



**International  
Finance Corporation**  
World Bank Group



# SME Banking Best Practice - Benchmarking

SME Banking Business Line

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# IFCs Global SME Benchmarking Project

- Pioneer IFC initiative to benchmark best practices in SME Banking
  - Goal - to identify key success factors in SME Banking and highlight links between performance and business models, processes and tools
  - Exercise includes good practice banks in 5 OECD and 6 emerging market (EM) countries
  - Panel banks were selected based on IFC's internal knowledge of the SME Banking sector in the markets involved
- Objective
  - Provide participating banks with a valuable opportunity to:
    - (i) benchmark its practices against other top institutions in the industry and
    - (ii) support IFC in its development mission to raise global awareness of the success factors in SME Banking as well as promote SME Banking in emerging markets alongside other leading players
  - Add value to IFC's clients and partners through enhanced design of IFC's technical assistance advisory work

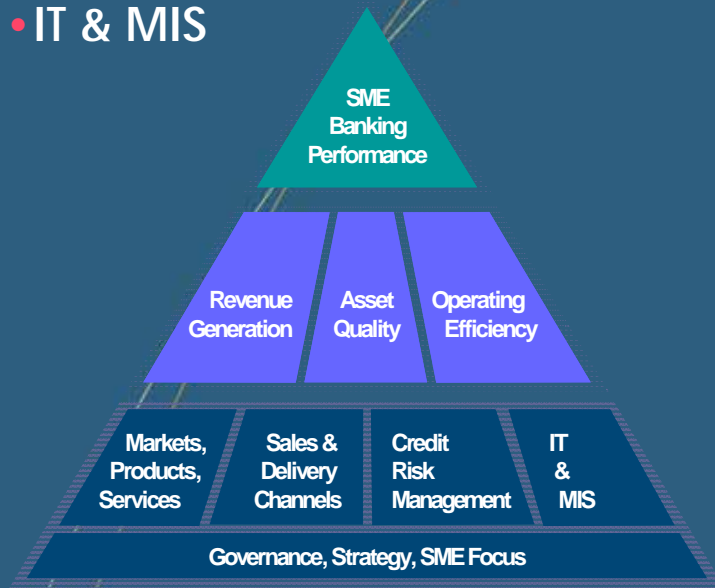


# Framework of Assessment: based on IFC SME Banking CHECK



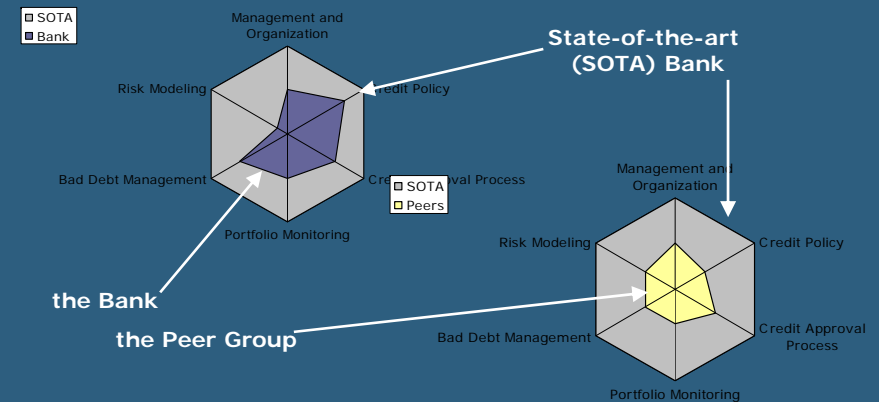
A comprehensive analytical framework, with 5 areas:

- Segmentation & Business Models
- Products
- Sales & Delivery Channels
- Credit Risk Management
- IT & MIS



Deliverables:

- Diagnostic Report
  - Executive Summary
  - Bank's Financial Performance
  - Gap Analysis
  - Benchmarking and Rating
- Recommendations for Improvement
- Technical Assistance Proposal



# Key Findings

- SME Banking is an opportunity and despite its challenges, it can be very profitable
- Even in OECD countries, banks are still learning and refining their business models
  - Most of the participating banks have been in SME Banking years but they are constantly revisiting their business model to improve profitability and/or outreach
  - Current business models tend to be less than 2-year old
    - 11 models are still in an early phase
    - Only 6 models out of 17 in total are in a relatively definitive shape
    - Of these 6 developed models, 5 models are still being improved

