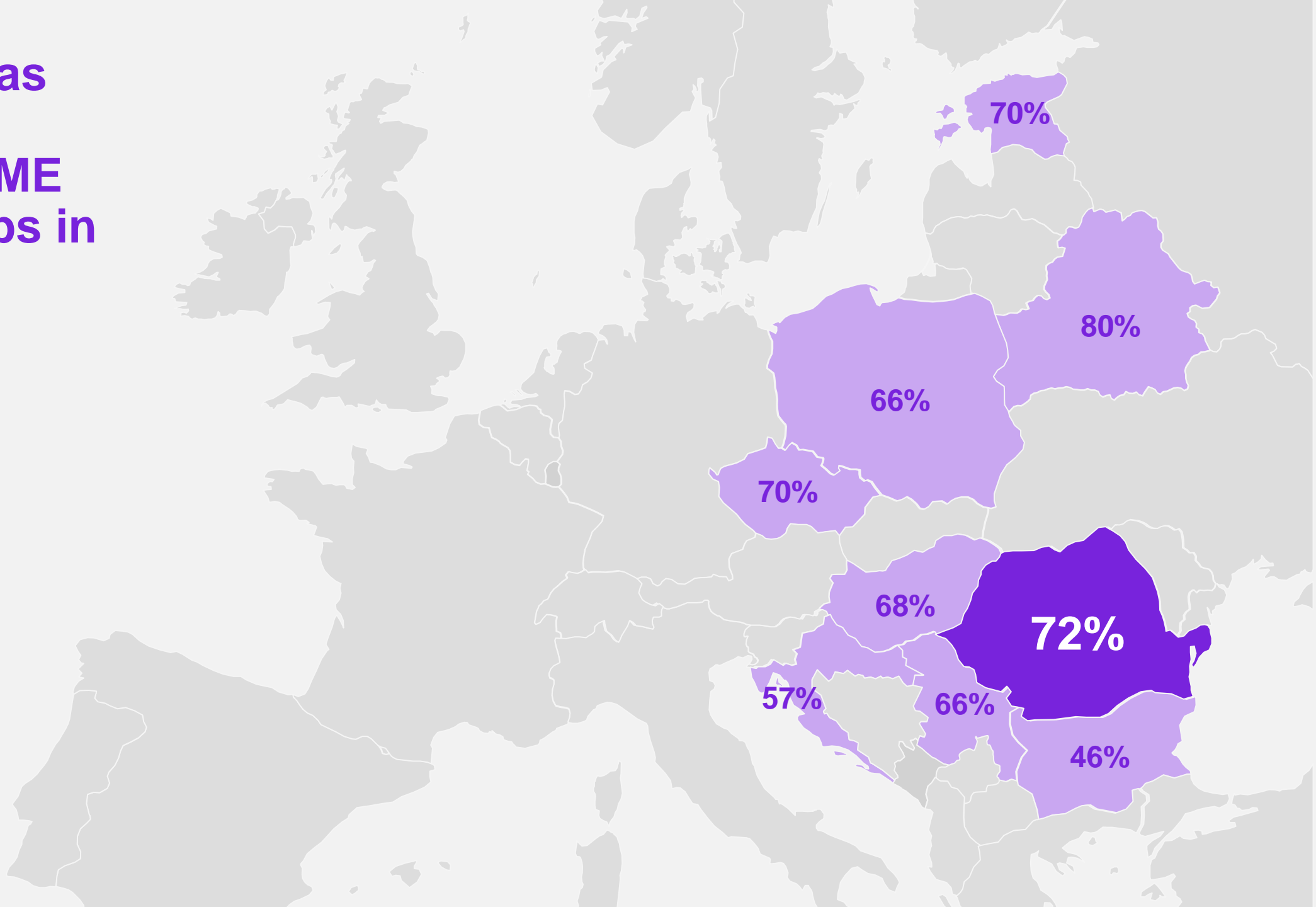
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KEARNEY



Romania has one of the largest MSME finance gaps in the region



xx% - Finance gap as percentage of potential demand for finance

**Around 1 in 8
SMEs pursue
financing
through a
financial
institution.**

~80%

of SMEs have not applied for finance from banks or non-bank lenders¹

Common financing sources:

