FUTURE BANKING

21st century strategies and solutions for Europe

Nurturing SME growth

Effective segmentation, simplification and digitalisation

An exclusive report featuring speakers from SME Banking Europe, Vienna

mastercard

Positive growth

Dick Paul
Head of SME products Europe
Mastercard

Stefan Andersson
Head of business banking
Nordea

Christophe Descos
Head of SME, corporate & institutional clients,
Banque Populaire

This exclusive *Future Banking* report examines how banks and their payment partners are helping small to medium-sized enterprises (SMEs) grow profitably, achieve customer centricity and maintain good cash flow.

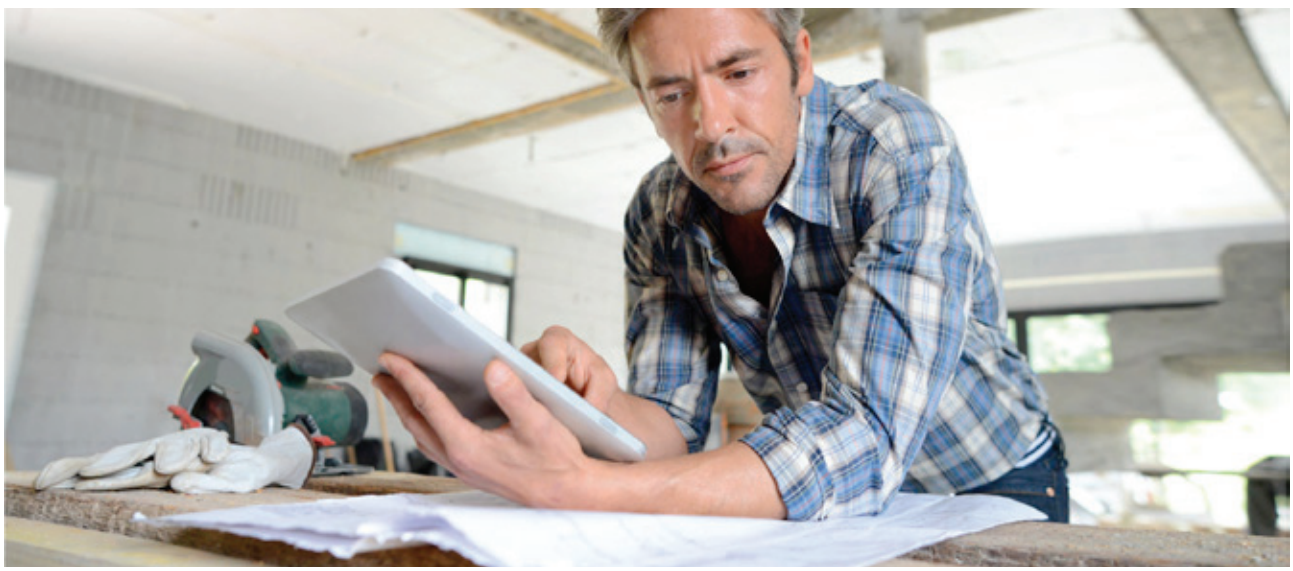
I am delighted that this report, produced in association with Mastercard, will be shared among the attendees of the 11th SME Banking Conference in Vienna, produced by Fleming. I am also delighted that three of the speakers from the event are contributors to this report: Dick Paul from Mastercard, Stefan Andersson from Nordea and Christophe Descos from Bank Populaire.

Unlike a large multinational organisation, the SME is typically free from complex legacy systems, processes and internal politics that span multiple locations and divisions. They are more agile and can therefore adapt to the rapid pace of change, which means that banks need to be one step ahead to build sustainable relationships. Successful banks are those that can provide tailored solutions to specific SME segments and provide services that harness the latest digital technology, but are delivered in a way that is simple and intuitive.

I hope you find this report informative and useful, as you engage with SMEs and help them on their journey.

Steve Dunkerley
Associate editor
Future Banking
stevedunkerley@globaltrademedia.com

The SME: not just another retail banking customer



Banks have come to realise the importance of small and medium-sized enterprises (SMEs) as customers and, working with their payment services partners, they are looking to continue the process of innovation in products and services. We speak to experts from Mastercard, Nordea and Banque Populaire about what SMEs need in the digital age, and how banks can deliver it.

