



2024 The voice of the makers

Banking for small and medium enterprises

With the expert contribution of the
SME Finance Forum, managed by IFC



How we can help

IBM

Modern financial institutions demand modularity, security, openness, AI-driven capabilities, and collaboration on a hybrid cloud. At IBM, we empower you to elevate customer experiences, modernize core banking infrastructures, pioneer innovative payment solutions, and transform enterprise risk management. Learn more at ibm.com/industries/banking-financial-markets

BIAN

Financial institutions use BIAN as a starting point to help define and organize their IT software and services needs in a standard, rationalized way around the BIAN service landscape. This in turn increases an organization's agility to deliver the needs of its customers. BIAN provides an industry model for creating an architectural framework that makes integration of software and services capabilities easier and faster through a standard set of definitions. The model is supported by 250 predefined APIs. Learn more at bian.org

SME Finance Forum, managed by IFC

The SME Finance Forum was established in 2012 by the G20 and is managed by the International Finance Corporation (IFC), a member of the World Bank Group. Its objective is to scale SME finance to drive job creation and economic growth. As the premier SME finance network, with over 300 members and partners globally, it steers industry innovations, supports replication of best practices, facilitates policy advocacy, and fosters global knowledge transfer. The Forum also empowers its global peer learning membership network by connecting them with relevant partners, investors, and policymakers. Learn more at smefinanceforum.org

Introduction

Small and medium-sized enterprises (SMEs) form the backbone of the global economy, representing 90% of all firms, employing approximately 70% of the world’s workforce, and contributing 50% to global GDP.¹

Despite their significance, SMEs face many challenges that demand innovative banking solutions. Banks and neobanks are responding with new business strategies and tech-led innovation.

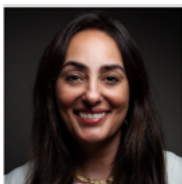
The IBM Institute for Business Value (IIBV) invited 10 financial institution executives to discuss their strategic perspectives on how banks compete in diverse, dynamic SME markets:



Banca Intesa Sanpaolo
Davide Alfonsi
Group Chief Risk Officer



BBVA
Gokhan Koca
Global Head of SME Banking



CreditEnable
Nadia Sood
CEO and Founder



Mashreq Bank
Rajeev Chalisgaonkar
Head of Business Banking and NEOBiz



Mastercard
Jane Prokop
Global Head of SMEs



Nacha
Jane Larimer
President and CEO



Nubank
Maximiliano Damian Rodrigues
General Manager SME Business



Santander
Franco Fasoli
Head of SME Banking



State Bank of India
Challa Sreenivasulu Setty
Managing Director International Banking, Global Markets & Technology



Wema Bank
Ayodele Olojede
Divisional Head of Retail and SMEs

Their expert opinions enriched *Banking for small and medium enterprises: Serving the world economy with data and AI*, a point of view that the IBM IBV published in collaboration with the Banking Industry Architecture Network (BIAN). Our extensive research project is based on a global survey of almost 700 banking executives and more than 1,000 SME owners and managers. It also benefits from the expertise of the SME Finance Forum, managed by the International Finance Corporation (IFC).

By reading *The voice of the makers* compendium to our research study, you will access reflections about the current state of SME banking and its fintech future across different geographies. Four strategic actions were recurring themes in our conversations:

- Go beyond branches, blending human and digital engagement.
- Become an ecosystem catalyst, expanding services beyond banking.
- Refine credit risk management with new data and AI.
- Help SMEs to save time and add critical business value.

What is emerging is a blend of branch services, human relationships, and enhanced digital access to mold SME banking along the varied needs of their diverse clientele.

Go beyond branches, blending human and digital engagement.

Although branches still play a crucial role in banking intermediation, their number has been shrinking since 2012, particularly in major advanced and EU economies. This is primarily due to intense M&A activity, but it's also hastened by declining demand and revenue pressures, notably resulting from protracted low interest rates.

Instead, branch networks are growing in other advanced and emerging economies, along with economic wealth, banks' earning capacity, and the provision of services to previously unbanked citizens and regions.

While higher interest rates are boosting global banking profits, a widespread return to branch network expansion is unlikely, given client appreciation of the convenience and efficiency of digital banking. What is emerging is a blend of branch services, human relationships, and enhanced digital access to mold SME banking along the varied needs of their diverse clientele.

Here are some of the insights from our panel of executives:

"We want to deliver a high-quality digital service plus excel in our human approach. Why? Because what's inside the mind of a business owner is something that generative AI cannot figure out exactly."



Franco Fasoli
Head of SME Banking
Santander Bank

"We don't want to have branches, but that doesn't mean not having people in the field."



Maximiliano Damian Rodrigues
General Manager, SME Business
Nubank

"Digitalization should not be interpreted as digital replacing branches. I think human touch will always be important, especially in this segment, so our main goal is to create a strong harmony between branches and digital."



Gokhan Koca
Global Head of SME Banking
BBVA

Become an ecosystem catalyst, expanding services beyond banking.

SMEs are seeking more from their banking relationships than just basic financial services. They desire a trusted partnership built on a deep understanding of their ecosystem and specific business domain. Our research reveals that they place a premium on instant payments for all operating expenses and streamlined digital access to all banking and non-banking services. These centralized platforms could provide a wealth of benefits, including enhanced decision-making facilitated by data-driven insights and cash flow forecasts.

A platform experience that embeds banking and non-banking services in the context of the daily life of SME businesses can liberate them from complexities that can stifle productivity and innovation. With an integrated solution, SMEs can redirect their energies toward strategic growth, creativity, and competitiveness, rather than being bogged down by administrative tasks. And by adopting an ecosystem approach, banks can connect the dots to foster long-term relationships.

Here are some of the insights from our panel of executives:

“Serving small and medium businesses requires a different approach. It demands customer segmentation, understanding their needs, and potentially customizing benefits or ancillary products to make the relationship sticky. This requires not only analysis but also investment.”



Jane Prokop
Global Head of SMEs
Mastercard

“By only operating within our own channels, we come to expect clients to adapt to our way of working. Instead, we need to provide alternatives that make it easy for them to work with us. This is where embedded finance and the orchestration of services come in.”



Gokhan Koca
Global Head of SME Banking
BBVA

“I see a growing number of clients selling on B2B or B2C digital platforms, and I believe we will be more embedded inside those platforms.”



Rajeve Chalisgaonkar
Head of Business Banking and NEOBiz
Mashreq Bank

Refine credit risk management with new data and AI.

As banks seek to expand their SME banking services, they must redesign their risk management analytics to help ensure accurate risk estimates. Our study reveals that many banks face difficulties accessing sufficient and reliable data, as many SMEs do not maintain standard annual reporting. To overcome this hurdle, machine learning can be used to integrate new data sources, such as cash flows and transactions, to improve risk management and enable confident scaling of SME banking across this varied ecosystem. Additionally, most banks emphasize the importance of prioritizing more frequent credit evaluations and digitalizing documentation for easier credit application.

However, many SME clients are still hesitant to grant access to granular information on payments and transactions, citing concerns about privacy. As the financial sector continues to evolve, it is essential to strike a balance between safeguarding client privacy and promoting information sharing that can facilitate more informed lending decisions and drive economic growth.

Here are some of the insights from our panel of executives:

“Machine learning allows us to estimate very specific variables to enrich risk assessment by investigating the ‘economic behaviors’ of SMEs.”



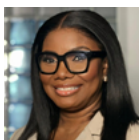
Davide Alfonsi
Group Chief Risk Officer
Banca Intesa Sanpaolo

“What has transformed the way we approach SME lending is a perfect storm of economic formalization, data availability, and risk management.”



Challa Sreenivasulu Setty
Managing Director of International
Banking, Global Markets & Technology
State Bank of India

“We continue to invest in better data collection and cleansing ... and we are working with fintech startups to design AI analytics to further drive business and lending.”



Ayodele Olojede
Divisional Head of Retail and SMEs
Wema Bank

“The main friction point in a highly disaggregated lending market like India is information asymmetry (which is the case in most SME lending markets globally) ... Our platform uses machine learning to eliminate that friction, increasing the probability that SMEs apply selectively to the right lenders and that the lenders are not asked to absorb applications if the chances are not in favor of loan approval.”



Nadia Sood
CEO and Founder
CreditEnable

Help SMEs to save time and add critical value.

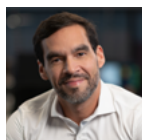
SMEs are intuitively drawn to a paradigm of simplicity and convenience across all their business dimensions, not banking alone. Our study reveals that they crave a unified, intuitive platform that harmonizes their financial operations, liberating them from the burdensome complexity that can stifle productivity and innovation. By seeking an integrated solution, SMEs can redirect their energies toward strategic growth, creativity, and competitiveness, rather than being bogged down by administrative tasks.

As bankers define new strategies to compete in SME markets, one element of value emerges as a constant—notwithstanding the different SME needs across industrial sectors, commercial activities, geographical location, and business seniority.

Time is money for SMEs, and helping SMEs to save time is a critical added value that will differentiate digital contenders globally.

Here are some of the insights from our panel of executives:

“Our key value proposition is to save the business owners time.”



Maximiliano Damian Rodrigues
General Manager, SME Business
Nubank

“In my opinion, there is one common denominator that all the right solutions must deliver. Ultimately, for SMEs, it’s all about saving time.”



