Customer Development
Origination

WHITE PAPER

What do SMEs need from their banking providers post-pandemic?

FICO

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Introduction

The pandemic put a sudden, massive burden on small- and medium-sized enterprises (SMEs) globally. No business was prepared for the chain of events it set into motion, especially in economic terms. In fact, 34% of businesses had to invest more money into their organizations just to ensure they could stay afloat, according to RFi Global's[1] recent study with the SME Banking Council.

Twice a year, the SME Banking Council gathers the thoughts and feelings of SME owners and operators with financial decision-making responsibility for businesses with an annual revenue of up to USD 10 million.

Our exploration of the data has revealed that funding access was an underlying theme throughout this difficult period. But that isn't all. SMEs raised some negative sentiments and challenges when asked about working with traditional banks.

Indeed, there are early signs that indicate these banks could be at potential risk of losing businesses to their non-traditional competitors: Nearly 40% of survey respondents intend to utilize new borrowing products in the next 12 months.

So, what can traditional banks do to combat the financial challenges of SMEs, rather than amplify them?

The insights in this white paper represent the results from the December 2021 SME survey, which collected answers from more than 4,700[2] respondents across the Asia and Oceania regions[3].

Armed with this feedback, banks can better understand the SME businesses they support, and they can adapt their products and services to more adequately meet their needs. Simply put, they can get ahead of the curve and compete successfully — rather than get left behind.

From understanding how business operations have changed over the last few years to the customer satisfaction rates across a range of banking services, this white paper stands you in good stead as we move to a post-pandemic world.

[1] RFi Global provides data and insights to financial service providers in the consumer, SME, and commercial segments via customized reports, DaaS, and research

[2] The FY2021 respondents' breakdown, which reflects the insights in this white paper, are as follows: SG: n=720; MY: n=1044; ID: n=737; IN: n=729; NZ: n=1036; AU: n=508

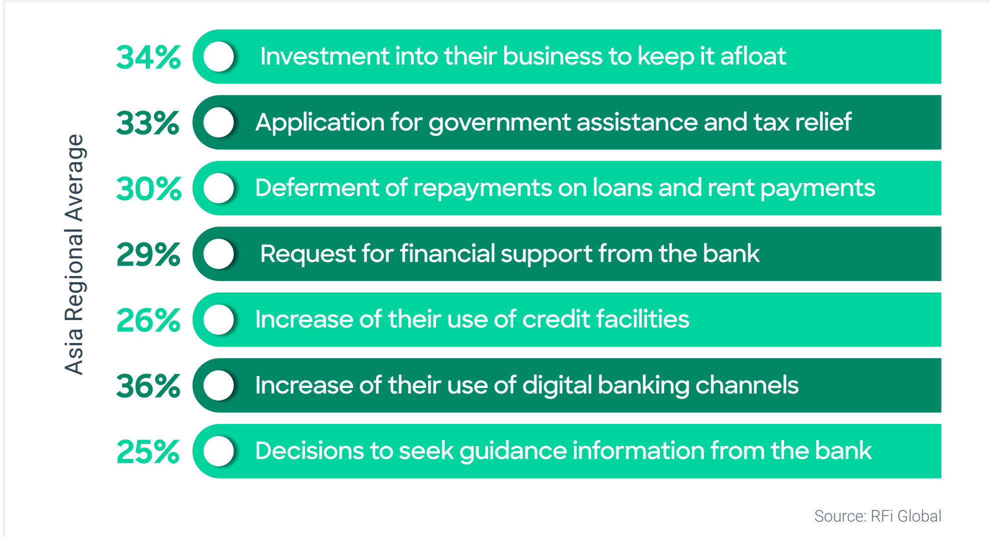
[3] The countries covered in this survey were as follows: Australia (AU), New Zealand (NZ), Singapore (SG), Malaysia (MY), Indonesia (ID), and India (IN)

The impact of COVID-19 on financials and banking

It came as no surprise that the pandemic affected SMEs financially. Its impacts were broad in nature too — from behavioral changes to a growing demand for support and guidance.

Most businesses have had to adapt their operations in response. Not only did the survey find that SMEs relied more heavily on digital banking channels during the pandemic, but they also increased their use of credit facilities and made more repayment deferrals.