Governments, regulators and banks are not alone in recognising the need to change their approach to supporting small and medium-sized enterprises (SMEs). Challenger banks and alternative finance providers are increasingly looking to that market, and new credit data sharing regulations in the UK, for example, have been designed to make it easier for them to provide loans to small businesses, and the focus is also changing in many other markets. Banks must learn how to compete for the valuable SME segment.

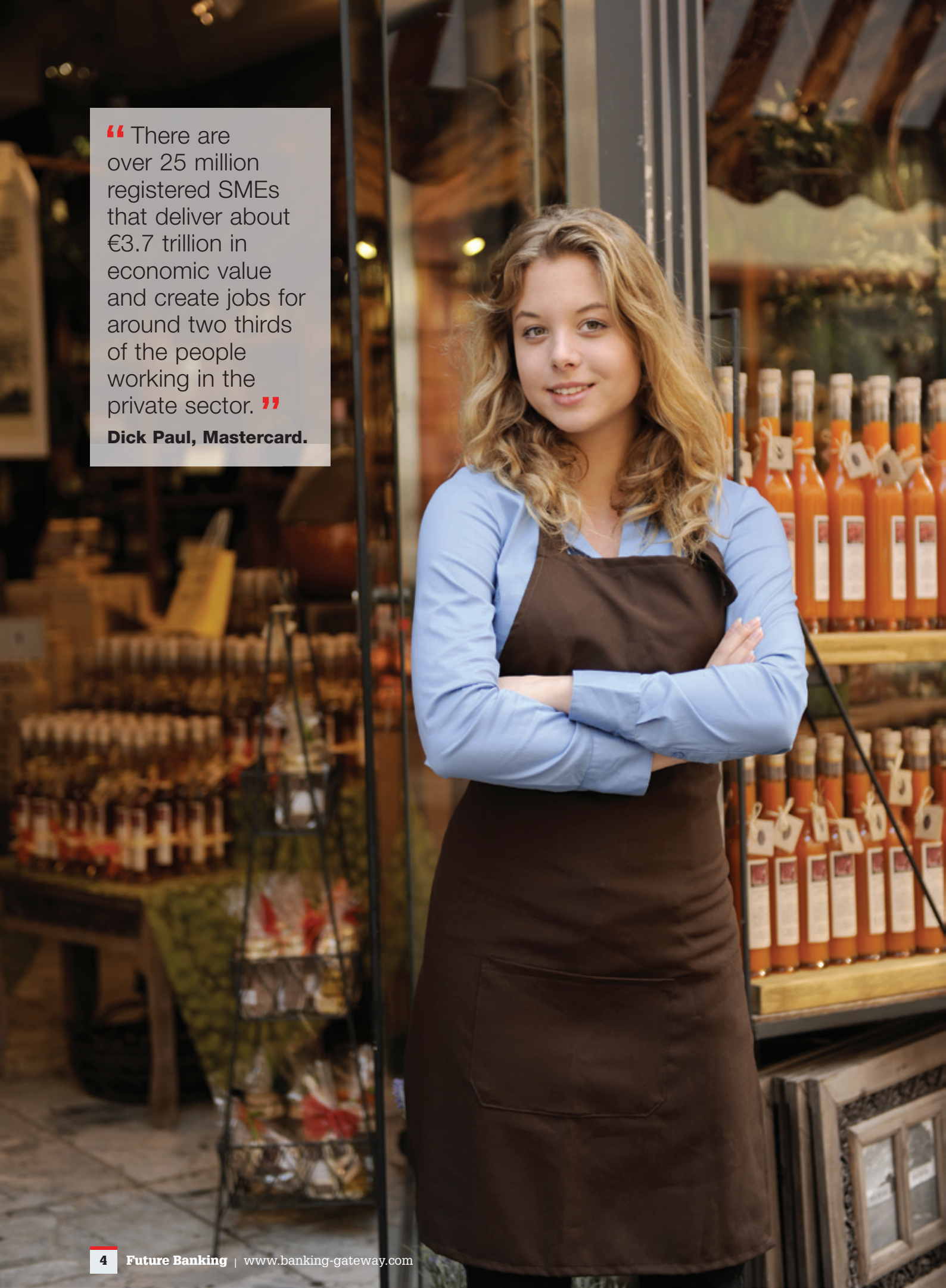
It is widely accepted that banks have, so far, been less than willing to extend credit to SMEs, which are often viewed through the same lens as retail customers. That attitude is starting to change, however, and SMEs may no longer have to get by with using consumer accounts and cards. Now is the time for banks to make a big push on special SME services through business banking packages and cards that are tailored to the small-business market.