- Reinvesting profits/ selling assets
- Shareholder loans/ capital increase
- Supplier credit
- Loans from friends and family

~13%

of SMEs have financed their activity through a bank¹

16%

of SMEs were approved the full requested credit value¹

40bn

total value of loans to SMEs awarded through IMM Invest²

15%

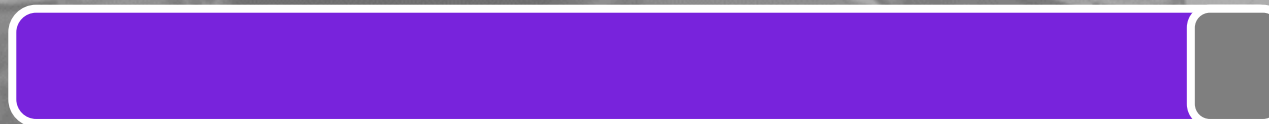
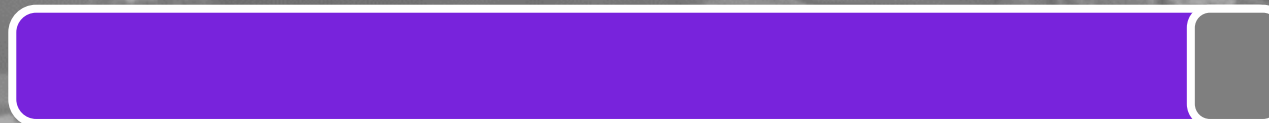
of credit institutions think micro companies have become riskier in T2 2022, compared to T1³

1. Between April 2020 and May 2021; source: BNR
2. April 24th, 2020 – June 30th, 2022; source: FGCIMM
3. Source: BNR
Source: Kearney



**We asked
100 Romanian SMEs...**

What were you most unhappy with when applying for credit from a bank or non-bank lender?



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Long waiting time for decision

11

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Bureaucratic process

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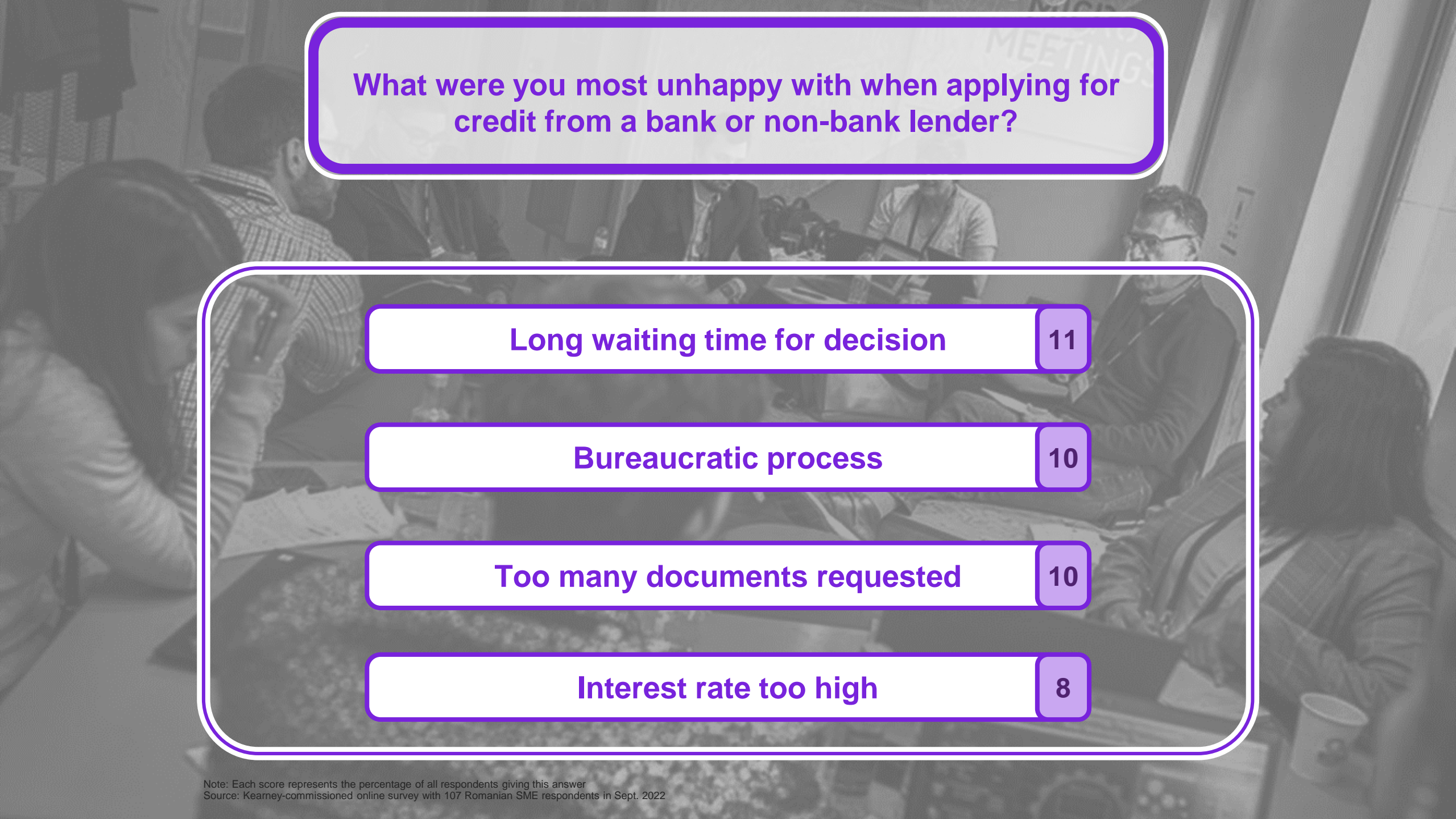
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Bureaucratic process