Among the top financials and banking impacts seen across SMEs in Asia were:



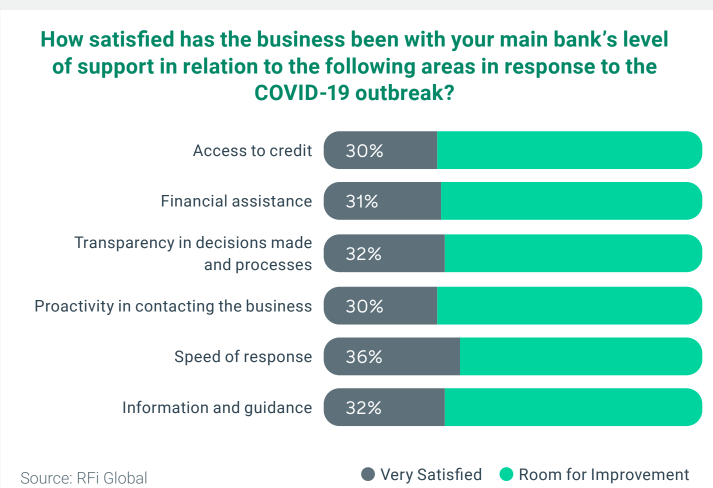
How has the funding landscape changed?

While SMEs have made it clear that they require financial support and guidance from their banks, there's a lack of sentiment when it comes to how satisfied they were with that support. Roughly only 30%–35% of SMEs in the Asia region indicated that they were highly satisfied with their banks across factors such as financial assistance, access to credit, and transparency in decision making.

As for their views on working with their banks in the future, again, only a third of respondents said that these funding challenges would improve in 2022. What's more, some said that the current borrowing landscape is even worse than it was before the pandemic.

Although SMEs are now less optimistic about funding through traditional banks, it's important to note that this doesn't mean they're disregarding it altogether. There is a need and very strong interest in borrowing money, nearly 40% of respondents in the APAC region indicated that they'll do so in 2022.

A potentially worrying trend for traditional banks, though, is that SMEs are considering alternative or non-traditional options for their funding requirements. As high as 44% of respondents are now considering this shift.



Why are we seeing this shift in borrowing behavior?

Banks need to understand what's causing SMEs to consider alternative funding sources. Survey respondents pointed to frustrations with the typical funding process of traditional banks, and the following factors in particular:

- Collateral requirements
- Long approval process
- Complicated documentation requirements
- High cost to access lending
- Difficulty in obtaining the required credit amount
- Product complexity
- Difficulties accessing their preferred lending option
- Inadequate advice or support from their bank

What do SMEs expect from their funding providers?

Understanding the challenges faced by SMEs is just one aspect. It's equally important for traditional banks to know what's most important to these businesses when choosing a loan provider or financial institution.

Collectively, the top drivers for SMEs are:

- Competitive interest rates
- Flexibility in repayment options
- The ease and speed of the application process, and therefore access to funds
- Ability to gain the lending options or credit line suited to their needs
- Good reputation and service of the financial provider

By reviewing these key decisioning criteria alongside the challenges and funding support sentiments of SMEs, there are a few themes that emerge. If traditional banks are to experience continued and sustainable business growth from the SME segment in the APAC region, they must focus on:

- Improving and simplifying the application process to create a much easier and better customer experience
- Ensuring scalable, well-informed decisioning that assesses the risks and best offers that could meet SME funding needs
- Refining the approval process, including being transparent about how decisions were made

	New Zealand	Australia
Competitive interest rates	42%	45%
Flexibility in repayment options	28%	32%
Speed of access to funds	20%	35%
Ease and speed of application experience	24%	24%
Digital banking capabilities	35%	27%
Customer service	30%	31%
Good reputation for business lending	16%	25%
Lending options that meet the business' needs	26%	17%
Credit line value	17%	15%
Advice, support, knowledge of staff	21%	18%

Source: RFi Global

	Singapore	Malaysia	Indonesia	India
Competitive interest rates	40%	42%	49%	29%
Ease and speed of application process	31%	35%	39%	29%
Flexibility in repayment options	28%	32%	31%	29%
The ability to obtain the credit amount required	27%	31%	33%	23%
Good reputation for business lending	25%	26%	25%	27%
Lending options that meet the business' need	23%	25%	27%	23%
Access to cashflow management tools	28%	21%	10%	22%
Collateral requirements	23%	16%	20%	20%
Advice and support provided by the bank	19%	19%	12%	20%
Transparency in decisions made and processes	13%	11%	10%	12%

Source: RFi Global

How can banks respond?

To improve the application process, ensure scalable decisioning, and refine the approval process, banks need to take digital transformation seriously.