Dick Paul, head of SME products Europe at Mastercard, is charged with identifying end-user SME customers' needs, and tracking trends in the regulatory and retail banking spheres in order to shape Mastercard's strategy. He notes that SMEs represent a huge market segment and, therefore, deserve bespoke products and services from banks and payment processing companies alike.

"In every regional market, there is an opportunity to focus more on the needs of small business customers," he remarks. "They are a very significant part of the overall economy in Europe, where there are over 25 million registered SMEs that deliver about €3.7 trillion in economic value and create jobs for around two thirds of the people working in the private sector."

If the SME market has been underserved, it is largely due to the perceived risks associated with the sector. In the UK, for example, the number of small businesses remains stable, but the market is very dynamic as businesses come and go. Nevertheless, it is a market that presents a huge and underexploited growth opportunity.

A recent survey by Accenture found that more than 60% of businesses would use their bank if value-added services were offered and suggests that in the UK alone the potential reward for banks that better engage SMEs is £8.5 billion in new revenue streams by 2020. In the current environment, this is a source of business that banks cannot afford to ignore, so many are realising that SMEs deserve a suite of products and services that goes beyond loans and overdrafts. ■



> “There are over 25 million registered SMEs that deliver about €3.7 trillion in economic value and create jobs for around two thirds of the people working in the private sector.”
>
> **Dick Paul, Mastercard.**

mastercard

Simple, dynamic and innovative:

meeting the needs of the SME

Big changes are coming to the SME market from the banking perspective, driven by new regulation, changing customer needs, and the emergence of new players and, crucially, new digital technologies. Some banks have recognised that there is a golden opportunity to take the initiative and attract new clients in a market segment that has proved to be very loyal to financial services providers that meet their needs.

After the global financial crisis, lending to the SME market dropped significantly – according to the Bank of England, it fell by nearly 20% in the UK – and many small businesses were left looking for alternative sources of funding. Now, banks have a chance to rebuild that credit relationship, but it will take more than a renewed willingness to lend. New products, services and technologies will have to demonstrate that banks and their payment services partners truly understand what SMEs need.

"SMEs have been overlooked," says Stefan Andersson, head of business banking at Swedish financial services group Nordea. "It is because the industry has not dug into the data. It can be hard to find the right data because the industry does not see that SMEs are a private client and a business client. Those types of customer are treated separately, which is part of the problem. They need to be treated in a synchronised way."

Christophe Descos, head of SME, corporate and institutional clients at Banque Populaire in France, notes that it is not straightforward for banks to adapt their approach to SMEs, though he recognises how important it is to do so.

"SME banking is a difficult market," he says. "First, you need to assess very precisely your risk, and SME experience is a 'must have' in order to understand which projects will be successful and which projects are not reasonable as they are. There is also complexity in the distribution model you have to put in place. You have to provide the best expertise for a large number of clients. It is not a corporate approach and it is not

> "The 'just getting started' segment includes businesses in their early stages, less than two years old and typically very small in size."
>
> **Dick Paul, Mastercard.**

Customer segmentation is key for banks to be able to deliver tailored services to the SME.

a retail approach; it is somewhere in between, and you need to have critical mass for your services to be relevant."

There are signs that banks are more committed than ever to helping SMEs drive economic growth and create jobs. Data from the British Banking Association, for example, shows continued net expansion in SME borrowing, with £6 billion of new lending approved each quarter in the UK in 2016. Loans, however, are just one piece of the puzzle.

"Banks have been very happy to help SMEs with their cash flow by offering an overdraft or a small business loan, which is going to cost those businesses more money," notes Dick Paul at Mastercard. "A more positive way is to offer a set of tools and services that enable small businesses to receive money from their customers quicker and give them more payment flexibility with suppliers."