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Too many documents requested

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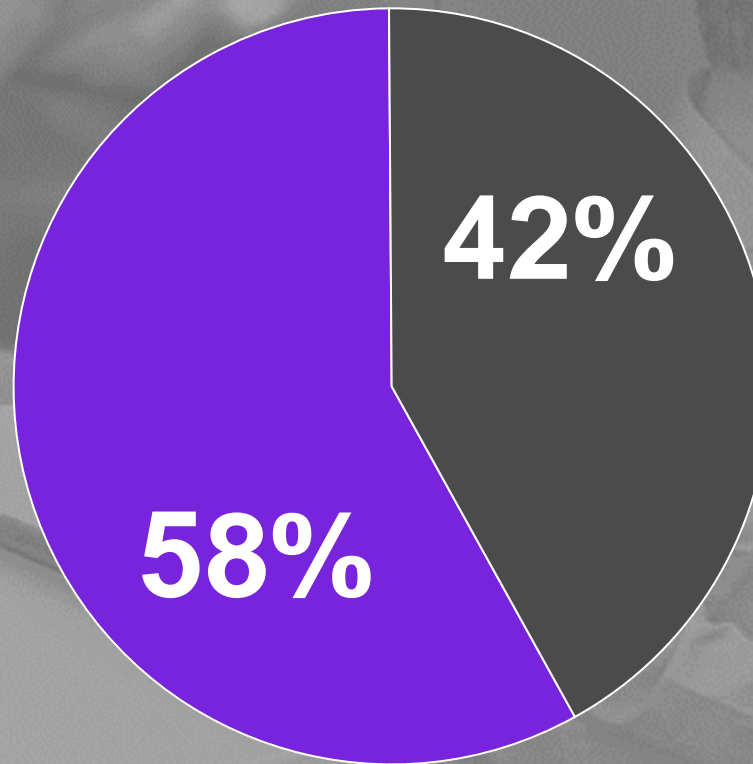
Too many documents requested

10

Interest rate too high

8

**Immediate credit
from a financial
institution**
(approval in
a few minutes)



**Loan from
friends/ family or
supplier credit**

**Why would you choose an immediate credit from a FI,
rather than a loan from friends or a commercial credit?**



Four horizontal bars, each consisting of a long purple segment followed by a small grey square, likely representing a progress bar or a selection indicator for a survey response.