# Participant Banks View SMEs as Strategic...

- Still underserved

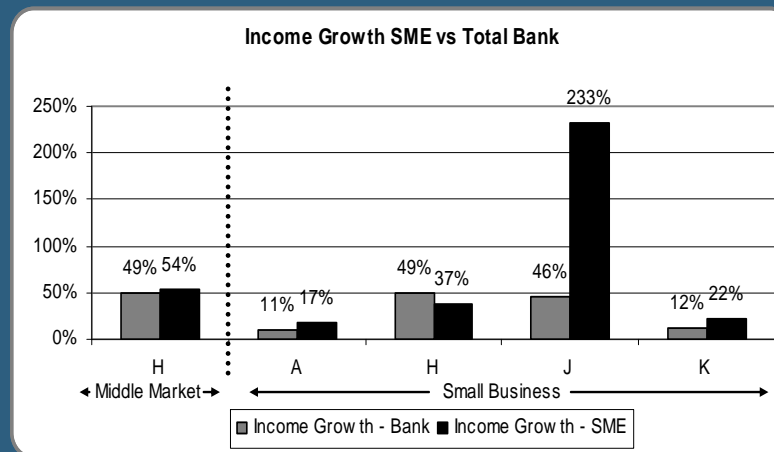
*"We looked into SMEs as a critical area to penetrate given the untapped opportunity"*

- Integrated with the rest of the economy

*"The bulk of our Private Banking clients are SME owners"*

- Diversified

*"The Bank needed to diversify its portfolio, granularize its revenue streams and not just engage in M&A"*