A unique slice of the market

In trying to develop an effective SME banking model, the first challenge is customer segmentation.

"In society and in the SME world, we have a challenging environment. We have a lot of players who want to take a slice of the cake, but SMEs really need us banks as long as we can provide them with the right products and the right value-added advisory services. The positioning of the bank can really make a difference, even now in this environment," says Andersson.

"It is not rocket science to dig into the data on the SME market. In Sweden, 96% of all companies – that is over one million businesses – have fewer than ten employees. So, if you don't have a plan for them, then you only have a plan for 4% of the market," he adds.

As the leading bank in France for SME business and franchise holders, Banque Populaire has a very clear approach to defining different customer needs. The bank serves 128,000 SME customers, provides 150 dedicated business centres and has 1,000 employees who specialise in the SME sector.

"We have tremendous experience in the micro-business and SME market," remarks Descos. "We have two kinds of segmentation. The first is by turnover: less than €1.5 million in turnover is micro-business, more than that is SME and more than €50.0 million is corporate. Then we are thinking about having a segmentation based on profile and customer needs. For example, innovative companies, which include start-ups, can have special needs even if they have low turnover."

Andersson describes a slightly different approach at Nordea: "As a bank, we now have a strategy with clear segmentation, a clear value proposition and a service model connected to that.

We segment business customers by complexity. We have five segments with slightly different service models depending on their needs from partly self-employed up to larger SMEs. It is essentially segmenting by turnover, but the number of employees is a good proxy for that; in the end, it's the customers' needs that steer final segmentation."

For payment services provider Mastercard, the matrix is slightly different again, so there is always a discussion with banking partners to clearly define how products and services align with the specific needs of small businesses.

"Banks segment customers mainly by size. If you are a micro-business then you are often serviced through the retail channel. The mid-market and corporate segments may be serviced differently. The approach we have taken is to look at common behaviours and needs across SMEs to identify four segments that display similar behaviours," says Paul.

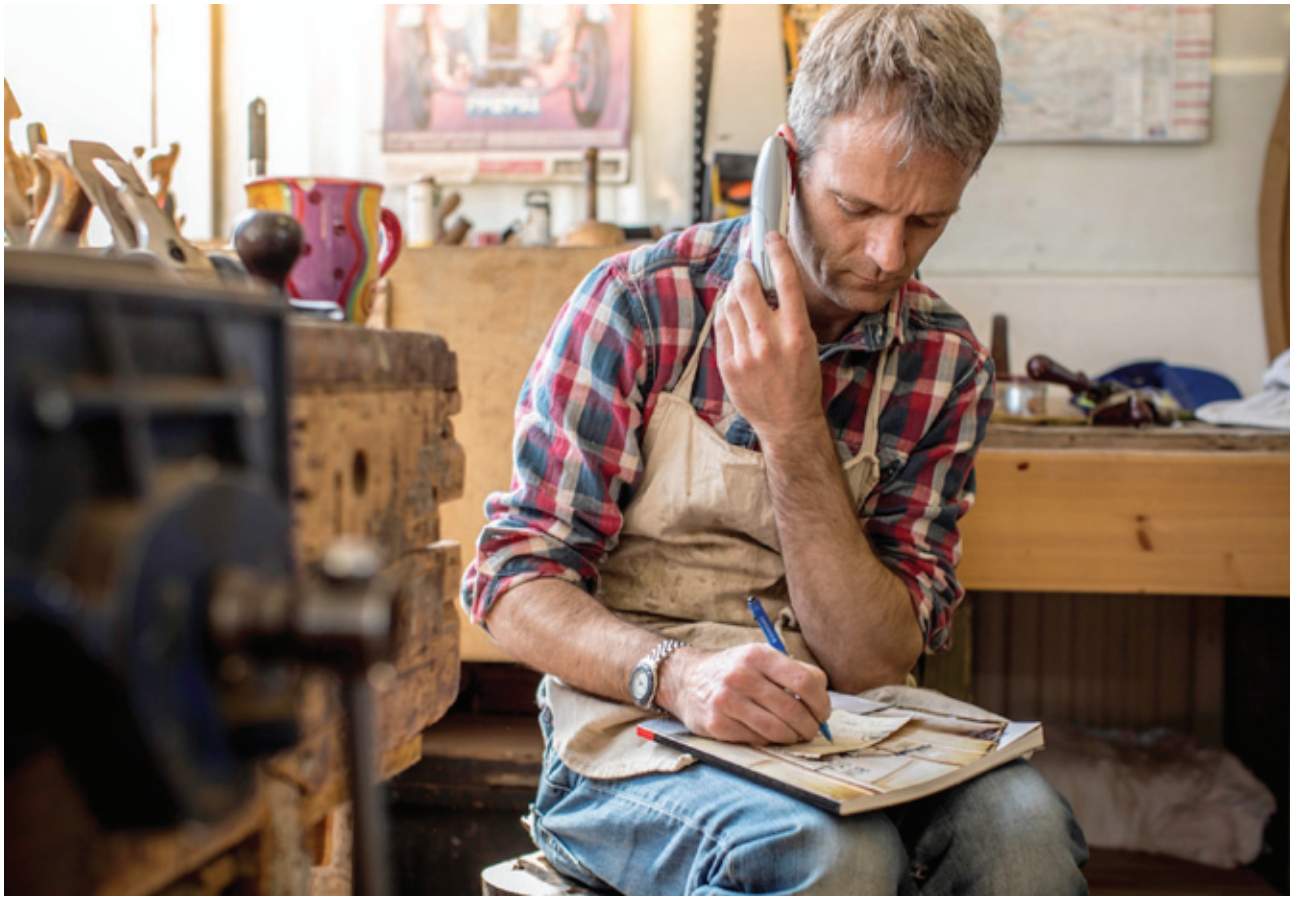
The 'just getting started' segment includes businesses in their early stages, less than two years old and typically very small in size. They need payments services to get the company off the ground but find it hard to get a line of credit from a bank.