**Why would you choose an immediate credit from a FI,
rather than a loan from friends or a commercial credit?**

More trust in a financial institution

21

Note: Each score represents the percentage of respondents giving this reason, out of those choosing the "immediate credit from a FI" option
Source: Kearney-commissioned online survey with 107 Romanian SME respondents in Sept. 2022

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Professionalism

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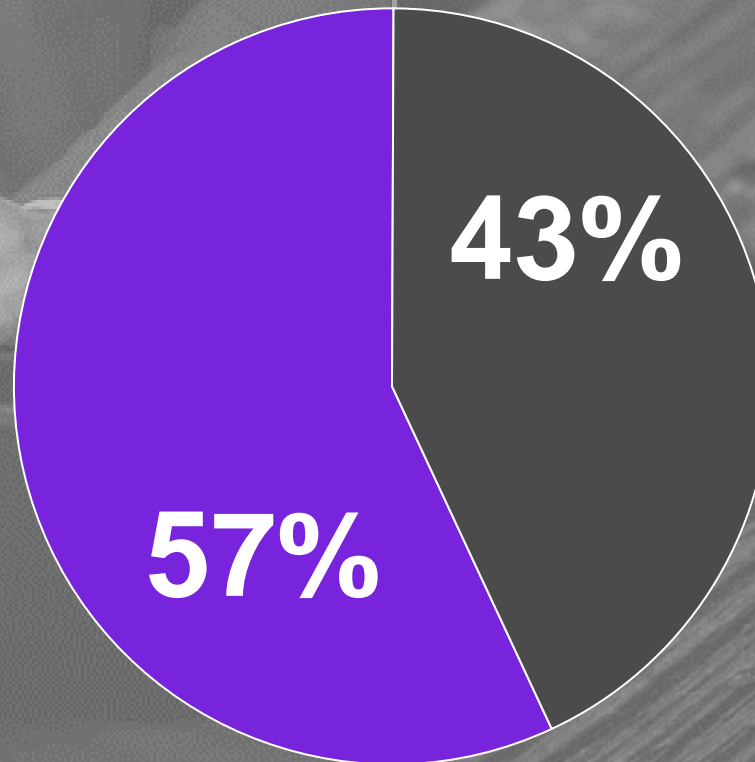
8

Ease and accessibility

6

Note: Each score represents the percentage of respondents giving this reason, out of those choosing the "immediate credit from a FI" option
Source: Kearney-commissioned online survey with 107 Romanian SME respondents in Sept. 2022

**Offline credit,
at smaller cost**



**Quick, fully
online credit
("from the sofa")**

Note: Pie-chart shows percentage of all respondents preferring each option
Source: Kearney-commissioned online survey with 107 Romanian SME respondents in Sept. 2022

**Why would you choose to apply for an online
“from the sofa” credit, instead of one that requires more
effort but comes at a smaller cost?**



Four horizontal bars, each consisting of a long purple segment followed by a small grey square, likely representing a progress bar or a selection mechanism for a survey response.

**Why would you choose to apply for an online
“from the sofa” credit, instead of one that requires more
effort but comes at a smaller cost?**

Not losing valuable time

41

Note: Each score represents the percentage of respondents giving this reason, out of those choosing the “apply for an online, <<from the sofa>> credit” option
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**Why would you choose to apply for an online
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Ease and simplicity

18

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Immediate certainty

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Limited documentation requests

5

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4 in 5 SMEs expect their bank to offer more than banking products

What role should the bank play in your company's activity?

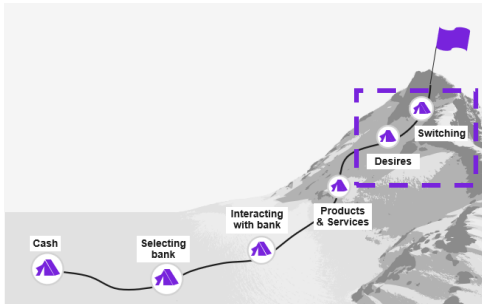
% respondents wanting the bank to play each role



SMEs desire non-financial support from their bank relatively more than financial support.

Client example / recent project.