Gokhan Koca
Global Head of SME Banking
BBVA

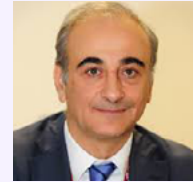
“Let’s face it, timely payments and a healthy cash flow are the lifeblood of any small or medium-sized business. When things run smoothly, businesses can focus on what matters most—making informed decisions and growing their company. That’s why it’s so important to find solutions to streamline payment processes, reduce the risk of fraud, and eliminate delays.”



Jane Larimer
President and CEO
Nacha

Davide Alfonsi

Group Chief Risk Officer



Advanced risk management is an engine for sustained value creation in SME banking—one that links profitability and risk through a wide range of operational tools and engagement models. The importance of a “point-in-time” risk assessment is essential as economic cycles get shorter, SMEs exhibit a high variety of risk profiles, and decision-making shifts from personal relationships in branches to self-directed access to banking services on mobile apps. Today, it is the use of artificial intelligence that helps integrate additional data, granting bankers more trust in expanding lending operations via digital channels.

In this conversation with IBM’s Paolo Sironi, Banca Intesa Sanpaolo’s Davide Alfonsi discusses both the present and future of risk management services for SME activities, sharing how to create a rating-based model for lending that integrates “point-in-time” information to profitability and risk.

How does risk management fit into the value creation for SME banking?

The philosophy of risk management is to link credit risk and profitability through a wide range of operational tools. The rating model is the fundamental piece of a credit-acceptance process. Since ratings are “through-the-cycle” measures or near to this concept, it’s equally important to account for “point-in-time” considerations. By integrating shorter-term considerations, like the prevailing macroeconomic conditions over the next 12 to 18 months that can affect financial statements, we can tailor our credit risk appetite to the relevant idiosyncrasies of each individual borrower. Based on this advanced risk estimate, exposures with existing and prospect clients can be divided into three classes:

- **Green.** The risk-adjusted return is always above a positive target level, even in a stress scenario.
- **Yellow.** The profitability is good in ordinary situations, but a loss may be generated in times of stress. As a result, profitability is low once adjusted for risk.
- **Red.** Value is destroyed even in ordinary situations, demanding attentive management of customer dynamics—or disengaging from them.

These risk classes have different limits in terms of new disbursements:

- **Green.** There are no limits for disbursement and risk appetite. Then, it could be that a loan in the green area is not accepted because it doesn’t reach the minimum Risk Adjusted Return on Risk Adjusted Capital (RARORAC), but in principle these clients are all accepted.
- **Yellow.** Most of the lending analysis is concentrated here, with margins being slightly higher compared to lending in the green class, and limits are present to favor the selection of the best companies in the area.
- **Red.** In principle, there is no space for risk-taking as limits are very tight. If a disbursement decision is made, that requires explicit and motivated approvals.

From the beginning of any lending application, this methodology links the banking activity to a vision of risk and return that is consistent with the configuration of our pricing engine.

What characterizes lending decisions in the riskiest class?

In the red class, SME bankers operate within tight limits, with some discretion on how to implement them. Essentially, they conduct careful analysis to understand if some counterparties still have potential to improve their rating under certain conditions—moving in a foreseeable future from red to yellow or even becoming green. It's hard, but it can happen. Then, only some products (like self-liquidating, guaranteed with a constrained duration) are allowed.

Centrally, the credit manager checks that borrowers are not defaulted upon, that the prospects of improvement are justified, and that the credit spread is priced to reflect our risk-taking consistently.

The red class is a class of bets. There can be positive stories of restructuring or business stories that see these enterprises become healthier and grow again. Our balanced approach might not make a difference during an economic boom or a period of stagnation, but it makes a big difference during a recession. As a result, our speculative grade quota in the Italian credit market is lower than the system's.

Is SME data sufficiently granular to make an accurate risk assessment?

There are three informative elements that feed our risk models: the SME's financial statements (especially for medium-sized enterprises), the statistical information collected by the Centrale dei Rischi (Bank of Italy's credit bureau), and the SME's cash flow through banking accounts and payment systems. It is the qualitative significance of these data sources, and our usage of advance analytics like machine learning, that grant us high accuracy ratios.

Machine learning allows us to estimate very specific variables to enrich risk assessment by investigating the "economic behaviors" of SMEs. This is fundamental for the smaller companies in the SME segment, where balance sheets are less reliable.

In this context, investments to comply with the Payment Services Directive (PSD2) regulation could be leveraged to integrate SME data efficiently via APIs. However, clients often proved reluctant to give direct visibility into their accounts. We approached them by offering more favorable pricing, like what we offer to our primary clients for whom we have information of at least one or two years. In this way, we can build a better proxy of their balance sheet and make better-informed credit decisions.

How has digital innovation changed your risk management approach?

Improving the accuracy ratio through machine learning has been the enabler that makes our risk management approach fit for a digital multichannel world. It allows self-service for the green class for some products and, in some cases, for the yellow class. Otherwise, an interaction with a branch manager is always required.

How is the role of branches changing?

For the mid-corporate segment, branches remain an essential point of contact that deepens our knowledge about each client and helps them better structure their credit lines with the aid of relationship managers. Entrepreneurs learn what to ask for and how to ask for it. Essentially, relationship managers can design financial plans with SME clients that promote better balance to their finances across short-term and long-term needs. However, it's always the central lending officer who completes and ratifies the risk analysis process, using the risk management tools available and a vast set of advanced analytics that support their analysis and decisions. The branch has a more commercial role than decision-making role.

One thing is worth mentioning. Our credit decisions are expressed in terms of risk-weighted assets. In practice, executives with deliberative power are assigned a lending capacity expressed in terms of equivalent risk, as if they had allocated capital to use. They can spend that capital from the riskiest ratings to the most virtuous ones, where the ratio is about ten times. In other words, €1 million disbursed on a CCC-rated SME absorbs the same capital as €10 million disbursed on an AA-rated SME. This approach has a beneficial effect because it tends to decentralize toward the peripheral decisions with lower risk and centralize those with higher risk.

What role does risk management play in the additional services offered to clients?

Sustainability is one such service. Business units and the Chief Sustainability Officer collaborate to offer financing that targets sustainability programs. This ranges from SME clients installing photovoltaic systems to improving production technology with reduced emissions, based on measurable parameters, or circular economy projects. This targeted program allows us to grant financing with a pricing discount, while still being aligned with our credit risk vision.

Second, the bank offers rating advisories in the branches as a free service. Relationship managers access risk analysis on how individual SME clients are positioned on key metrics that shape their ratings compared to enterprises operating in the same sector. Essentially, our risk management engine is available for indicative simulations on how credit ratings could change based on certain modifications in the SME's financial behavior. Clearly, this is not a promise of rating change but a useful tool to address the value of better financial discipline.

Do you also provide cyber risk solutions to clients?

As a bank, we are not seen as an essential counterpart for a company's cybersecurity. However, we always invest to protect clients on our communication channels, especially in the retail segment.

And what's next to strengthen the risk management practice in SME banking?

Certainly, automating the risk management process end to end is critical so that lending services can be accessed in a more self-directed way possible. That's why we will continue to invest in digital transformation to reduce the analytical burden on the yellow class and to increase the products offered in green classes in self-mode. To do this, we are learning how to better categorize a series of behaviors that credit managers ultimately take. The promise is to expand our usage of artificial intelligence to incorporate additional sources of information that make qualitative aspects of operators' behaviors more predictable.



BBVA

Gokhan Koca

Global Head of SME Banking



Global banks may operate in diverse markets with distinct regulations and business dynamics, but they've identified common needs and pain points among SME clients across countries—allowing for the development of globally applicable solutions. The fundamental requirements of SMEs, such as digital onboarding, risk analytics, and personalized services, have emerged as universal themes that, when addressed, consolidate practices and technology investments across jurisdictions.

Ultimately, value creation for clients is about addressing their unique needs while helping them to save time, focus, and grow their businesses. In this interview with IBM's Paolo Sironi, BBVA's Gokhan Koca discusses how a global practice can leverage its international presence to provide capabilities that can service SMEs across countries, helping ensure consistency and best practices.

How is SME banking organized at BBVA?

SME banking is a dedicated line of business at BBVA. Since 2019, it's been organized as a global practice, with the holding company responsible for the countries in which we operate. I lead the holding team as a central unit that defines the strategy, shares best practices, and increases synergies among countries. There is often an overlapping among countries in terms of tools needed to service SMEs digitally. These are cases in which development can be centralized, so that all countries can benefit without reinventing the wheel.

What motivated BBVA to create a dedicated business unit to serve SMEs globally?

BBVA has a strong presence in retail and corporate banking and wanted to develop an attractive service offering for SMEs, a common challenge faced by many banking organizations. SME banking faces unique market considerations, such as serving sole traders who have both personal and business banking needs. A sole trader needs personal banking like mortgages or consumer loans, as well as working capital loans for their businesses.

Creating a standalone unit for SMEs would be the best way to address these challenges. This strategy has paid off for us, with a 52% increase in the number of active clients, a 56% increase in acquisition business and a 48% increase in business loans over the past four years, which is a significant improvement from the past.

How do you align global and local perspectives?

Our main markets are Spain, Mexico, and Turkey, followed by Peru, Colombia, and Argentina. Although we face different regulations and local business dynamics, the fundamental needs of SMEs are surprisingly similar—more than 80% of the capabilities we need are the same, plus and minus local adjustments. Yet, the overall outline and goals are consistent. For instance, digital onboarding is a universal need for SMEs. Instead of developing this onboarding from scratch for each country, we're finding ways to solution once and reuse everywhere. This requires coordination across jurisdictions, including the alignment of stakeholders and internal resources with our global strategy.