> "We have five segments with slightly different service models depending on their needs."
>
> **Stefan Andersson, Nordea.**

"We need to give those customers the payment flexibility to run their business effectively in the first 24 months. The next level of segmentation is done by the type of industry: local tradesmen are providing goods or services, often at the location of their customers – so maybe plumbers or carpenters. Their needs may not be very sophisticated, but they may have significant cash-flow challenges," explains Paul.

The third segment includes liberal professionals working in knowledge-based industries, whose payment needs may be more advanced and who are typically early adopters of new products such as payment wallets. The final segment is established employers, with yet more complex needs.

"Often, they have a large number of people with business cards, so the processes must be more sophisticated



An important part of the banking experience is the ability to access the right advice in a way that is efficient and convenient.

for control and expense management. Employers need to delegate authority to use cards responsibly, so that they can act on behalf of the company but within set limits. Our segments are grouped by needs and behaviours, so we have to sit down with banks and find parallels with the segmentation we use. Then we can work together to develop functionality to make the cards highly relevant to those customers," he adds.

Dedicated SME payment solutions

Banks are starting to develop digital technologies that will unlock the SME market, but a simple first step might be to look at their existing provision of business card services.

"Cards are an important part of the mix of products and solutions that banks offer to their customers, though their importance varies from bank to bank," says Paul. "There is still a share of banks that do not offer specific business card products for every segment, so we are talking to them and trying to convince them of the benefits of doing so. When the SME customer joins the bank, it may not qualify for credit. Rather than saying 'no' to a new customer, banks are increasingly offering business debit or even business prepaid products to bring the customer on board. The customer relationship will need to mature before the bank approves businesses for a credit card. Some banks do the cross-sell of business credit cards very well, some do not prioritise it and others simply forget.

"The business credit card typically works on a monthly billing cycle, so if you time your payments in a smart way you can generate a month of free extended payment terms without paying interest. Banks are starting to offer more flexible payment terms and Mastercard is developing options to roll-out instalment payments. So, if a small business gets an attractive offer from a supplier for a bigger purchase then it might be difficult to pay it all in one go, but instalments give you the opportunity to make that purchase and then pay over time."

For banks, it is not enough just to offer the right products to small businesses. They must also consider marketing, distribution channels, and go-to-market strategies that will bring out the full benefit of their products and services for this key market segment. Mastercard is working closely with banks to develop campaigns to explain to customers the benefits of having a business card. This goes hand in hand with banks' efforts to change how they manage relationships with SMEs, which has led many to focus on new services that improve customers' banking experience.

