



Exploring
innovative solutions
Digital banking for SMEs

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General introduction

Today, digital banking platform providers are closing the gap between the expectations and capabilities of banking services for small and medium-sized enterprises (SMEs), by developing solutions that are better adapted to the scale of such organizations. These new entrants are racing each other to find the most innovative offerings in terms of tools and solutions for this market segment.

SME customers expect innovative services focused on their wish to simplify their daily business lives. And how have digital banking providers responded?

It is the answer to this question that we have tried to uncover through the research and analysis of our survey. In this executive summary, we present an overview of the key outcomes of our study.



1. Introduction to the survey

1.1 Context

Micro-businesses and SMEs are the lungs of Europe. They represent more than 99% of the total number of enterprises on the continent and employ around two thirds of the active workforce. However, only four out of ten SMEs are expected to celebrate their fifth birthday as they heavily rely on external funding in the various stages of their life cycle: at the time of its launch, in case of crisis, and also to extend or to innovate.

Currently, SMEs feel under-served by the financial services as compared to multinationals. Indeed, banks are more restrictive when it comes to granting them loans. This is partly due to the difficulties in assessing these businesses compared to the multinational companies. The COVID-19 pandemic has made this assessment even more difficult as today, many SMEs are being heavily supported by government assistance, which reduces visibility on their real financial health. Subsequently, banks deduce that it is riskier to lend money to this market segment, whereas SMEs will increasingly need access to funding during and after the pandemic.

The new financial offerings that are appearing on the market may be of great help to optimize the funds deployment during the crisis recovery. In fact, a majority

of SME owners may greatly benefit from insights and tools to help them manage and grow their business. Hundreds of new entrants have found these unmet needs and filled the gaps left by traditional banks, with the most successful establishing ecosystems where incumbents can either fit in or lose out.

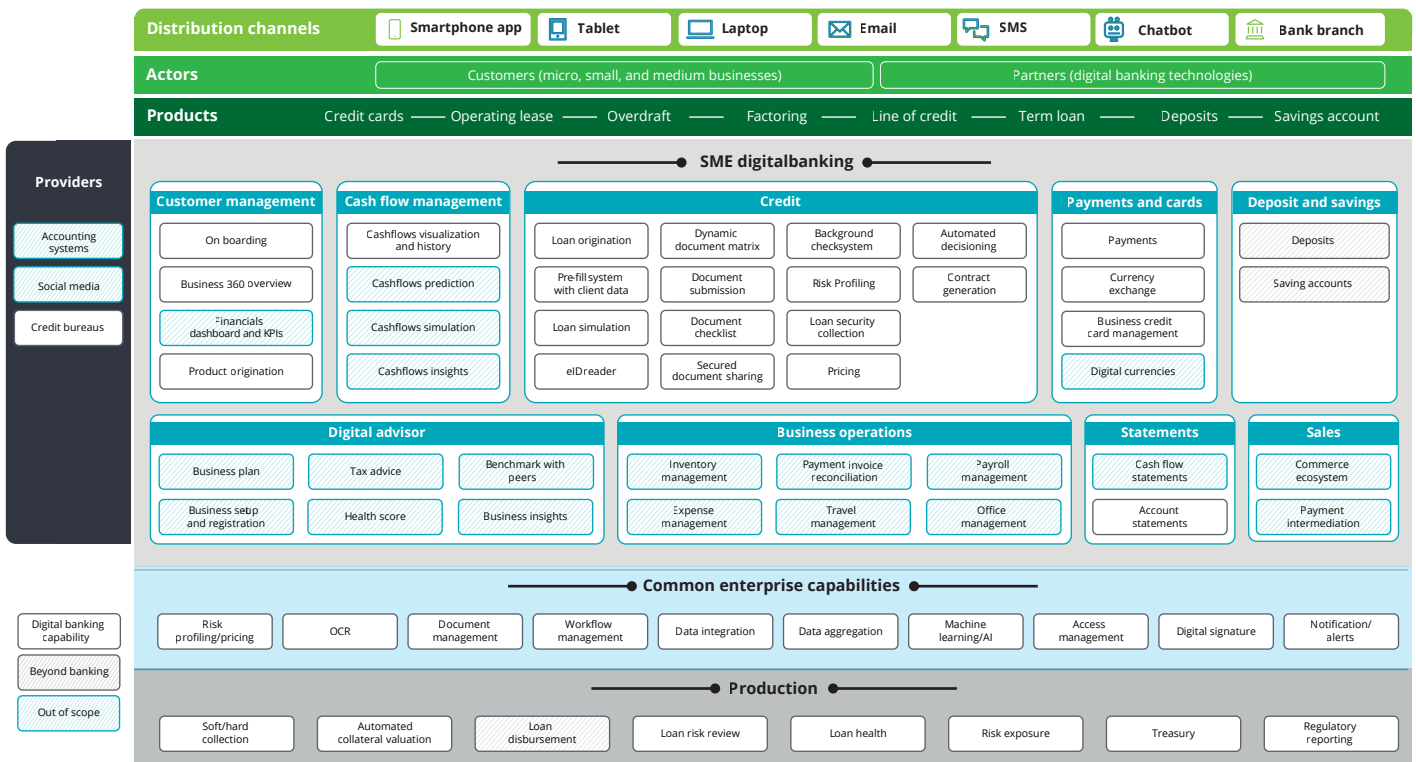
By placing a focus on understanding their SME customers and by providing more-targeted products, banks will be able to withstand competition. Despite the emergence of digital disruptors in the banking industry, additional competition presents an opportunity for banks to take the lead and leverage their long-standing relationships with SMEs. But banks will need to act quickly.