Perception and reality is not always aligned



Key Takeaways

Desires



- Contrary to our hypothesis, **SMEs do not mostly desire funding; finance access ranks relatively low** in terms of what the SME believes will increase their business performance
- SMEs overwhelming **desire advisory support and platform access** from their business banks
- SMEs desire **strategic and operational advice**, and advice that helps them navigate the **regulatory environment**
- **Less satisfied SMEs desire advisory support relatively more.** Advisory support may be a **critical differentiating factor to drive up customer satisfaction.**



Switching triggers



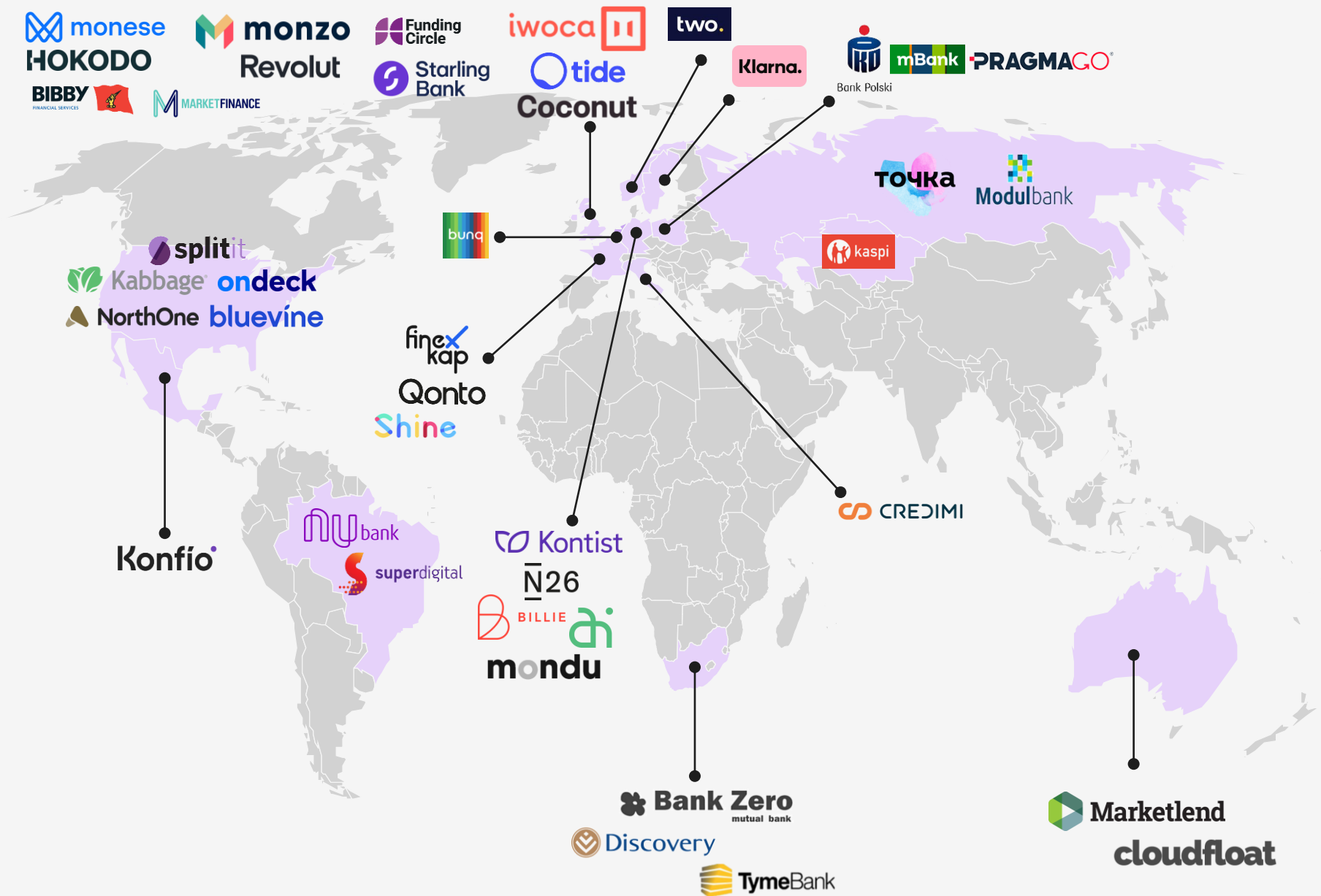
- Perception suggests that SMEs **mainly switch due to diminishing trust and efficiency.**
- In reality, SMEs **mainly switch due to bank charges and service quality**
- SMEs that **switched in the past due to service quality** are currently **less satisfied.** **Service quality is likely poor across the market**
- SMEs that **switched due to business needs** are generally **more satisfied now.** **Business needs** are likely **better met post switch**
- Although not selected as a top consideration, there is a **strong correlation** between where **individuals have their personal and business accounts**
- **Older entrepreneurs** seem **less fee sensitive** and **more inclined to bank with their personal bank**