For small businesses, an important part of their banking experience is the ability to access the right advice in a way that is efficient and convenient. Banque Populaire's efforts in this area include NEXT INNOV, a dedicated network that connects businesses to the right advisers located near their offices. It is designed to help innovative an entrepreneurial businesses to accelerate their growth. It paves the way for targeted offers including loans dedicated to innovation,

crowd equity, venture capital and international accelerator services.

The ease with which SME customers can interact with their bank is also high on the agenda for Nordea, which sees digital capability as crucial to opening discussions about the challenges small businesses face.

> “We are now launching online branches in the Nordic countries and that is really important for the future.”
>
> **Stefan Andersson, Nordea.**

“For example, one issue is the pension gap in an underfinanced system and that is an area where we can really add value. It is more than the traditional bank services like cash management and finance,” explains Andersson. “We can interact with customers about such issues across different channels. One example is online meetings: we are now launching online branches in the Nordic countries and that is really important for the future. In three online advisory branches, which use a shared screen, we can bring specialists into the meeting. This is business banking direct, and customers can access it from wherever they are. It is a really modern way of running a customer meeting.

“Another thing is online onboarding. Previously, SMEs might have to use four different channels and take two weeks to sign up as a customer. Now, they normally only need the digital channel, and the process takes less than 24 hours. It cuts costs and the single central process means a secure compliance process. We launched that earlier this year and now 97% of all new clients use that process. Then it is about online services where we can have the human touch,” he adds.

Easy onboarding is crucial as it paves the way for new services to help SMEs manage cash flow. Recent research by PayPal suggests that nearly 44% of small businesses have never considered using new payment methods, only 17% have a mobile friendly website and only 4% have a functioning mobile app. Mastercard’s Simplify solution provides a flexible platform for accepting payments in store, through a mobile phone or through an ecommerce website. After a very simple registration process, a business can start accepting card payments within a few hours and small businesses can also create their own web shop.

“For small businesses, there are challenges in getting set up for accepting card payments, especially when they have a low turnover,” says Paul. “The cost of the onboarding process is ballooning in some countries due to strict anti-money laundering checks and ‘know your customer’ regulations, which results in some customers falling below the threshold where it is economically viable to sign them up for accepting cards. Our CEO has been public in saying that his objective is to go from 43 million to 100 million merchants by 2020 and most of that will be through enabling small businesses to accept cards. There is an incredible growth opportunity here for us, but the trick is to get to a cost-effective distribution model.”

Banque Populaire also recognises that helping small businesses to compete in the digital space is well within the capability of banks and can be a crucial part of helping this customer segment to feel more engaged with a provider of financial services.

“In 2012, we also developed a special offer called ‘*direct et proche*’ with the idea of giving SMEs and micro-businesses the opportunity to create their own website that could include an online shop. We also created a marketplace to give visibility to these websites,” says Descos. “It is a daily challenge to simplify the banking experience for our SMEs. It is extremely important to be reactive, simple and efficient. We want to deliver the best experience in the digital world. Less paper and more reactivity is the SME banker’s challenge.”

Helping small businesses to develop front-end services such as online shops is, however, just one part of the equation. In many ways, banks are better positioned to help behind the scenes by providing the tools that SMEs need to manage their financial flows domestically and internationally. Their needs may be more complex than simple internet banking, but they cannot implement the ERP systems, treasury tools and cash management platforms used by large corporations.

“In the early 1990s, we created an ‘early bird’ fintech called Turbo, which enables the management of any bank accounts – from any bank – through a single app that can be accessed through a desktop or a mobile device,” Descos explains. “It gives an overview of all bank accounts for the company and its subsidiaries. It is simple, fully digital and competitive, and 47,000 SMEs are already using it.”

