

How Banks Can Leverage an Ecosystem Model for the SME Sector

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The Small and Medium Enterprises segment contributes over USD 850 billion per year to the global banking industry, which is about one fifth of total revenues. This segment is also expected to grow at 7-10 percent over the next five years. Unfortunately, this segment has traditionally been underserved by the banking sector, often due to the highly varied quality credit in their portfolios. As a result, SMEs feel that the traditional banking sector neglects their needs. Fintechs and tech giants are now increasingly stepping into the vacuum left by traditional banks with technology-enabled new service models. They are offering innovative offerings such as a comprehensive bundle that includes traditional banking products, invoice management, tax-related services, inventory management and payroll support. This gives SMEs easy-to-use services at one place, helping them focus more on their core business activities. As banks move to capture larger share of the market in the face of increased competition, they cannot ignore the SME sector any longer.



By building or participating in an ecosystem designed for SMEs, banks can improve their share of market within the SME sector and increase returns as well. Despite competition from new-age players, banks still enjoy customer trust. They must capitalize on this relationship and claim primary ownership in an SME banking ecosystem. The advantage of an ecosystem model is that banks can learn from different partners and fill gaps in their portfolios with offerings from partner organizations. These integrated offerings will result in a win-win for all stakeholders. The network effect of an ecosystem will also give the SMEs the strategic scale advantage as well as help the players to use data to create value-added products. In fact, the data generated by an ecosystem can be invaluable for banks as it can reveal deep insights on customer behavior and preferences. They can use these insights further to fine-tune their SME strategy with customized product recommendations and offerings.

Banks can leverage the ecosystem to improve performance, boost growth and gain a competitive edge in the market. An efficient ecosystem can reduce customer acquisition costs by enabling large scale automation and by integrating a wide variety of products and services. Banks create touchpoints that can be monetized, generate product offerings that are tailored for specific customer needs, and offer seamless experiences that reduce customer churn. SMEs will also be able to access an array of services and products under one roof. By providing value-added services for SMEs through an ecosystem, banks can position themselves at the center of the ecosystem to derive maximum value.



Banks can operate the ecosystem model in two ways. One, they can choose to be a participant in an ecosystem built by other industries. In this they will provide financial services at scale while keeping their own investments low. They will still add banking customers from other players in the ecosystem, but this is not a strategic approach and will not help them build on their existing competitive advantages. The second option before them is to invest in building an end-to-end platform that they own and run with partners. This has significant economic and non-economic benefits for the bank in question. Ecosystems owned and managed by banks are already in play, a case in point being the Royal Bank of Canada's platform Ownr.

Managing a SME platform effectively and monetizing it can be challenging. Subscription fees from SMEs using the platform can be a good revenue stream. And if the bank orchestrates the platform comprising multiple partners, they can administer all transaction flows and billings in the platform and receive a share of the fee from clients. Data monetization within the regulatory limits can also be used to generate revenue. Creating and managing a comprehensive ecosystem is expensive and requires specialized knowledge and expertise. Banks also require agile technology infrastructure that can handle multiple partners, leverage data, and effectively monetize it. Banks can work with specialized technology partners with experience of building and running such ecosystems.

The banking sector is at crossroads now. Increasing competition has put severe pressure on bottom lines and customer retention. The industry requires high capital investments that results in over 51 percent of banks operating below the cost of equity. Banks must relook at their strategy and tap into lucrative revenue streams like the SME sector. An ecosystem designed especially for SMEs can help them grow this line of business successfully in the years to come.