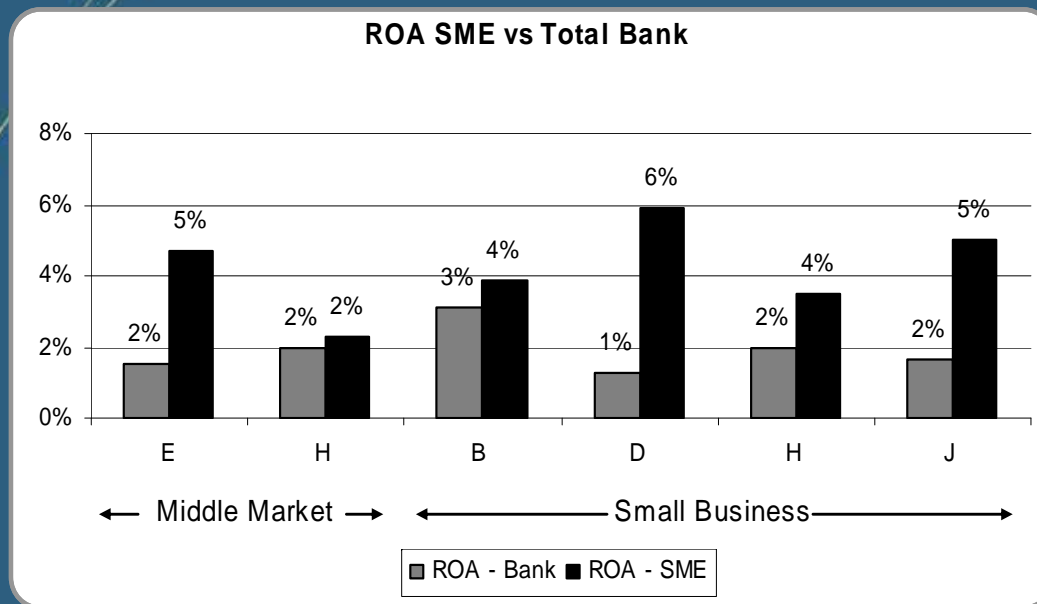


# ... and SME Banking is Profitable...

*"The cash-hungry SME market has become the banking sector's latest sweet spot"*

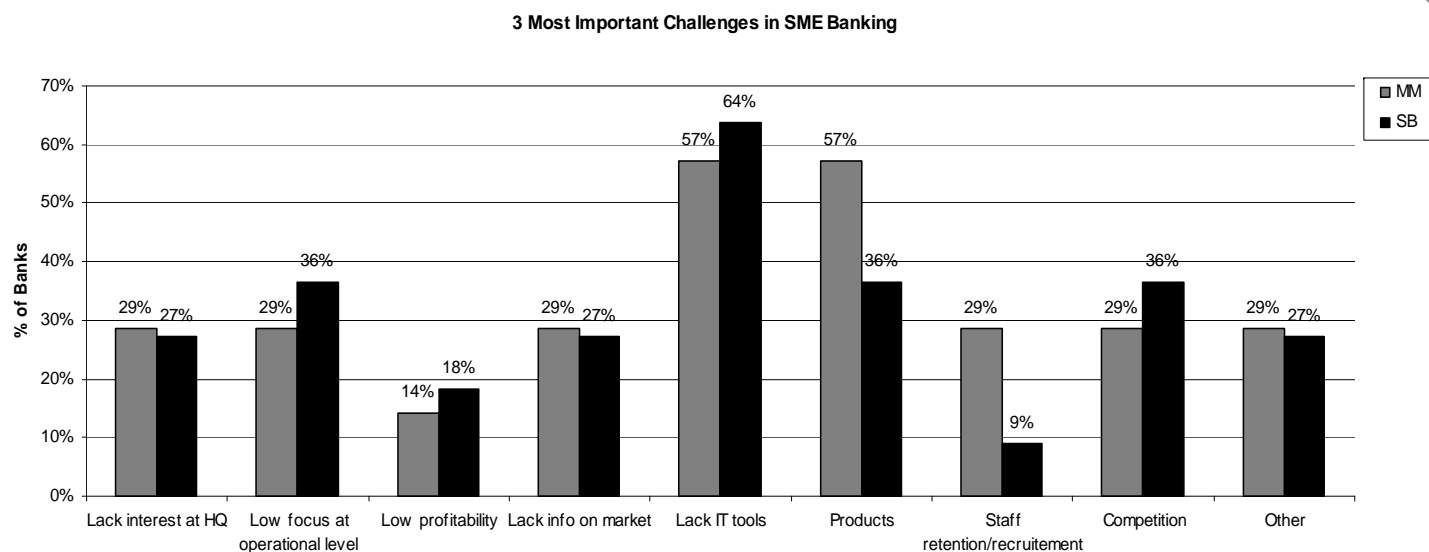
*"A \$50,000 unsecured O/D, the typical SME loan, often generates more revenue than a \$300,000 home loan"*

*"SMEs represent 10% of our portfolio in numbers, but they generate 50% of our banking income"*



# ... Despite Real Challenges

- Appropriate IT/MIS tools
- Adequate product offering
- Gaining attention from management and staff
- Building market knowledge



# Key Findings

- Small business banking and medium enterprise banking are two very different businesses that require separate models, processes and specialized teams

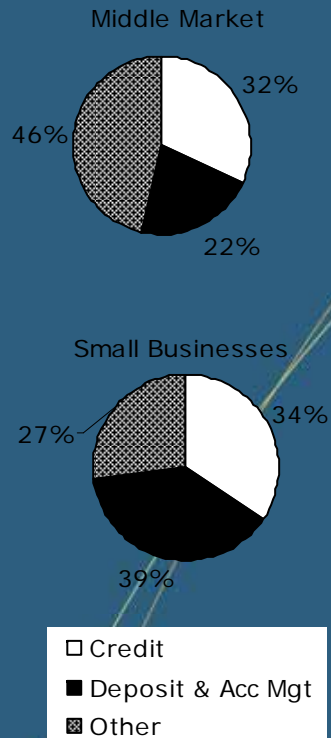
- **SME Banking is not just SME Lending**

