OneConnect Financial Technology Co., Ltd.

CHANGE YOUR GAME IN SME LENDING NOW

The past two years have been transformational for the financial services industry, including the SME lending market. However, many banks are still being left behind when it comes to their existing systems and applications. The banks that don't change their approach towards SME lending will risk losing out in the ever-more competitive small business lending sector.

Banks in Asia face both a huge opportunity and a tricky challenge. They stand to grow their market share by lending to a growing number of capital-hungry SMEs (small and medium-sized enterprises) in the booming economies of Asia.

However, banks still struggle to come up with an efficient model to assess the creditworthiness of SMEs.

From a digital transformation standpoint, SME banking is a largely untapped market. SME banking has not been properly digitised. Compared to retail customers, SME owners have not benefitted much from the digital innovations of the last 5 to 10 years. The onboarding and loan process for SMEs remains cumbersome and it takes a long time to have a loan approved. Furthermore, SME lending remains very much a paper-based or in-branch process. SMEs want easy access to finance, yet they are often overlooked and underserved.

There are several key challenges faced in SME lending.

- **First,** the credit information vendor market is fragmented. This means financial providers and small businesses do not have a single source of credit information to meet their growing need for quality data.

- **Second,** many SMEs lack the credit score, cash flow or collaterals that banks have traditionally relied on to determine creditworthiness.

- **Third,** owing to SMEs' heterogeneity, banks are unable to develop optimal general standards for assessing loan applications.

- **Fourth,** many banks' SME lending processes are paper-intensive, manual and cumbersome. Many banks lack online application platforms and haven't done much to automate workflows.

What should banks do to raise their game?

Even before the COVID-19 pandemic, SMEs across Southeast Asia were keen for greater and different engagement with their banks. An EY survey found 37% wanted to increase the level of engagement and 16% were open to explore other providers *(https://assets.ey.com/content/dam/ey-sites/ey-com/en_sg/topics/financial-services/asean-smes-are-you-transforming-for-the-future.pdf?download)*. More than two-thirds were open to non-traditional lenders, especially if these lenders could offer a faster loan approval process.

With the advent of the digital age, financial institutions in the ASEAN region must rethink the role they want to play in the SME banking space if they aspire to address the financing gap and capitalise on the SME banking opportunity.

Banks should update legacy systems and enhance the customer experience of SME owners via digitalisation. Digitalisation will allow banks to provide SMEs with multi-channel self-service capabilities. Manual processes are often long and laborious. As a result, SMEs experience complex and friction-filled customer journeys. If they wish to remain competitive, banks will increasingly need to offer SMEs paperless onboarding, branchless banking, conversational banking, video chats and easy access to relationship managers.

What should banks do to raise the bar?

Digitisation needs to be at the heart of the next wave of SME banking services. To accommodate their customers' needs and rising expectations, banks need to prioritise system modernisation.

Modernising systems by 'going digital' offers several benefits.

Most obviously, digital application channels improve customer experience and reduces cost. In the field of SME lending, increased process efficiency reduces the amount of manual processing work and allows decision making to be largely or completely automated.

But that's just one of the upsides offered by digitisation. An anti-fraud and credit model supported by AI and machine learning that leverages alternative data sources provides impressive risk management capabilities. Even better, digitisation allows for advanced collections capabilities that enable financial institutions to collect more and collect faster.

Increase SME loans approval without increasing risk

What if there was a technological solution that could help banks identify SMEs that are good credit risks, even when those SMEs can't provide much financial data?

And what if that solution could also minimise loan application fraud?

Even better, what if it was a digital solution – rather than one involving lots of paper forms, PDFs and manual processing – well-suited to an era of rapid digital transformation, widespread digital literacy? An era in which providers of financial services practising financial inclusion look set to reap massive rewards.

With OneConnect Smart Lending Platform, banks can adapt to a rapidly evolving credit landscape. Finovo's smart lending solutions support end-to-end loan portfolio management, including channel management, anti-fraud and credit risk modelling, pre-disbursement checks and post loan monitoring. This automated application processing can eliminate up to 90% of the labour costs involved in the old-fashioned, paperwork-and-humans-based approach to loan applications.

Finovo's Smart Lending Platform is a state-of-the-art solution embedded with advanced AI algorithms. AI algorithms that crunch a wide spectrum of alternative data, allowing retail and SME lenders to reduce operating costs while maintaining risk management standards. (Finovo's Smart Lending Platform was awarded the Asia-Pacific Smart Lending Platform for the BFSI Industry Technology Innovation Leadership Award at Frost & Sullivan's 2020 Best Practices Awards.)

OneConnect, the company behind the Smart Lending Platform, recently partnered with UBX, the fintech arm of Union Bank of the Philippines, to build SeekCap. SeekCap is the Philippines' first smart lending platform. It allows multiple lenders to offer micro, small and medium enterprises loans that best suit their business needs.

Thanks to SeekCap, whether they require micro loans or substantial working capital, Filipino SMEs can now use one platform to have their loans applications processed in a matter of hours. If their application is approved, the funds are made available within 72 hours, which is far quicker than is currently standard for the Philippines.

OneConnect Smart Lending Platform also has an integrated 'Loan Collection System' to help financial institutions collect more debts more quickly.

The new digital normal

COVID has accelerated trends in the SME segment. There's now a growing preference among business owners for digital interaction, rather than the traditional, face-to-face way of doing things. To remain competitive, banks must implement digitised solutions that improve the customer experience, speed up the decision-making process and lower their operating costs.

With a robust, comprehensive digital lending program such as OneConnect Smart Lending platform, banks will be well positioned to attract and hold on to many more SME customers in the years ahead.

You can find out more about OneConnect Finovo series here.