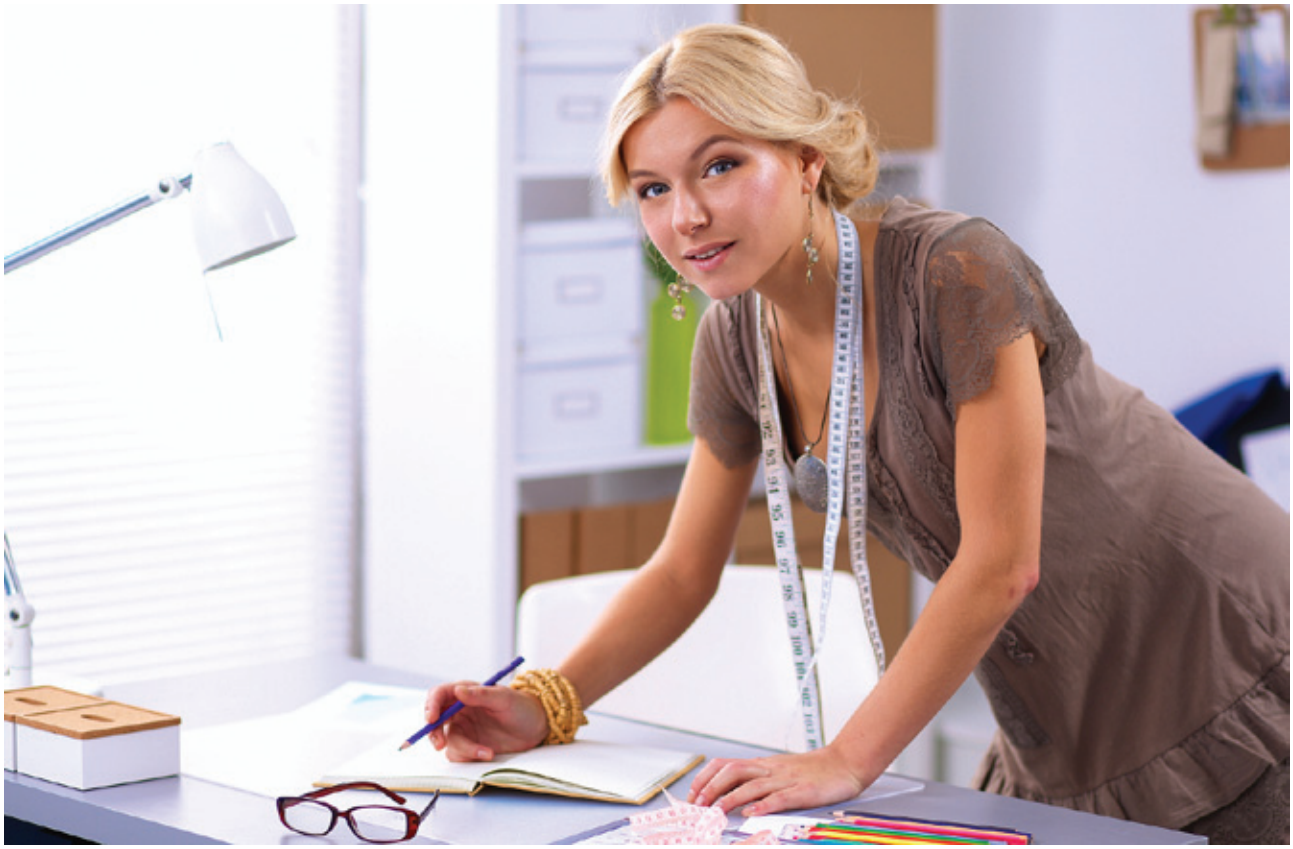
In Sweden, Nordea is one of the owners of Swish, a payment solution that enables customers to make payments using their mobile phone. It will soon be compatible for ecommerce transactions and has already added consumer-to-business functionality.

“It is a common P2P and B2P payments system, and it creates the possibility of doing something among the banks rather than waiting for new players in the fintech space to take a slice of our cake. Half of the population in Sweden is already using Swish,” says Andersson. “Factoring will be part of the solution we are launching and it is another area we need to own, as banks, because if we don’t then someone else will do it.

Digital innovation

The journey of innovation on which banks have embarked does not have a final destination. It must continue as digital technology opens more opportunities. At all times, however, it must be led by an understanding of how SMEs’ needs are changing.