- Deposits and transaction products are the main drivers of SME profitability

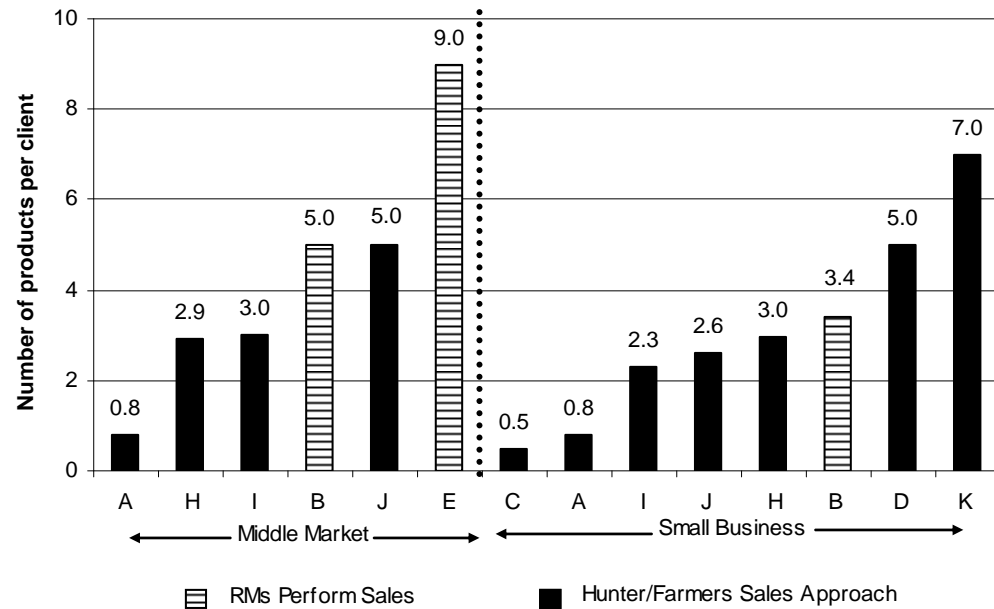
# Income Generation: Credit is not the Focus

*"We have to change the bankers' tendency to think that if they do not lend, they are not doing their job"*

Revenue Break Up of Traditional Banking Products



Cross-Sell Ratio



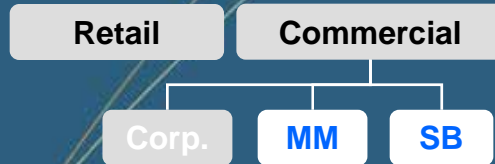
**Not all SMEs need to borrow, but all need core banking products to carry out their daily business**

# Creating focus requires having dedicated staff segment-wise

“SME banking is not rocket science; what is key is execution”