Our international diversity is also a huge learning opportunity for our global organization. While business metrics may differ, the pain points we address in Mexico can help find better solutions in Spain without having to test from scratch. This way, we can save time and resources and focus on delivering the best possible solutions for SMEs advancing from different local points as a global practice.

What is the role of the branches in serving the clients?

Our brand recognition and strong branch network at home have been the main drivers of our growth to date. On the other hand, BBVA is a bank that invests significantly in digital and has a clear digitization vision. The SME segment is one of the most invested areas in this field. However, digitalization should not be interpreted as digital replacing branches.

I think human touch will always be important, especially in this segment, so our main goal is to create a strong harmony between branches and digital. We want our customer representatives to spend more time with the customers and focus on tasks that will create more added value for the customers, instead of being busy with operational or routine tasks. We want to provide them with real financial consultancy. And for this, again, we use technology. By providing our customer representatives with the necessary infrastructure in terms of both hardware and software, we aim to eliminate their branch dependency. In this way, we will be bringing all kinds of banking services to the customer.

What is the main challenge to moving forward with further speed?

Today, we have the technology we need. Five years ago, it was not easy to onboard an SME client digitally. But we now have a frictionless onboarding process, especially for the mass market of sole traders. The main challenge is to address prioritization, as we run many projects with dependencies across all client segments, not only SMEs.

A key criterion we adopted since the creation of the global unit has been to start with the most important product—risk analytics. When systematizing our banking capabilities to handle digital loans, we addressed the processes and norms to preapprove loan amounts to fit client profiles without expecting the request to come from the client. As 40% of our clients are mapped to preapproved limits, digital disbursements are accelerated, reducing the friction of branch visits.

What is the value of branches?

Accessibility is a top priority. We want to be there for our clients whenever they need us, and we also want to be proactive to provide advice. This is especially true for our top market line, where the cost-to-serve grants more leeway to push us out of the branches and go to meet them at their premises. That is why we invested globally to equip our relationship managers with remote and mobile capabilities.

However, when it comes to serving our active 3.5 million non-portfolio SME clients, we have a dual approach: there is at least one SME expert in every branch that can connect colleagues and clients. In Turkey, for example, we're taking it a step further, replacing traditional contact center agents with expert advisors who can provide guidance and support over the phone. That's important, because many clients need support but can't leave their business to meet us in a branch, and for us it is not always practical to reach out in person. Technology can create new forms of banking proximity that benefit all parties. The winning approach is a balanced approach that offers alternatives to fit different expectations.

Are non-banking services central to your strategy?

It is not always easy, as market solutions are often local and don't always scale across ecosystems. Our goal is to find solutions that address their day-to-day business needs and apply to at least 80% of our SMEs globally. For instance, reconciliation is one crucial aspect. Many SMEs don't have a professional person on their payroll to handle these tasks, which require some expertise. When we provide a genuine solution, it's truly appreciated. And that is what we're aiming to achieve.

If we fast forward five to ten years, how do you imagine the BBVA practice and business for SMEs will change or remain the same when compared to today?

I think the fundamentals of our business will remain the same—our main objective is to make it easier for SMEs to run their businesses. What will change is the way we operate. With technology, we'll focus on personalizing our services for SMEs. Currently, our high value portfolio clients have a dedicated senior relationship manager, making it easy for them to get assistance when needed. However, we can't replicate this one-to-one service for our millions of local SME clients.

That's where technology comes in. We can use APIs, machine learning, and data to provide a similar level of service to all our SME clients. By leveraging external data, in addition to financial data, we can better understand their needs, especially for new businesses. This evolving technology will enable us to advance our SME business and help their businesses grow and thrive, which is key to our mutual success.

Do you differentiate your strategy per economic sector of SMEs?

We do adjust our approach for certain sectors, like agriculture, because of their unique needs. The business cycle in agriculture is different due to the seasonal nature of farming. For instance, the loan we provide to a farmer needs to be tailored to their specific situation, which is distinct from a business with more consistent income from operations. My expectation is that in the future, we will be able to address the needs of all industries and sectors in this way, as we advance our digitalization plans. Having the right data will be key to personalizing our services not only by industry but also by other relevant parameters, providing a more tailored experience for our clients.

Is embedded finance an add-on to SME banking?

Embedded finance is not really a new concept. If I reflect on our branch business over the past 20 years, we've always known that it's better to go to the client rather than expecting them to come to us. Initially, we'd visit clients with limited capabilities, take notes, and then execute transactions back at the branch. With today's technology, we can now complete a bigger part of the business at the client's office, making it more convenient for SMEs.

Similarly, in the digital space, we initially expected clients to onboard and learn how to use our apps and channels. But we've realized that this approach has its limitations. By only operating within our own channels, we come to expect clients to adapt to our way of working. Instead, we need to provide alternatives that make it easy for them to work with us. This is where embedded finance and the orchestration of services come in. Again, it's a matter of prioritization and technology. We're fortunate to have the necessary tech and a client base that's increasingly comfortable with digital solutions.

This shift in mindset is not just an internal transformation for the bank, but also a reflection of the digital transition happening in our clients' businesses. We recognize that we need to adapt and be present in this new landscape, which is why I believe a paradigm shift is on the horizon for us in the very near future.

What do you think SMEs value the most?

There can be many ways to use technology to serve SMEs via dedicated apps or embedding into their ecosystems, and with more relationship managers using advanced automation of self-directed services. More data and AI will allow us to better understand client needs and expectations. However, in my opinion, there is one common denominator that all the right solutions must deliver.

Ultimately, for SMEs, it's all about saving time.

Nadia Sood

CEO and Founder



SMEs face many barriers to accessing credit. These include requiring better education about financial matters, acquiring more financial discipline, improving operational efficiencies, and achieving greater understanding of cash flow risks and compliance. Digital platforms are being created to address these issues with systematic approaches. These platforms can also help lenders through the process, making lenders' operations less expensive—which in turn allows lending for cheaper prices, benefitting SMEs.

In this conversation with IBM's Paolo Sironi, CreditEnable's Nadia Sood discusses how her digital platform helps to strengthen the financial foundations of the Indian SME community they serve.

What's CreditEnable?

CreditEnable is a digital platform that sits between financial institutions and SMEs looking to borrow. We focus on four elements of value: reducing the friction in the lending process, helping transactions clear more efficiently, reducing borrowing costs to more affordable rates, and increasing SME financial wellness by helping them to understand and improve their creditworthiness. SMEs unable to access traditional financing today are also supported to improve and shift their position for future finance-ability. More than 40 banking and non-banking partners offer financing through our platform, and we also run digital wellness programs together with the Indian government to help improve SME creditworthiness.

What is the core friction that the platform mitigates?

The Indian market is very disaggregated. There are about 10,000 lending institutions and millions of SMEs who need everything from a term loan to an overdraft facility to a working capital loan or import-export finance.

The main friction point in a highly disaggregated lending market like India is information asymmetry (which is the case in most SME lending markets globally). SMEs are generally ill-equipped with enough of an understanding of credit risk to determine which lenders will be able to approve them for a loan given those lenders' risk appetites, nor do they have a good understanding of which lender will be able to offer them an appropriate loan product at an affordable price.

In markets like India, SMEs typically start by approaching a number of lenders who are ultimately not right for them. This results in very poor transaction success rates: for every 100 units of loan applications, only 10% of those get approved and another 50% of those are not going to transact because the product offered by a particular lender is too costly for the SME. This leads to a vicious cycle: SMEs try with multiple lenders over a period of time and eventually get forced into the informal market where interest costs are very high. Conversely, SMEs using our platform can get loans within hours to a few days and save up to 500 basis points in borrowing costs within the formal market.

There is also friction for the lenders. They must exercise a duty of care to the customer when they are presented with a loan request and fully process the application, even when applicants are not aligned with their risk tolerance. That results in high costs for lenders. Our platform uses machine learning to eliminate that friction, increasing the probability that SMEs apply selectively to the right lenders and that the lenders are not asked to absorb applications if the chances are not in favor of loan approval. Lenders using our platform approve 2x more loans and much faster—in hours rather than weeks.

How do you onboard SMEs to your digital platform?

We have a very large customer base of over 500,000 SMEs. Most have been onboarded through marketing on digital channels or via our lender partners through a reverse exchange: when a lender is unable to service the customer because they don't meet their credit criteria, they put the customer onto the platform, and we can fetch a loan for that customer from another ecosystem counterpart with the needed risk appetite.

We're also working with the Indian government to provide digital financial wellness tools to SMEs and specifically also to women entrepreneurs.

How do you help businesses to improve their finance-ability?

We provide a digital financial wellness solution (Shine) to SMEs on a subscription basis. Our solution gives SMEs a full analysis of their credit position from a lender's perspective, tells them how likely they are to get a loan today, and what they can do specifically to improve their chances of getting a loan. We use a combination of the SME's credit report, their tax filings, and their bank transaction data to identify any issues that will negatively impact their ability to access credit and then give them an action plan for what exactly to correct so that they increase their probability of getting a loan and reduce their interest costs within less than six months. We follow up digitally and have had great success in helping companies refused for credit re-enter the credit market and achieve a loan.



What do you think is still unaddressed to help SMEs—but is needed within the next five years?