“What is important for SMEs is to have a more integrated system for running a business,” says Andersson. “We can be a



Banks can integrate APIs into their payment offerings to provide SMEs with payment wallets with greater functionality.

player outside the traditional bank field, and that is important because I think we need to look beyond traditional bank services. It is a new way of thinking. We are the blood flow in companies through transactions, payments, authorisation and everything else, but that is only one part of banking. Businesses also need high-quality advisory services, which are very important and create a lot of value, but it can be delivered through digital channels.

"Innovation is key to growth not only for our SME clients but also for SME banking," agrees Descos. "We have to deliver the best innovations based on 'intrapreneurship' and fintech cooperation with clear targets – simplicity, reactivity and efficiency."

For Mastercard, the future is one in which cards may be less visible, but the card payment infrastructure will be as crucial as ever.

"Looking ahead, we will see cards, as a physical piece of plastic, taking a back seat over time," says Paul. "Digital wallets are typically developed with a consumer in mind and the needs of SMEs are often overlooked. For the SME segment, we have prototyped a small business wallet with specific functionality that provides considerable value for the small-business owner in terms of expense reconciliation, receiving instant customer payments, and being in full control of cash flow and budget management. There is also an opportunity to control the cards of your employees, through an interface on your mobile phone or a web-based interface when you're sitting behind your laptop in the office, where you can actually set customised alerts and controls on cards of your employees, as well."

> "Innovation is key to growth, not only for our SME clients but also for SME banking."
>
> **Christophe Descos, Bank Populaire.**

Aside from SME digital wallets, Paul is animated about person-to-person payments – P2P – where you directly pay someone using a mobile phone or do direct settlement from a bank account, and that is something we see emerging in small business payments.

"In the longer term, I see a complete hybrid mix of digital payments, even up to the point where the customer may not even realise how it is actually executed," he says.

Mastercard recently launched a developer portal, through which proprietary APIs are being made available to developer communities. This enables banks to pick up and start to integrate them into their payments offering, which can mean they can develop an enhanced payment wallet with greater functionality.

"We see a lot of growth in API demand due to the PSD2 regulations as well," says Paul, "and we are constantly looking to see how we can speed up those technical implementation timelines to make it more flexible for our issuing partners to work with us." ■

Priceless:

a new look that blends experience with innovation

Mastercard has successfully established itself as one of the world's most recognisable brands, so the first change to its logo in 20 years is a bold step. The difference is subtle – dropping the capital 'C' from its name, which is now shown with the simplified but still iconic interlocking yellow and red circles – but these simple changes are the outward signs of a significant shift in focus beneath the surface.

Over 2.3 billion cards have been issued with the Mastercard brand mark, which is displayed by millions of merchants around the world, and the company has a strong strategy for building its merchant presence substantially in the next few years. The card business, however, is just one part of its broader strategy. As digital technology continues to reshape the financial services market, Mastercard is building on its core competencies of data analytics and payment services to position itself as a forward-thinking, human-centred technology company, which is reflected in its new branding.

The steward of the brand, Mastercard's chief marketing and communications officer Raj Rajamannar, is driving the change in order to leverage the company's vast experience in the card payments market, and push forward the process of product and service innovation to ensure the brand has staying power in a market where change is happening faster than ever before.

The rebrand Rajamannar is introducing will be incorporated into all Mastercard products and communications, and it is a simple, clear and modern design that has been optimised for today's digital market. It builds on Mastercard's unparalleled brand equity to drive meaningful change in a business where competitors and disrupters are coming to market with innovative digital products.

Helping SMEs to launch their own cards

In addition to the launch of the new Mastercard brand, in the SME space the company is helping card issuers to launch their own cards by scheduling launch events, which have been held in the US and Europe.

"For an issuer in Spain, we invited small business customers to come and do an elevator pitch to a panel of industry experts, and we actually build a real elevator where people can step in and actually do an elevator pitch of 60 seconds on their company's value proposition and what they are trying to achieve," says Paul. "The winner can get a cheque that could help them to get their business off the ground. The concept is then developed by Mastercard; we can bring it to an issuer; we can co-sponsor it together with an issuer and make a lot of positive communication around such a launch event. So, we leverage that on several different social-media channels as well, and it's just something that creates a bit of a difference rather than just receiving a letter through your mailbox to say that there is a new card." ■