Who does it well?

There are tens of Digital/ Neo Banks or Fintechs with outstanding SME offerings around the world.



Digital/Neo Banks or Fintechs either focus on a killer/hero banking product or service, niche offering (i.e. BNPL), build wider ecosystem of services (non-banking) and even marketplaces

Digital/Neo Banks and Fintechs patterns in serving SMEs

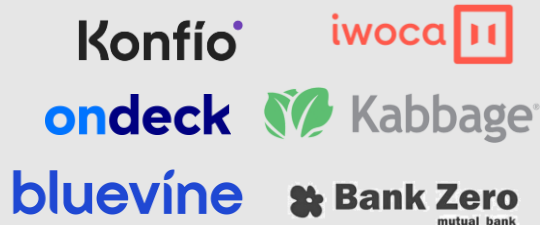
Killer/Hero standard bank offerings



Offering **standard banking products** and focusing on **innovations around them as well as best in class User Experience**

Examples of such innovations are:

- Fast seamless lending
- Loan comparison tools
- Payments
- Extremely fast registration and application process with a great UX
- Cash flow analytics



Niche offering



Specializing in a **niche financial offering** such as:

- Buy Now Pay Later (BNPL)
- Online **factoring**/invoice financing
- **Crowdfunding**



Non-banking offering/integrations



Focusing on adding **non-core banking**: services which are to some extent **connected** with banking products such as:

- Accounting services,
- Tax services,
- Invoicing,
- Expense tracking and organized payments,
- Company registration support,
- Managing late payments, etc.



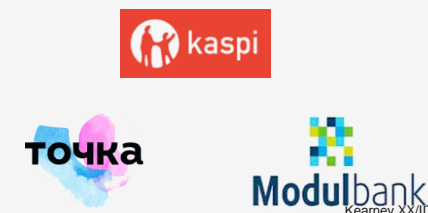
Wider ecosystem/ marketplace



Going **beyond a standard banking offering** and even **beyond non-core banking offering**.

Example of such additional services are:

- Marketplace offering: enabling the business to find products and services from others
- Run advertising campaigns for your business



iwoca combines top User Experience of their app with innovative solutions such as small loans used as a 'BNPL' option, or repayment rate linked to business turnover

In September 2022 iwoca announced launching a financing solution with eBay: eBay merchants will be able to apply for working capital loans from 2.5 K to 1 M euros

Killer/Hero standard bank offerings



Overview



iwoca is a British online Fintech offering **lending solutions to SMEs** in the United Kingdom and Germany.

iwoca offers **flexible loans up to £500 thousand** for all businesses, using only basic details and bank statements from the last year for assessment

Differentiating factors



Invoice split pay („BNPL” made much easier):

- Offering a payment method via iwocaPay
- Being able to offer the customer an option to spread the payment over 90 days interest free