We want to further our capability to help SMEs improve all aspects of their financial ability. SMEs can transition from being marginal to mainstream by focusing on three areas: financial discipline, cash flow management, and cost dynamics. And we want to help them get there.

First, it's essential to help them become more financially disciplined. This includes ensuring they comply with statutory filing requirements, which positively impact their creditworthiness when applying for loans.

Second, SMEs need to effectively manage their cash flow and understand key factors such as customer concentration risk and how to reduce costs in their business. This knowledge will enable them to make informed decisions and optimize their financial performance and improve their access to formal credit.

Third, we also look to collaborate with other commercial partners that can have a positive impact on SME finances. For example, many SMEs in emerging markets rely on diesel. By shifting to cheaper sources and renewable energy, they can reduce costs and improve their bottom line. Similarly, optimizing logistics and transportation costs can significantly impact the manufacturing sector's efficiency and profitability.

And what's unaddressed in the market as a whole?

Female borrowers are still very marginalized, and that happens everywhere in the world. There are three major barriers to women's access to credit that digital innovation can help to address: provide financial education at scale, create tools for women to access credit, and demonstrate women's creditworthiness. We are working with the Women Entrepreneurship Platform (WEP, NITI Aayog) as part of the Indian government initiative to directly address this issue by empowering women entrepreneurs with the skills they need to get access to finance.

First, their financial education is often poor compared to their male counterparts, which highlights the need for targeted educational initiatives.

Second, women may not meet lenders' criteria due to lack of ownership of collateral or limited access to digital services. Even in countries with high mobile phone usage, some female entrepreneurs may not have access to smartphones or digital services without permission from their husbands. Therefore, digital interventions must be designed with these constraints in mind.

Third, traditional credit assessment often prioritizes the creditworthiness of male co-applicants over that of women, even if the male co-applicant is not involved in the business. Digital platforms can help address these issues by providing data that showcases the creditworthiness of women borrowers, resolving these biased practices.

Rajeev Chalisgaonkar

Head of Business Banking and NEOBiz



SME banking in the United Arab Emirates (UAE) is a critical segment. What's important is tailoring banking services to meet unique client needs. This includes digital onboarding, dedicated relationship management, and value-added services, while assessing creditworthiness in a segment where financial statements may not always be reliable.

In this conversation with IBM's Paolo Sironi, Mashreq Bank's Rajeev Chalisgaonkar discusses how to leverage retail banking practices with a dedicated organization that understands segment behavior across borrowing and non-borrowing demands.

How do you define the SME segment at Mashreq Bank?

Mashreq Bank is headquartered in the UAE and has served the financial needs of SMEs for over 60 years. We define SMEs using the UAE Central Bank definition of AED 250 million annual turnover. Roughly two-thirds of our customer base is sole proprietorship companies, but we don't have many micro customers given the international trade-oriented nature of the region in which we operate. Currently, the SME segment represents between 15-20% of our revenues.

What key qualities make bankers and fintech successful in the SME space?

First, bankers need to be good at understanding the needs of entrepreneurs, and the daily challenges they face in starting and running a business.

Second, they need to possess a unique combination of commercial banking product skills and retail banking distribution skills. This gives them an understanding of what it means to run a mass market operation that serves business banking products to a large number of entrepreneurs.

Institutions running SME banking as a self-contained vertical tend to do it better because SMEs have specific needs that differ from those of other client types. So, banks need to organize their SME teams as a dedicated and specialized vertical as far as possible.

How should an SME banking team be organized to maximize its impact?

Within an SME banking vertical, it is advisable to divide clients into those who borrow and those who don't and assign different sales teams to them. Within each of these teams, a further division can be made between client acquisition and client relationship management. There is a third division made of teams that design products and do end-to-end product management. They are also responsible for digital activities via multiple squads. And a fourth vertical should be responsible for customer support, Know Your Customer (KYC), and Anti-Money Laundering (AML) processes.

What makes Mashreq client acquisition distinctive and appreciated by clients?

Our SME bankers go to meet borrowing customers in person, at their premises, after establishing on the phone that there is a need to borrow. Many clients don't have time to come to a branch as they are busy running their business.

We leverage digital onboarding for clients looking for account services. Four years back, we launched UAE's first digital bank for SMEs: Mashreq NEOBiz. This is an end-to-end digital proposition for SMEs, allowing them to manage banking purely online. We work closely with trade licensing bodies to further ease the process of opening bank accounts by digitally connecting to them. Digital onboarding already represents 85% of all our SME client acquisitions.

How relevant is it for SME bankers to know about the different economic sectors in which their clients operate?

SME bankers are seen as trusted advisors by their clients. To fulfill this role, they need to have a good understanding of the industries their clients operate in. For SME banks with very large market share, industry specialization of their SME bankers can be a viable and beneficial strategy. In order to provide high-quality advice to clients, we have specialized product teams that work alongside the relationship managers, assisting clients whenever a more complex need arises in areas such as trade finance, foreign exchange, insurance, and investments.

What is the key challenge for risk management of SMEs?

In terms of processes, the way we assess and manage risks is not based purely on profit-and-loss accounts and balance sheets, because they are typically not audited and sometimes not reliable. Underreporting of profits is a common challenge across emerging markets.

We devised different ways to assess the credit risk of SMEs, typically aggregating statements from existing banks. We then look digitally at the variability of cash

flows, how many buyers and suppliers they deal with, regularity in the way they pay salaries and suppliers, and numerous other data points. In the future, we hope to access this data through open banking platforms, instead of asking clients for their bank statements.

What other services do you think SMEs value beyond traditional banking, and can they be a game-changer in choosing one bank over another?

We've done some research, and we launched a thriving platform for value-added services that SME clients can access at convenient prices. We've tied up with several partners who provide curated business applications, such as HR management tools, information security tools, coworking spaces, and digital marketing tools to SMEs. We have found that clients typically trust banks more for applications that have something to do with finance, such as accounting or payroll management, or applications that help them generate more business. And they trust banks somewhat less for applications that are very specialized and distant from finance and cash flows.

For example, clients don't necessarily see banks as specialized technology providers, so a bank may not be seen as a credible provider of information security services. On the other side, coworking space offers are welcomed.

There is one service that ranks very high, but we haven't launched it yet. Previously in my career, I recall asking clients if they would like us to give them three to five free reference checks on potential buyers and suppliers. Something like a credit rating for a new buyer, a reference report. The polling was off the charts. If we could do this for them, they said they would love us forever. We are still looking at the right technical solution for it, as we realized that a lot of customers in the UAE have buyers and suppliers who operate abroad, so a solution that only covers entities within the UAE is not enough.

That said, I believe that SMEs choose a bank first and foremost for the quality and reliability of daily banking that it provides. Banking is a very critical utility for any business, and the quality of it can make an enormous difference to the health of their business. SMEs do value other non-banking services, but not at the cost of quality and pricing of core banking.

Are bankers incentivized to promote these alternative platform services?

As these platform services are all digital in nature, they are best promoted digitally rather than through bankers. We have also seen that these services appeal most to very early stage and startup SMEs, when they are setting up their business and looking for various business tools. That is why we designed the platform with a fully digital self-directed approach.

If you imagine your bank in 2035, which technology will have the biggest impact in the way you operate?

First, I see far larger amounts of connectivity with outside platforms and tools. For example, every customer has an accounting system in their office. Today, we're not connected to any of them because less than 15% are cloud-based. But if I roll forward even 10 years, I expect every SME to have a cloud-based accounting platform, in which case I see banks connecting to it, making data analysis for lending easier.

Second, I see a growing number of clients selling on B2B or B2C digital platforms, and I believe we will be more embedded inside those platforms. Last, governments are going far more digital. UAE has made great advances in this. India is another good example: identities, income tax, value-added tax, invoicing, and shipping documentation are all digital. This allows us to onboard customers faster, lend more easily, and monitor continuously. I think that better connectivity to digital infrastructure created by the governments or the private sector will be a key competitive advantage for banks.

What would you suggest to a fintech or a bank looking for a better space in the SME banking landscape?

First, you've got to run it like a separate vertical if you want to be successful in it. You've got to collect a bunch of people who understand SMEs, put them all together, and let them do what they do well.

Second, don't make the mistake of thinking that every SME needs a loan and nothing else. SMEs can be a fantastic source of deposits, provided you create the right infrastructure and transaction services for them.



Jane Prokop

Global Head of Small and Medium Enterprises



Small and medium businesses are the backbone of many world economies, yet they are often challenged to access the capital they need to grow at reasonable costs. For many institutions, it is hard to understand SME-specific needs and challenges, thus complicating their ability to find technological solutions to lower barriers and meet the constrained risk appetite of financial institutions. In this process, SMEs often get lost between corporate banking and retail banking. They don't warrant the white-glove treatment of large corporations, yet they don't fit retail approaches to consumer products offered to hundreds of thousands or millions of clients.

In this conversation with IBM's Paolo Sironi, Mastercard's Jane Prokop discusses key behavioral differences in the way SMEs engage with financial services, and the importance of digitalizing SMEs to make them finance-able.

What are your main criteria for SME segmentation at Mastercard?

Globally, I lead the product and engineering teams that devise our strategy for SMEs, which we define as businesses with less than 250 employees. In the world, there are around 400 million SMEs that are formally registered, and they differ by size, industry, and geography.