Originating applications — such as FICO® Originations Solution, Powered by FICO® Platform — give financial institutions the tools they need to meet the demands of SMEs by working towards these key objectives.

Improving the application process

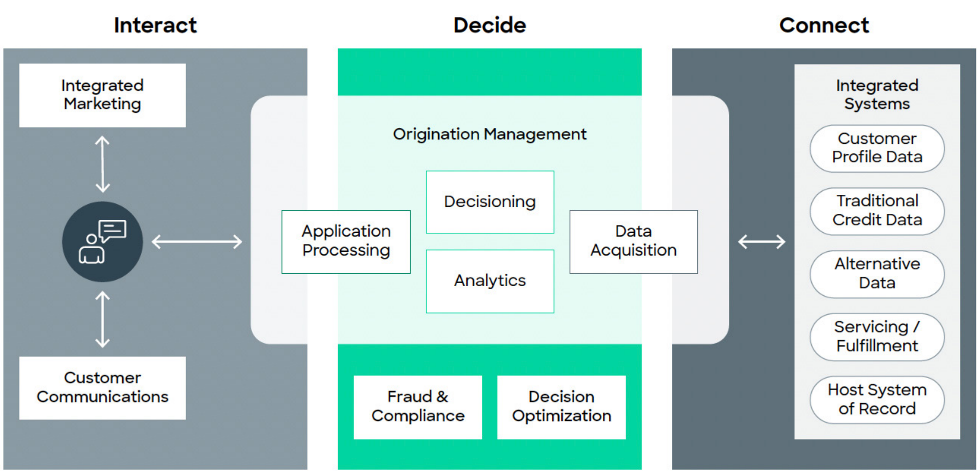
Fintechs have arguably changed consumers' expectations: Now they rely upon the financial services industry to anticipate their needs, offer targeted solutions and sleek platforms, and provide a personalized customer service.

If banks want to engage and retain SMEs, they must offer fast, frictionless, and engaging customer experiences. Of course, this is easier said than done.

To simplify and improve the application process, it's necessary to incorporate:

- Accurate analytics and streamlined decisioning
- Customer-centric strategies and tools to maximize portfolio performance
- Automated outreach to engage applicants more successfully through their preferred channels, such as a digital banking app
- Testing and refinement of the learning curve to pinpoint and remove friction from the application process
- Offer information and multi-channel customer communication services, providing a streamlined and frictionless offer-to-onboarding process

FICO® Originations Solution, Powered by FICO® Platform



FICO in action

A Malaysian agency that provides credit guarantee for local SMEs turned to FICO with a challenge: It takes a vast amount of time to judge creditworthiness when SMEs have insufficient collateral and a poor track record. For the SME, this can make securing frequent financing feel almost impossible.

The agency implemented FICO® Blaze Advisor® decision rules management system and custom analytic models.

The decision management automation tool has revolutionized their processes, including:

- Reducing non-performing loans to just 3% of the loan book
- Cutting the previous time-consuming, tedious process for data gathering and aggregation from weeks to just 2–3 days
- Leveraging automation for not only improved efficiency and speed, but also more accurate assessment of the loan's risk

Acting quicker and more effectively based on a holistic data view

FICO Originations Solution is an application-to-decision solution that aims to alleviate these issues by creating an end-to-end, frictionless loan origination. Lenders can effectively manage risks and build more profitable portfolios. They'll also be able to cost-efficiently adjust to rapid change, and give customers a quicker, more streamlined origination process.

FICO Originations Solution allows for the incorporation of external data points with internal customer data. This enables banks to gain a more holistic view of the customer and their relationship, informing their decision making. In turn, they'll be better equipped to approve profitable customers more quickly, as well as identify any first- or third-party fraud.

Ensuring scalable decisioning

For banks to be able to compete with non-traditional lenders, they should go further than improving the application process. They must also enable scalable and well-informed decisioning, which assesses the risks and best offer to meet SMEs' funding needs. This requires one point of access to all their data sources, alongside analytics support, so they can apply the right data to products and conditions.

Core to this is sophisticated software that uses prebuilt rules (such as industry best practices) that can be easily adjusted to a bank's policies and priorities. And optimization is key to this.