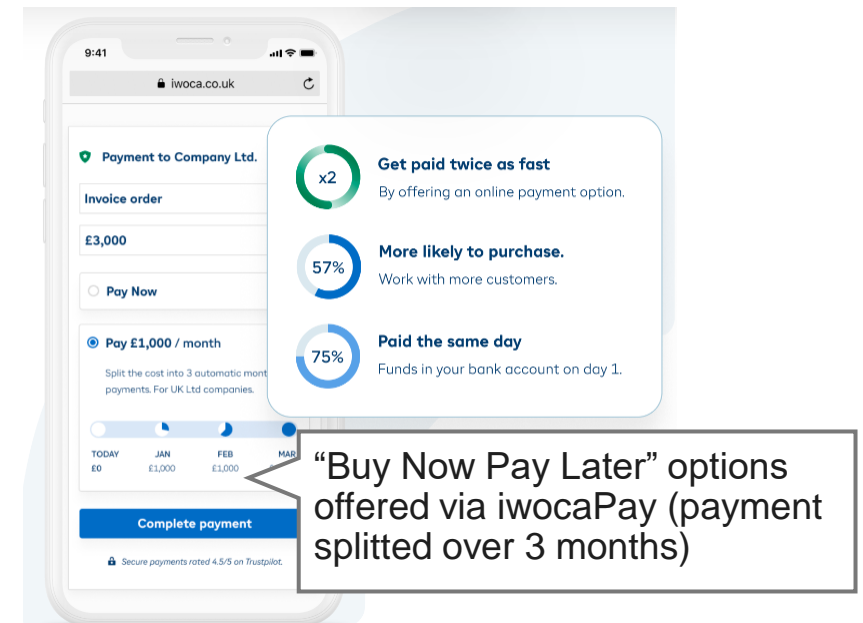
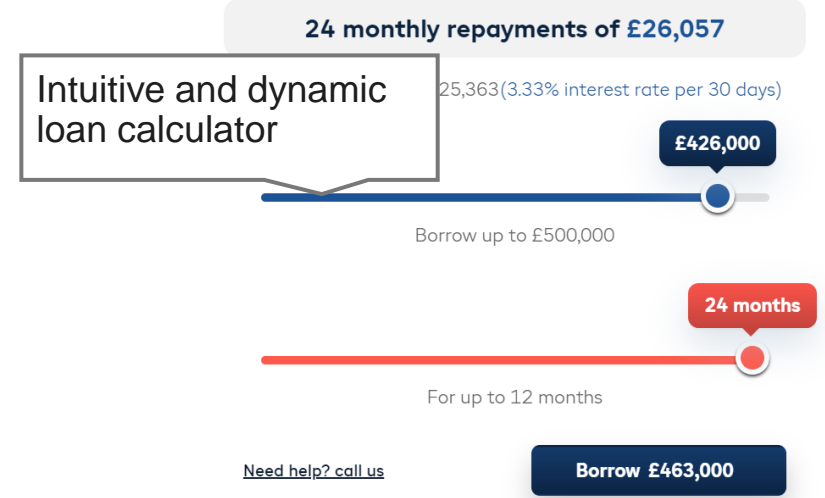
Flexi-loans:

- Duration from 1 day to 2 years, used to bridge gaps in case of late payments from the clients.
- Extremely fast processing of loan requests (record of 2 min and 27 seconds).

Revenue based loan:

- Linking loan repayments to business turnover, i.e. establishing that 20% of the turnover will be dedicated to loan repayment

Use case illustrations

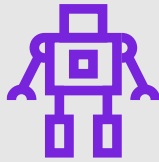


Key success factors to better help Micro-SME customers with controlled risk



Digital

- Digital offers what MSMEs crave: speed, accessibility, transparency, simplicity.
- But you must also explain financing simply, transparently, properly, not just offer it.
- MSMEs are also individuals, often using company's and personal money as a one 'wallet'.
- Interface must be intuitive and aesthetic (and behavioral principles applied).



Automatic

- Automatic data retrieval, processing, decisioning.
- Manual checks/intervention in exceptions or past set thresholds.



Alternative risk assessment

- Traditional analysis is insufficient; alternative data include behavior, digital footprint, psychometrics. Advanced analytical models (ex. ML) required.
- Risk based pricing. Relationship based pricing. Flexible credit reimbursement patterns.
- Anticipation vs just reaction (both determining lending need and managing credit lifecycle).



Focus and go where the customer need is

Customers don't just need money, they need to pay something on time, or get paid on time, or need to take advantage of an opportunity of investment. Go where that need is, ex. embedded finance, Buy Now Pay Later

Thank you

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