For us, SME size is the first criteria for segmentation. And when I say size, I don't necessarily mean revenues. It's the number of employees that matters because that tends to dictate the constraints under which they operate and the types of products they need. For example, a small business with 10-20 employees needs very different products than a business with 50-100 employees. Typically, you have one owner, maybe two owners, fulfilling all the key roles. So, they are simultaneously the CEO, the CFO, the CMO, the chief product officer, and chief sales.

They're very constrained in the amount of human capital that they have and the amount of very specific expertise that they can apply against these subject areas. That's why we think about bundles of products that can be offered and easily integrated, lessening the mental stress for these businesspeople. Instead, businesses with 50 or more employees might have a head of finance, maybe a head of IT, most likely a head of sales. There is a bit more expertise and functional differentiation involved in looking for different products that are more specialized or flexible, requiring more customization to meet the needs of that business. That is why size is probably the single biggest divide that informs our segmentation.

Do you see other behavioral elements?

Clearly, what keeps businesspeople up at night and the work that they prioritize varies quite a bit across industries and regions. A manufacturing business, for instance, is worried about supply chain management, inventory control, and cash flow. A retail business, on the other hand, is concerned about managing employees, cash flow, and returns. In agriculture, businesses are worried about making it through the off season and planning their finances to prepare for the next season and its impact on cash flow. We take these differences into account in our traditional business, particularly in the card and payments business, packaging different benefits tailored to each segment.

Geographically, what is the most important driver for differentiation that is reflected in your SME strategy?

What comes to mind is the penetration of electronic payments. For example, Mexico is still very cash heavy. Turkey has a good penetration of electronic transfers, but there are ingrained behaviors and traditions that affect business behavior and the ability to provide services. The degree to which businesses digitalize has a significant impact on their finance-ability.

Businesses that operate mostly in cash are disadvantaged because lenders can't really understand what their underlying economics and dynamics are, making them less underwritable. That's why we help SMEs to digitalize their operations not only by making their payments digital, but also by adopting software and tools to create digital track records that can be examined by banks or fintech companies. This is important because timely access to capital at reasonable costs is a key barrier to growth for all small and medium businesses globally.

But there is another aspect that's important to mention. Regulation varies enormously across geographies. We observe a move toward more fragmentation of regulatory regimes, partly because many countries want to control their payment systems. In addition, there are differing degrees of sensitivity to privacy issues and data security across jurisdictions and markets. In some jurisdictions, we may need to localize all data, which increases the cost of doing business.

I understand you work with banking and non-banking clients as partners that onboard final SME clients. What are their challenges?

Putting myself in the shoes of one of these channel partners, I see they are challenged because they don't always have enough information to verify the identity and the finance-ability of small businesses. Simple things like determining the legal structure of the business can be a hurdle. Many small businesses change their legal form or ownership over time, making it difficult to understand their organizational structure.

Similarly, questions about how long the business has been operating continuously can be difficult to answer, as small businesses may close down one legal entity and later open another, making them hard to evaluate for credit and to determine whether they're actually a newly formed entity or a continuously operating business.

Are there best practices or solutions to help resolve these?

With the right technologies and privacy safeguards in place, there is tremendous opportunity to help businesses drive value beyond the transaction. For instance, leveraging insights from our rich store of payment data unlocks the ability to provide interesting intelligence about card acceptance and payment patterns of individual businesses and benchmark to their location.

Additionally, open banking technology is opening new innovative payment experiences for small business owners and empowering them to benefit from their financial data. With this data, lenders can get a more holistic picture of the financial health of a small business, enabling them to make better lending decisions. No matter the use case, when innovating with data, it's important to always set up the proper guardrails and data responsibility practices. When it comes to your data, you own it, you control it, you should benefit from the use of it and Mastercard protects it.

Another area that is critical for resolving the challenges of small business owners everywhere is collecting and acting upon feedback. Financial institutions and fintechs that work directly with SMEs have opportunities to collect feedback, although it's not always done efficiently.

In general, small businesses are often handled by the retail side of banks, which can lead to them being treated like "consumers plus" with similar needs. But SMEs have distinct needs that differ from those of consumers. While some needs may overlap, many are unique to SMEs.

Banks are now starting to recognize the importance of better understanding their SME customer base and are working to improve their segmentation and feedback collection. This is crucial, as many SMEs are now migrating to alternative providers in search of better financial services and user-friendly experiences. The world has evolved so rapidly over the past five years, particularly since the pandemic. This has supercharged the process of getting businesses online and establishing a digital presence, reimagining "business as usual" for SMEs and calling for a new set of capabilities for them to keep pace with the digital economy.

How do you think the emergence of non-bank partners or service providers will affect the industry?

There has been a significant shift toward non-bank partners or service providers. This has led to the emergence of various providers, often starting with point solutions, such as accounting packages, and then expanding to offer additional services. Payment facilitator marketplaces and other larger players are branching out from their original specializations to offer a range of products as add-ons. They have the mindshare of these businesses. SMEs appreciate these solutions because with time being the greatest asset for any business owner, they are easy to understand and use. However, this trend also creates the need for SMEs to process more information and make choices about which providers to work with.

We recently surveyed over 10,000 SMEs across 25-30 geographies, exploring a range of their needs and relationships with financial institutions. We found that smaller businesses, with under 50 employees, prefer to have a single provider offering a range of services. However, the majority feels that they have not yet found a provider that meets this need.



What's the main difference when dealing with a non-bank and a bank in terms of new ideas or solutions?

There are many differences between the way that banks and non-banks pursue new solutions. With banks, we can rely on them to handle security and regulatory compliance. However, they make decisions and implement them more slowly and deliberately. With non-bank partners, we need to invest more in the infrastructure we provide to ensure compliance with regulations, but these partners are able to stand up new solutions very quickly.

What prevents financial institutions from doing better segmentation and fitting the market with solutions that resonate more with their customers' needs?

I can only gauge what I hear from banking executives and customers. I sense the challenge lies in resource allocation within the bank. In a full-service bank, there's typically a corporate side that provides white-glove treatment to large corporations, and a consumer segment that offers standardized consumer products to hundreds of thousands or millions of clients. Unfortunately, small businesses and the lower middle market often get lost between these two segments (retail and corporate) because they don't fit neatly into either category.

On the corporate side, banks can generate revenue by making large corporations happy and becoming their primary banking provider. Similarly, on the consumer side, banks can generate revenue by offering the right products to millions of people. However, serving small and medium businesses requires a different approach. It demands customer segmentation, understanding their needs, and potentially customizing benefits or ancillary products to make the relationship sticky. This requires not only analysis but also investment.

It's not easy for banks to diversify their product offerings. As regulated entities, they must prioritize data security, privacy regulations, and avoiding bias, among other concerns. Undertaking such an endeavor can be expensive and complex. But if done in the right way with the right partners, it can open the doors to a significant untapped opportunity. With small businesses making up over 90% of companies worldwide, accounting for over 50% of the world's workforce, and contributing to more than 50% of global GDP,² the opportunity is vast and it's everywhere.

Nacha

Jane Larimer

President and CEO



While the pandemic accelerated SME acceptance of electronic payments, there are still many differences across jurisdictions. In the US, checks are still a reality, although their share has been declining.

In this interview with IBM's Paolo Sironi, Nacha's Jane Larimer discusses the shift toward more digital and faster payments, and the growing importance for SMEs in terms of lower costs, higher efficiency, and enhanced security.

What is Nacha?

Nacha manages the Automated Clearing House (ACH) Network, the backbone for the electronic movement of money and data in the US. The ACH payment system reaches all US bank and credit union accounts, transferring direct deposits and direct payments among government entities, businesses, and individuals. It is particularly relevant for SMEs needing confidence that funds will be accurately and securely delivered on time.

What is the most important aspect about SME adoption of electronic payments?

One of the things unique in the US—compared to other major advanced economies—is the fact that we still have over 10 billion check payments written every year. And SME businesses, especially smaller businesses, are very heavy users of checks. There are many issues with paper payments. Payment networks such as ACH can bring visibility, speed, and rich transaction data to help both banks and SMEs. It is economically strategic to move these paper payments to automated payments. This could involve using direct deposit for payroll instead of issuing a paycheck, paying for utilities, or pulling direct payments from consumers and suppliers—in effect, moving and automating those businesses' payments.

Things are improving. According to a 2022 study by the Association for Financial Professionals (AFP), 33% of business-to-business (B2B) payments are still made by check in the US and Canada—but that's down 50% from 2013 and 81% in 2004.

Why is there such resistance to electronic payments versus paper checks in the US?

I think it might be a combination of things. We don't have a regulation or a mandate at any level to say we're moving away from checks in the US. At the same time, people are just entrenched in old habits; they're used to doing it a certain way and it's hard to change the behavior. Interestingly, with the pandemic, we did see a big shift away from paper to electronic payments.

While checks are declining, the fraud on checks is increasing, and checks continued to be the most problematic payment method, with 65% of organizations reporting check fraud activity.

Every time an SME puts a check in the mail, they are exposing account information to fraudsters who can strip it off.

And SMEs might not properly count all costs involved. Think about the steps involved with writing a check or having them printed, putting in an envelope, stamping, and mailing them. You're at the vagaries of the postal system as well. We estimated that moving away from paper would save SMEs about 15 cents in internal costs and 25 cents in external costs per transaction. And cents add up.

Are SMEs concerned about electronic payments security?