The importance of optimization

Optimization is an even bigger performance differentiator in the post-COVID era. It's the fastest and most certain way to determine how to adapt and personalize prices and offers in line with economic, market, and customer behavioral changes. Through technology, AI, and advanced analytics, banks can:

- Leverage the data they've collected over the decades by connecting it to external data sources. This allows them to create a 360-degree view of the customer and profile them based on risk, along with behaviors such as financial resilience.
- Take the best action, offer, and decision — leading to a better experience, increased engagement, and satisfaction.
- Boost loyalty, grow the relationship, and be able to effectively protect and support customers if circumstances change.
- Strike a new, more timely balance between multiple objectives and business constraints.

Optimization in origination systems

An automated and analytics-driven origination system can reduce the time it takes to assess risk and process credit applications. It achieves this by following a bank's particular policy rules to make automated decisions and examining applicant data and "scores" (viewing relative risk level) to take action based on criteria and cutoffs.

Banks can amplify volume by auto-decisioning more applications, while also giving their lending experts the information they need to process applications that require manual intervention.

This empowers banks to make more precise, valued-based, and impactful decisions at the origination stage. As a result, they can grow more profitable small business portfolios and manage customer-level risk. This is achieved through:

- Improved business value and actionable insights
- More accurate and consistent decisions thanks to a more holistic understanding of the customer's relationship and value to the business
- Analytics-driven business user autonomy, allowing for the quick creation, testing, and deployment of decisioning strategy changes

FICO in action

A leading Australian financial services company wanted to boost their sales and margins, as well as cut down decision-making time, to improve lending services for both their new and existing customers. The SME segment was an area for growth.

The company invested in FICO Platform and analytic services to create an automated, machine learning-powered digital lending solution that utilized transaction data.

The results speak for themselves:

+10% improvement
in risk model performance as opposed to traditional scorecards

+AUD $6.5 billion
of predicted increase in annual lending to existing SME customers

+AUD $800 million
of projected increase in incremental lending to "new to bank" SME customers

Refining the approval process

On top of simplifying applications and enabling scalable, well-informed decisioning, banks must effectively refine the approval process. This requires full transparency surrounding how decisions are made.

Through auto-decisioning, small business lending experts can react faster to customers. Again, that means an increase in approval rates and an enhanced experience.

Auto-decisioning:

- Creates transparency by providing an audit trail
- Allows for compliance – decisions are made fairly and consistently, and in line with policies and regulations
- Enables banks to come to their decisions objectively and communicate their decision-making process to applicants

In addition to this, lenders will fast-track reviews and approvals, not to mention book more accounts, as they'll be able to assess applications based on a reduced amount of business documentation. Decision strategies are then simplified, and creation is accelerated.

FICO in action

A Pacific Rim bank used to manually assess every single SME credit application. As a result, smaller loan or lease amounts just weren't profitable enough to justify the process.

It was clear that analytic insights, scoring, and decision automation was the answer, but this also needed to ensure the bank carries out proper risk evaluation, reacts with agility to changing market conditions, and remains compliant.

By partnering with FICO, the bank is now able to automatically rank applicants by risk level. The result?

- Bankers spend less time reviewing lower risk applications
- Bankers can devote more resources to those in the middle risk category, where decisions are now made faster
- Approximately 30% of applications that fall into the higher risk category are rejected through automated business rules and no longer consume resources
- The bank now demonstrates fair and consistent credit decisions, improving regulation compliance

Meet your customers' needs and compete more effectively

This is just a snapshot of what can be accomplished with FICO® Originations Solution and our range of analytics solutions. With more than 60 years of pioneering work in predictive analytics and artificial intelligence, FICO's solutions are powered with the most advanced science available.

FICO's software and platform capabilities reinvent the originations process, ensuring banks can meet SMEs' dynamic needs and help combat their challenges. By utilizing software to refine the approval process, allow for scalable and well-informed decisioning, and improve the application process, traditional banks can compete successfully with non-traditional lenders — and allow for their own sustained growth in the process.

Expectations of banking customers are constantly changing. The insights in this white paper should act as a launchpad for banks to examine the way they adapt to these developments, and ultimately move with the times.

> "FICO leads with world-class decision management and analytics. FICO is best for companies automating consequential business decisions."
>
> FORRESTER

FICO is an undisputed leader

Leader
Forrester Digital Decisioning Platform

#1
Chartis Innovation Winner

All Top 100
Fortune 500 companies use FICO

200
Patents in AI & Machine Learning

Recognition of our innocation in AI, advanced analytics and decision management is growing.

Contact us today to see how FICO can help your organization drive greater profitability in the SME segment.

Email info@fico.com or visit www.fico.com/view-solutions

FICO More Precise Decisions

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