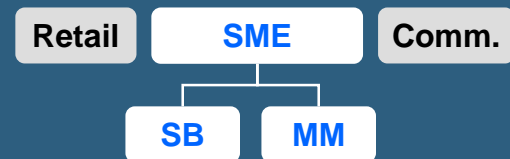
## Model 1: SMEs in Commercial

2 banks



## Model 3: Dedicated SME Unit

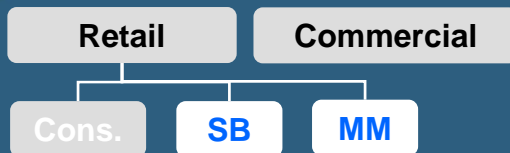
2 banks\*



\*1 with no sub SB and MM units

## Model 2: SMEs in Retail

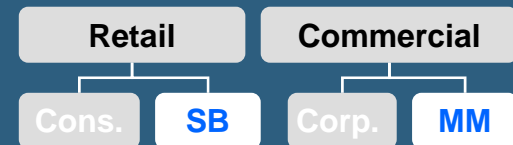
5 banks\*



\*1 with no sub SB and MM units

## Model 4: Split

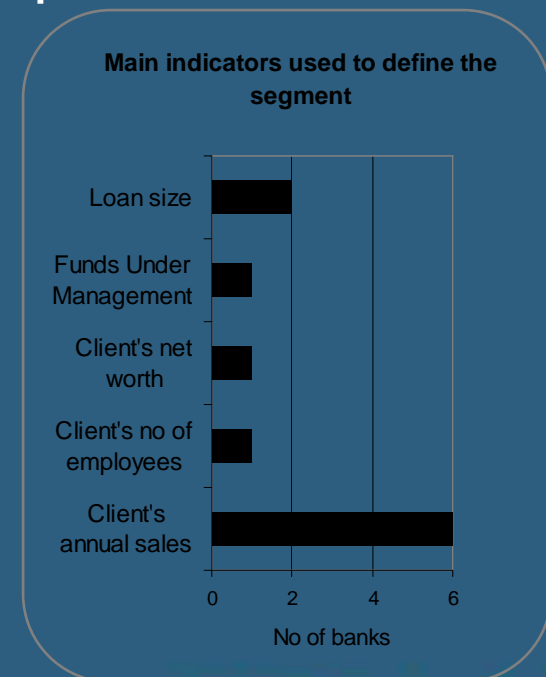
2 banks



# Definitions vary considerably in terms of criteria

- Most banks indicate that loan size is not an adequate criteria
  - Most banks evolved from loan size to more sophisticated criteria after accumulating and analyzing data on SME clients
  - Loan size does not identify non borrowers. It may include large companies with small exposure. An SME exposure can also significantly vary over time

*“the segmentation criteria must correspond to the data you have”*



# A pro-active sales strategy is critical

## ■ Multi-channel approach

- Multi-channels include: branches, call centers, Relationship Managers, Business Developers, internet banking, outsourced agents, and ATMs

## ■ Banks employ dedicated sales teams to optimize client acquisition

- *Hunter & Farmer Approach*: includes dedicated “hunters” *business developers* with the sole target/bonus to acquire new clients
- Banks rated Business Developers as the most important channel for client acquisition for middle market
- Banks rated Relationship Managers as the most important channel for client acquisition for small business



# Independent credit underwriting is the general rule

- There is no “One size fits all” solution...
  - Institutions should quantify risks and align processes with risk appetite rather than apply a standardized model
  - The risk organization model is fundamentally determined by environment, bank history, target market and incentives for branch-based officers
- Banks use different models to achieve credit independence
  - Centralized credit underwriting unit (credit officers in HQ or regions), reporting directly to a global credit risk department with no links to business lines
  - Decentralized credit underwriting team (credit officers in branches) but reporting to global corporate credit with a secondary reporting line to the branch manager
  - Use of automated scoring tools, developed/validated with an independent/centralized credit team
- Specialization and technology improve efficiency...



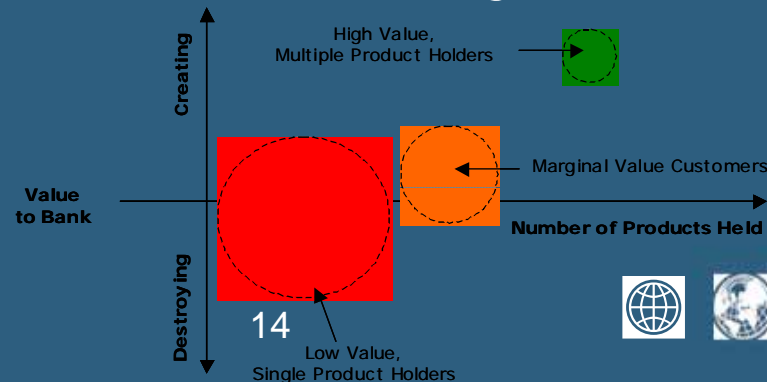
# Banks emphasize the need for robust data and strong analytics

## ■ Banks use data at all levels

- In sales, for pre-screening and the creation of prospect databases; data on customer behavior also enables cross-selling
- In credit risk management, internal and external data is required for scoring purposes, for preventive measures during the credit monitoring process and to prioritize recovery efforts
- Market information and customer feedback feeds into product development
- Management closely monitors profitability and risk figures for performance tracking
- To analyze this data, banks build strong analytic teams

## ■ Profitability analysis is seen as key to cost containment

- Product level
- Customer level
- Portfolio level



# Conclusions

- SME Banking can be extremely profitable, and its not 'rocket science'
- There is no 'one size fits all' solution, but.....
- .....successful banks tend to follow the same criteria:
  - Strategic Focus
  - Segmentation
  - Specialized / Dedicated human resource
  - SME Banking not just SME Lending
  - Multiple delivery channels
  - Automation and technology
  - Reliance on analytics to manage the portfolio

Questions ?