You would think it would be top of mind—and we clearly communicate safety and security in our messaging. Yet, it seems that SMEs become more aware of security concerns once they've had an issue. So, when their receivables or business emails have been compromised, they start doing things differently, locking down systems or changing their behaviors because they've had an issue. More education is needed for businesses to become more proactive with security measures.

What are the main differences across individual states?

In the US, the differentiation is more within the type of business and less about where they're located. Some of the big banks have a presence everywhere, so the pricing isn't different depending on the location, but it might be different depending on the industry type and risk associated with the business.

And what about data that comes with payments?

Last year, we conducted research to understand the current payment capabilities and specific needs of financial institutions regarding their readiness to use ISO 20022 format. While we found some pockets of readiness among large multinational corporations and their financial institutions, the rest of the industry is still focused on implementing the ISO for Fedwire, the settlement system owned and operated by the Federal Reserve Banks that announced they will be ISO 20022 compliant by March 2025, and indicated they needed more time for this transition. Things change but it will require a bit longer than desired.

What trends do you see with SME businesses moving toward more digital and faster payments?

Companies of all sizes have long relied on the ACH Network to receive payments and pay vendors or suppliers. Key metrics from 2023 show strong B2B payment growth with an increase of more than 10% YoY. What has changed more dramatically are Same Day ACH payments. B2B Same Day payments volume YoY growth is over 50%, with use cases including vendor payments, cash concentration, and merchant settlement.

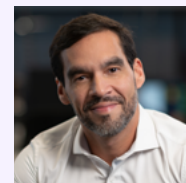
Let's face it, timely payments and a healthy cash flow are the lifeblood of any small or medium-sized business. When things run smoothly, businesses can focus on what matters most—making informed decisions and growing their company. That's why it's so important to find solutions to streamline payment processes, reduce the risk of fraud, and eliminate delays.



Nubank

Maximiliano Damian Rodrigues

General Manager, SME Business



SMEs are the backbone of the global economy, yet their owners often do not receive the banking attention they need. Leveraging technology to make banking processes effortless for busy SME owners and executives adds significant value.

In this interview with IBM's Paolo Sironi, Maximiliano Damian Rodrigues of Nubank—the world's largest digital banking platform outside of Asia—discusses his organization's commitment to expanding from consumer banking into servicing micro enterprises and SMEs. What SMEs want, Maximiliano explains, is seamless banking experiences to save time, which is a critical asset for running and expanding their businesses.

Nubank expanded very successfully in consumer banking. What about SME clients?

Nubank was founded in 2013 and started as a consumer bank in 2014, reaching the milestone of 100 million clients by 2024. In 2019, we also launched corporate banking services, catering to micro businesses (sole proprietors) and SMEs, categorized based on their revenue.

Over the next two years, we will focus on creating comprehensive core banking journeys and customer service solutions that address the specific needs of this varied ecosystem. The starting point is strengthening and expanding our value-added relationships with micro businesses. Many of our retail clients are also self-employed entrepreneurs who demand the same high-quality banking experience they receive as individuals. However, there are distinct differences. A key need for micro businesses is to split their personal and professional financial life as they have additional requirements, such as working capital.

How do you segment clients?

We primarily segment clients into companies and retail businesses—the key difference is the payment frequency. Companies provide services and charge customers upfront or through installment payments. They don't typically have frequent payment operations like retail stores (in-person payments). For example, physical stores involve credit card payments, bearing a unique transaction approval process and completion time. Aware of these differences, we made a conscious decision to use different marketing strategies and technology configurations to help companies and retail businesses understand the nuances of our setup.

To succeed in retail, we collaborate with acquirers—financial institutions that act as intermediaries between merchants and card payment networks. This partnership allows us to encourage SMEs to open accounts with us. On the other hand, when it comes to companies, the intermediation of acquirers is not necessary because the payment frequency isn't as critical to their operations. This allows our technology stack to be more effective in driving onboarding via advanced core banking journeys, making banking more accessible and user-friendly.

SMEs often maintain multiple banking accounts, typically two to three, with different banks. They might use one bank for loans with lower interest rates, another for managing daily operations such as tax payments, bill payments, and supplier transfers, and yet another for investing their liquidity. We aim to transform this fragmented approach by introducing integrated journeys that streamline financial management, enhancing their overall financial performance.

Our key value proposition is to save the business owners time. We plan to deliver this by offering a comprehensive transactional bank that helps SMEs manage their business, understand their cash flow, optimize credit usage, and determine when and how to take loans to grow. Our mission is to invest our time and expertise to add intelligence to financial activities and complex processes, thereby freeing business owners' time to focus on their core activities and grow their businesses. Besides, we want to serve our customers in a highly integrated manner, eliminating the need for separate channels for personal and business matters, and saving them even more time.

Is there a role for branches?

Nubank operates without branches in retail markets, and we do the same for micro-businesses and SMEs. We are confident in our digital-only commitment. While we don't have physical branches, this doesn't mean we have a lack of personal touch and support.

Our customer services are entirely digital, operating by chat or by phone as necessary. We use a process called the "outer loop" to capture the root causes of problems or issues in a client's journey across different channels such as chat, phone, or email. This feedback is crucial to product and journey teams, who are responsible for addressing a final solution. Additionally, we aim to empower clients to self-resolve most problems they encounter on their journeys.

How do you engage with clients in a branchless world?

Our engagement model is designed to support our customers throughout their financial journey. We analyze their data to understand their cash flow and anticipate their needs. For instance, if we detect that their cash is running low, we send them alerts and start a conversation. We might say, “Hey, we noticed your cash flow is negative, so we’ve approved a credit line for you. Would you like to take advantage of it?” This proactive approach helps them address potential issues before they become major problems. On the other hand, if they have a positive cash flow, we might suggest considering investments to earn interest.

Our data models and analytics are optimized to provide the most relevant offers like loans, investments, or even payment solutions. We engage customers helping them to remember when to pay taxes or their employees.

Going forward, the engagement model will evolve to make us more invisible and seamlessly embedded in the moments that matter—in the consumer’s everyday moments and enterprise-critical moments. While this is still a vision, having a clear vision is an important starting point for making the next big things happen.

Do you see many differences in client behavior across Latin America?

While we operate SME banking only in Brazil, we have a relevant consumer banking presence in other countries, such as Colombia and Mexico.

Across Latin America, we see significant differences in the way people do banking. For example, 70% of commercial transactions are cash in Mexico. In Chile, where people are very comfortable using credit cards and mobile apps, a whopping 95% of transactions are electronic or digital. Brazil is somewhere in between, with consumers feeling highly comfortable trying new digital ways to interact and pay starting from social media. Already 90% of consumers use banking apps or websites to manage their accounts, and many don’t demand access to physical branches. Instead, they appreciate access to experts who can guide them through complex decisions like mortgages and student loans.

To navigate these differences, it’s crucial to conduct extensive research about client and consumer behavior. While we receive direct user feedback from different engagement channels, Nubank’s customer service is also a very important source of information to understand the right direction for developing our business.

What type of data feeds your behavioral research and risk management models?

At Nubank, we develop simple, secure, and 100% digital solutions for our clients. We value our customers and understand how important cybersecurity is to enable them to enjoy our services with peace of mind. The security of our client's information is in our DNA and we follow the worldwide best practices on data protection and in compliance with GDPR.

First, we examine the payment history of existing clients to determine whether they can be potential borrowers. Then, we collect additional information to understand if they match our risk appetite. If we decide that lending cannot be granted, we can still engage clients by explaining to them why their credit score is below approval and what information is needed to improve it.

For example, using open banking to access the history of all their banking relationships can improve the quality of the information to us and allow us to see their good track record on credit. This requires explicit client consent, and not everyone is ready to grant it. We incentivize them by explaining how this information will improve their experience with our services. It's about making them understand how we can better help them to run their business instead of providing pricing discounts. And you know what? Many of our clients are signing up to share their data with us through open banking. Currently, Nubank is the market leader in open banking consents, with 33% of the industry's consents, twice as much as the second-place holder.

How does Nubank differ from digital banks established by traditional institutions?

In my perspective, a traditional bank doesn't have the incentive to engage clients with enhanced banking journeys. There is no motivation to charge a fee to help customers, and they often lack a centralized way to advise and help them, improving their decision-making skills. A key advantage is that we operate our technology in a greenfield, allowing us to innovate freely. Our modern technology stack is very attractive. On the contrary, banks might find it more difficult to find the skills required to transform the way they code and develop.

What's most important to win clients' trust?

Time is money, as the saying goes. And banking often means the time that business owners must take away from their core activities.

Consider this: the money we earn is the materialization of the time we dedicate to work instead of doing something we might prefer. We care because money represents the sacrifice of time that we can't spend with family and friends.

That's why, to create trusted value and relationships, we must be obsessed with helping clients save time while banking with us.



Franco Fasoli

Head of SME Banking



Banks can offer SMEs a range of financial and non-financial services, including expertise and education to help them grow and prosper. By leveraging digital platforms and human interaction, banks can provide SMEs with a one-stop shop for their financial and non-financial needs, helping them to digitalize their operations, manage their finances, and make informed business decisions.

In this interview with IBM's Paolo Sironi, Santander's Franco Fasoli recognizes the importance of API connectivity to improve risk analysis and provide better services to clients, and the potential challenge from neobanks. He discusses the relevance of human relationships and Santander's approach of embedding the bank's expertise in client thought processes via educational platforms, enhanced by a reorganization that moves client interactions from the branches to where clients run their business.

How do you serve SMEs at Santander Brazil?

In Brazil, SMEs are the most important business segment for the economy: they play a significant role in employment and are an important portion of the GDP. At Santander, we have a dedicated organization within retail banking that covers the needs of micro businesses and SMEs. This is a varied ecosystem, and to segment clients we use sales turnover as our major criteria. We also consider the number of employees, as that measure is also used by the government.

Clearly, we have specialists in areas like industries, cash management, international trade, or acquiring.

How do you engage clients?

We have a modular approach. When we look at the tier of sole proprietors, which is a massive segment, we have a retail-like approach: marketing and product specialization is distilled to the essential. It must be easy, like a plug and play. Here, we employ a remote workforce and leverage digital banking more extensively. If the owner of the company needs any assistance in the physical channels, they could visit any of our branches, but most of the time they can't leave their business or they will lose sales. This makes digital banking and the remote channels—like live chat assistants—very relevant.

Instead, we have more refined solutions for small- to medium-sized enterprises that are reflected in our risk models. The risk model for the mass market is an industrialized approach based on credit scores. The one for SMEs is a binomial risk and commercial approach. Basically, we organize portfolios of credit relationships in the various locations. Then, we assign a relationship manager and a risk specialist to oversee each portfolio. The two work together to balance commercial opportunities and risk appetite.

What is the most recent change in strategy to serve SMEs?

Until last year, we were operating a more traditional model based on physical branches, with relationship managers assigned to individual segments of SMEs covered by the branch. This model used to work well until recently. The pandemic accelerated digital adoption and today clients don't visit branches like they used to. Also, we believe that knowing your customers also means visiting them where they work. It's very basic: if you see and touch their business, you can better serve them. Therefore, we felt it was time to innovate our approach.

Currently, relationship managers don't report to branch managers. Instead, they primarily visit customers outside the branch, and they can use any branch in their region if they need physical support. With this model, we are visiting more customers than we had in the past. Relationship managers have preapproved packages they can discuss with clients when they visit them. In many cases, the sale goes faster.

What's most important for the future of SME banking?

In my opinion, for the higher value SME tier, we want to deliver a high-quality digital service plus excel in our human approach. Why? Because what's inside the mind of a business owner is something that generative AI cannot figure out exactly. A digital model works well to provide working capital or insurance. But it's different if you want to understand what type of investments an SME would like to make—for example, if the owner is thinking of selling the company or buying a competitor. That is something that requires a human interaction. Although this tier will largely remain a human business, our relationship managers also have the mandate to help clients digitalize and explain the value of sharing information to feed the risk models and help their business prosper.

Our mission is part financial products and services, part expertise, and part technology.

When we look to the mass market business, the challenge is different because you have to keep the clients' needs as key with the cost to serve that fit within the strategy. Here, artificial intelligence can make a clear difference. This also will see a generational change as younger entrepreneurs are more comfortable with digitalizing their bookkeeping, making data more accessible for remote analysis.

What else are you doing to help SMEs thrive?

We realized that customers are interested in more than just financing, they want to see how their business is prospering. We decided to provide a bridge for that gap, and we launched a program that is both a digital and physical platform. It's an education platform for SMEs about our non-financial offers. It's an open platform (Programa Avançar) where we talk about how to launch a business, how to internationalize, and how to make operations more efficient. We also provide free online courses, podcasts, and lives about innovation and future trends and specific information regarding how to deal with working capital, investments, digital marketing and people, ESG, among other important topics for the development of a business.

Essentially, we are embedding the bank's expertise into an SME's thought process to help inform business decisions. This is just as powerful as embedding financial services. The journey can start on the digital platform and evolve to the physical space at the branch. For example, this year we are running 350 open meetings scheduled with our customers in our branches. In the branch, clients can exchange their business cards, build trust, and connect within the region. This has helped the bank build a strong foothold in the community, one that's recognized through relationships and word of mouth.

What is the main constraint to better servicing SMEs with digital?

The most important is for the client to feel comfortable in using our products and services both through our digital channels or its own channels. In this context how we deal with API connectivity with clients is essential. If they operate on cloud, information is more readily available for risk analysis. Once connected to the API, other services can be plugged in that are embedded on other platforms. Moreover, a core feature that is quite important for us is the security and reliability of our digital platforms. And what matters is helping SMEs consolidate the consumption of services into a unified approach, because it's expensive for them to run on 20 different relationships for financial and non-financial services. For example, there are many interesting fintechs with niche purposes, but SMEs need a one-stop shop.

Are neobanks a real challenge for SME banking?

Worldwide, I see many digital banks entering the consumer market that will pursue the SMEs, mainly on the sole trader's segment. And in the next years, what happened in Brazil with the digitalization of retail clients' relationships might well happen with SMEs. However, cracking the code with SMEs is way different than mass markets, because human relationships have higher importance—you must meet with clients.

State Bank of India (SBI)

Challa Sreenivasulu Setty

Managing Director of International Banking, Global Markets & Technology



The SME lending landscape in India has changed significantly through the years following the formalization of the economy, the digitalization of society and government, and the resulting availability of data.

In this conversation with IBM's Paolo Sironi, State Bank of India's Challa Sreenivasulu Setty discusses four key barriers that still affect an SME's capability to grow and that banks can help resolve: credit accessibility, market access, technology upgrades, and governance.

SBI has a long track record in lending to Indian SMEs. How has the landscape transformed over the years?

Our approach to SME lending has changed over time, following the transformation of the Indian economy and, more recently, the data advantages provided by the digitalization of social and economic interactions.

One key aspect in lending is the shift from collateralization to cash flow analysis. Back in the 1970s, SME lending was primarily organized around specific industrial clusters, which also exhibited geographical specialization. At that time, the main need of entrepreneurs was to finance machinery, and loans were primarily secured with collateral.

As the Indian economy changed with the expansion of the service sector, the importance of traditional clusters waned over time, as did lending specialization across regions and sectors. Recently, the digital implementation of the Goods and Services Tax (GST), a value-added tax, has brought many SMEs into the formal economy.

As a result, data about these businesses, which was not previously available, is now abundant and banks can leverage cash flow information to make more informed lending decisions rather than relying solely on collateral. We are currently investing to revive cluster financing across a more service-oriented economy with a digital-driven approach.

For two years, we have been driving a transformative project called Pratham, which means "first" in Hindi. This initiative leverages the digitalization of entire ecosystems to harness the power of fintechs, formalize cash flow data, and utilize other information now available through the system.

Why did clusters wane in importance and what does it mean that you are refocusing now?

In the past, our cluster-based financing efforts were mainly focused on technology upgrades to help clusters thrive. For instance, we worked with a pump set manufacturing cluster in Rajkot, which was a bustling hub at the time. However, as technology rapidly evolved and businesses moved on to other areas, much of that cluster engagement lost its relevance.

But, as I mentioned earlier, we're back to focusing on clusters, but this time with a more holistic approach that includes credit linkages and other forms of support. With our engagement in 93 clusters across the country, we're shifting our focus to credit availability based on robust data. We now have a better understanding of these units and their needs.

We're also engaging with fintechs to provide last-mile connectivity in the clusters, helping with application procurement, customer acquisition, and guiding them through the bank loan process. This collaborative approach, along with our engagement with cluster associations, is a key reason for our significant progress in SME lending. Plus, our ability to provide loans quickly is a major advantage. Most SMEs need on-demand credit. They suddenly get an order and need money fast. As a mainstream banker, we couldn't handle those kinds of requests before. But now, we're able to respond quickly and efficiently, which is a game-changer for these businesses.

How do you get sales performance data for SMEs?

Globally, the biggest challenge in SME lending is information asymmetry—banks are never quite sure if the information provided by SMEs is reliable or accurate. One of the biggest advantages of the Goods and Services Tax (GST) Network, operated by the government of India, is that it provides an authentic source of data. With GST data, we can now triangulate multiple sources: the GST Network, the information provided by the customer, their business's operational levels, and their account transaction history with us. Lending datasets can also integrate credit bureau information, credit scores, and default history. This comprehensive approach helps to make more informed decisions. Of course, collateralization still plays a role, but it's no longer the sole deciding factor.

Has risk management also changed over time?

The second crucial aspect we've been focusing on is risk mitigation. Even with all the data and digitalization, SMEs are still vulnerable to market fluctuations and changes in consumption patterns. If an industry major, which procures from them, gets into trouble, the SME is likely to follow suit. So, how do we mitigate that risk?

To address this, we've been working closely with the government of India to enhance the credit guarantee scheme for micro businesses and SMEs. We have long advocated for the adoption of a small business administration (SBA) model, like the one in the US, where SBA loans are guaranteed up to \$5 million. We shared our experience of working in the US with the government of India, suggesting that they provide a similar benefit to lenders, moving away from collateral-based lending to data-driven, cash flow-based lending, backed by a government guarantee.

Last year, the government of India took several initiatives to strengthen cover programs. They increased the coverage, reduced the premium payable by borrowers, and automated the claim process. As a result, claim administration improved, giving lenders more confidence to take the guarantee instead of relying on collateral. This shift has been significant, and these improvements have led to new growth in lending appetites. SBI is the largest Indian lender to micro businesses and SMEs. Thanks to the systemic improvements we've made, we've seen a remarkable 16% year-on-year growth in lending.

What has transformed the way we approach SME lending is a perfect storm of economic formalization, data availability, and risk management.



Apart from credit, what do you think constrains SMEs' capabilities to grow and flourish?

While this is a promising development, I believe that there's still more work to be done. If we truly want SMEs to thrive and flourish, we need to recognize their immense potential. Across the globe, whether it is in the US or Germany, micro businesses and SMEs are the largest providers of employment. Micro businesses and SMEs have the potential to contribute significantly to the Indian economy as well in terms of GDP, exports, and employment, while also generating a pipeline of entrepreneurs. So, while we're moving in the right direction by facilitating more-informed lending, I think there's still a lot more we can do to support these vital businesses.

In my opinion, there are two crucial aspects that must be addressed. First, market access is a key barrier. While medium-sized enterprises tend to have better market access, micro businesses and small enterprises often feel like they're missing out. To address this, we're working with various aggregators to help entrepreneurs learn about procurement processes and improve market linkages. By financing the supply chain, we're able to support these businesses in a more holistic way.

One of the major pain points for MSMEs is delayed receivables. To tide this over, the government had introduced Trade Receivable Electronic Discount System (TReDS), wherein the exchange platform provides instant invoice discounting through an auction process. This provides instant liquidity to the MSMEs at low interest cost. Business through TReDS has seen a manifold increase in the last fiscal year, which was a result of its increased acceptability and adoption.

The second crucial aspect is technology. Unfortunately, most SMEs lack the technology they need to compete. And it's not just about the businesses themselves—customers are not always digital proof. If SMEs want to stay competitive, they need to prioritize technology adoption.

How can these gaps be narrowed?

One of the major initiatives by the government of India is the Open Network for Digital Commerce (ONDC). Essentially, ONDC is a platform of platforms where micro businesses and SMEs can register for free, giving them access to markets without having to invest heavily in technology or operational expenditure to create their own online marketplaces. This government-created platform is addressing three key areas: market access; technology; and, in the future, credit.

But there's a fourth crucial aspect: the need for improved governance. Most SMEs lack the necessary governance structures to attract funding from private equity firms or banks.

So, when it comes to governance, we don't directly tell them what to do, but we do assess the quality of their management and people running the business through our credit risk model. We give them a rating based on our evaluation. Today, they're aware that banks look at their systems, processes, and accounting practices, as well as whether they have professionals engaged to run the business, even if it's a small operation. Fortunately, many chambers and associations are helping SMEs put these governance structures in place, which will ultimately facilitate better SME lending.

We're not trying to be too prescriptive, since most of these businesses are family-driven, not board-driven. Instead, we focus on educating them on how to manage loans taken from the bank. You see, for many of them, money is fungible—they might take a working capital loan and use it to buy a machine, for instance. So, we explain to them that if they need a machine, they should come to us, and we'll give them a small loan for that purpose. We want to make sure they understand that using working capital for asset purchases is not a good idea and can have negative consequences.

By strengthening their governance mechanisms and encouraging them to maintain proper books, we're also helping them see the tangible benefits of compliance. The GST regime has helped in this regard, as SMEs can claim input credits and get an offset on their taxes. This has led to a compliance mechanism that's seen as beneficial. Otherwise, no matter how many lectures you give, improvement might lag.

Wema Bank

Ayodele Olojede

Divisional Head of Retail and SMEs



Small businesses are critical for the economic development of African countries. And micro businesses are a huge opportunity. They require careful balance in the use of technology and human relationships to serve a large population that wants to grow economically. Unfortunately, digital access remains largely out of reach.

In this conversation with IBM's Paolo Sironi, Wema Bank's Ayodele Olojede discusses how their banking technology and platforms provide value to a network of agents serving unbanked communities and are starting to shape new ecosystem engagements.

What is the role of digital banking at Wema?

Wema Bank was established 79 years ago. Today, we are not only Nigeria's longest thriving indigenous bank but also Nigeria's leading innovative bank. We launched Africa's first fully digital bank, ALAT, in 2017 to integrate our brick-and-mortar operations with a digital platform that combines onboarding and exploring engagement opportunities.

We also launched the ALAT equivalent for entrepreneurs, called ALAT For Business, and we have since become not just pioneers of digital excellence but also enablers of digital empowerment across our different customer demographics. So, on the role of digital banking at Wema Bank, it is not just at the core of our identity as Nigeria's most innovative bank, it is a testament to our commitment to supporting our customers with secure, seamless, convenient, and reliable solutions tailored to their personal and professional needs.



How do you segment the SME clients?

There are more than 40 million micro businesses and SMEs in Nigeria. To cater to the needs of each unique category, we have deduced segments to streamline our approach to supporting these businesses. Our segmentation approach is primarily based on their revenues, tiering engagement models to different revenue levels and aligning processes and value propositions to the subsegments. For the medium-size business, we leverage our ALAT mobile app and ALAT for Business, as these business owners tend to be more digitally literate.

Our approach changes for the informal sector, a sector brimming with huge potential. This segment is dominated by micro businesses, and the nuances of this segment have presented a need for tailored solutions to help them to harness their full economic potential in today's digital world. Since most businesses in the informal sector are not digitally literate, we created an agency banking solution called Wema Agent Banking to help these entrepreneurs access the digital solutions they need in the deepest crannies of Nigeria with support from our agents, intersecting human relationships and technology solutions.

The Nigerian government creates a regulatory avenue that allows us to partner with individuals or businesses acting as representatives to whom we provide gadgets and support as our agents, helping them onboard clients, accept cash deposits or withdrawals, lend money, or provide other banking services. These agents are not exclusive to Wema Bank and can work with multiple banks on a commission basis, thereby boosting the entire financial services industry simultaneously. Clearly, we compete by providing higher commissions, but a key aspect of the success of our Agency Banking model is delivering these agents better experiences, seamless solutions, and customer support with innovative technology, helping them make transactions and execute their operations faster.

MSMEs in all categories of our segmentation enjoy both unique and tailored solutions designed to help them thrive, and these range beyond our platforms, initiatives, and solutions to tailored loans for personal and business use.

And what's your approach to assessing creditworthiness for these MSMEs?

We leverage analytics to determine how much credit a customer qualifies for within the window of our risk acceptance criteria, setting the credit limit for these customers. In our quest to meet every customer at their point of need, we go through a prequalification process that allows us to ascertain the creditworthiness of these customers even before they seek loans. The prequalification process is based on transaction count, volume, and frequency to determine credit risk algorithmically. Once a customer is officially prequalified, we go a step further by informing them of their qualification to access the loan(s), proactively providing the support they may need for their businesses.

Is embedded finance an opportunity in your SME market?

Absolutely, and our role in the embedded finance game depends on the opportunity. We provide Banking-as-a-Service to the fintech community to facilitate their operations, and we are working to partner with marketplaces to make purchases, provide lending, and facilitate the overall client experience. We have a robust infrastructure to support businesses when it comes to facilitating payments. And we understand how to help fintech players comply with regulation—which is why we have become incontestable as enablers for the success of the fintech industry. This reputation for empowerment cuts across our diverse customer demographics, and our approach to ensuring sustainable results is complementing the solutions and platforms we provide with viable financing opportunities.

Earlier this year, for example, we launched CoopHub, a digital solution designed to support cooperative societies—clusters of people who work together and make contributions to support the welfare of members. With CoopHub, we provide resources for these cooperative societies (both finance opportunities and otherwise), boosting their overall administration and operations, and helping both members and admins thrive to facilitate productivity for the cooperative society. To expand the reach of our impact, we leverage partnerships with the government to utilize our banking infrastructure for the creation of platforms that help more Nigerians enjoy the solutions we offer. On top of that, we have plans to leverage AI to better drive the ALAT ecosystem and make embedded finance a core strategy of our digital and retail business.

Which are the biggest challenges to further developing your SME business?

Honestly, the digital world brings a lot of opportunities as well as challenges. As this world continues to evolve, we have been intentional about strategically leveraging the opportunities and circumventing the challenges to provide our stakeholders with optimum service and returns. One such challenge we have encountered is deriving clean data, and we continue to make commendable progress in eliminating that challenge. When you compare where we are now with three years ago, there is a glaring positive difference. In our drive for excellence, there is no getting comfortable. Beyond the progress we have already made, we continue to invest in better data collection and cleansing as our impact continues to proliferate in today's digital world. And we are working with fintech startups to design AI analytics to further drive business and lending.

What is the main external constraint?

Economic fluctuations are a key challenge faced across the entire banking and financial services industry. In light of these conditions, it is imperative that we continue to innovate with a sustained focus on customer-centricity. Not all Nigerians can afford a smartphone, which limits our capability to digitally access large parts of the informal sector.

So, in addition to our branches and Agent Banking offering, we have provided a USSD Banking alternative allowing Nigerians from all walks of life to access basic financial services by dialing *945# on any kind of phone—no internet connection, mobile data, or smartphone required. Our strategy is to continue expanding the range of options available to the average Nigerian. And we're making deliberate efforts to create digital literacy among the unbanked. Our self-service tablets in branches, Wema Phygital, are examples of these efforts.

What do you believe is business critical for any bank or fintech wanting to excel in SME banking?

It is key to understand local markets and culture. What's important is that you don't just design for the market; you design with the market. You need to embed yourself in the realities of these businesses and the way these business owners run their operations, and then design tailored solutions for them, keeping in mind the dynamics of not just the business owners but also the entire SME ecosystem. This ecosystem perspective is the future of SME banking for the benefit of businesses, individuals, and the economy. This is why Wema Bank continues to thrive as the partner of choice for all.

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