In our survey, we were particularly interested in technologies enabling these digital financial services, but also in technologies making financial services available on platforms dedicated specifically to SMEs.

Despite the emergence of digital disruptors in the banking industry, additional competition presents an opportunity for banks to take the lead and leverage their long-standing relationships with SMEs.



Figure 1: Capability map representing the scope of our survey



1.2 Scope

The scope of this survey was to assess digital banking platform providers for SMEs focusing on the following areas:

- The firm and market view (digital banking platform providers' view on the market, progress on innovations and technologies);
- Coverage of the value chain with digital banking platform providers' solutions and its range of services;
- The technologies used to support and integrate digital banking platform providers' solutions (architecture, DevOps, aspects of license, and delivery models, maintenance, and support policies); and
- The pricing (understand how platform providers' bill their solutions).

The main focus of this survey was to understand the maturity of digital banking services, the coverage of the value chain, and the positioning of the different solutions within the market.

1.3 Objective











This survey was carried out to help our clients discover, select, and implement digital banking platforms. To ensure that our clients consider and utilize the most appropriate solution in their journey to an enhanced customer experience and digital service process, we conducted this survey to assess the banking capabilities typically required for SMEs. Through the questionnaire, the digital value proposition of major banking software providers has been analyzed and compared with the functional coverage expected by SMEs.



2. Survey summary

2.1 Survey participants

Prior to the creation of the questionnaire, a market analysis was carried out. This upstream work made it possible to identify three important points for our survey to focus on regarding the shortlist of the banking platform provider. The proposed solution had to be a front end solution positioned in the distribution layer scaled for SMEs in the European market. As a result, from a list of 63 potential participants, it was decided to select 10 banking software providers.

 Deloitte.	Alpha
 BACKBASE	Backbase
 TEMENOS Infinity	Temenos Infinity Business Banking
 lendstream	Lendstream
 ncino	nCino
 NUCLEUS SOFTWARE	Nucleus Software
 STRANDS	Strands
 TurnKey Lender	TurnKey Lender
 upSWOT	upSWOT
 VERIPARK	Veripark

2.2 Survey methodology

Based on the market analysis that was performed upstream, the questionnaire investigated vendors on the capability map illustrated in Figure 1. The questionnaire is composed of different topics; depending on the topic, the questions were either more general or more specific. The questionnaire was created on the D.Quality platform, meaning respondents could enjoy a more user-friendly interface while facilitating the analysis of the answers. Indeed, this tool automatically compiled a synthesis of the results in several formats.

2.3 Content overview

From a market perspective, the general public is now more willing to trade personal data for greater benefits in the form of monetary rewards or personalized services. Through the questionnaire, it is apparent that the solutions address the main challenge banks and insurers face in their ability to properly collect customer data using data aggregators and third party interfaces. This, the main difficulty is the analysis of such data in order to offer a tailored service to each user. To help cope with this, all the surveyed vendors bar one are investing heavily to develop AI and machine learning models and capabilities (see later paragraph 2.3.4).

From the responses, two different groups stand out with regards to functional coverage. On one side, are respondents that are mainly focusing on digital lending to conveniently cover the funding needs of SMEs. This represents a customer-centric solution, facilitating the bank's entire lending process, wherever the customer is located. The solutions take care of customer onboarding, loan origination, verifying identity, credit decisioning, managing administrative documents for potential loans, and sometimes even loan disbursement for the entire loan life cycle. On the other side, some respondents are more focused on business financial management (BFM) or cashflow management. These solutions provide the processes and dashboards designed to help organizations plan, budget, forecast, and report on business performance, as well as to consolidate and report financial results. It provides insights into the overall health of the business. The next sections will deep dive into each area of the survey outlining the key findings.

2.3.1 Digital funding

When it comes to digital funding, two points stand out.

Firstly, customer onboarding and enrolment has changed and is now fully digital and automated and is a key ingredient in offering a good customer experience. Within this process, the E-KYC (Electronic Know Your Customer) is involved. The process consists of a series of checks implemented in the first stage of the relationship with the client to verify its identity. For instance, it includes regulations such as anti-money laundering (AML) and politically exposed person (PEP).

Many technologies are available on the market to support the E-KYC or other processes such as the credit assessment. Indeed, four solutions use E-ID reader (electronic identification) and three solutions use optical character recognition (OCR), which enables the scanning of text or a document that can then be edited. Others perform this check through an external third party.

Secondly, digital loan origination provides both customers and bank employees with a seamless and transparent process to request and grant funding. As such, it is possible to receive digital loans in a few hours—up to one week maximum—if it is a common loan responding to simple terms and conditions. To enable this efficient process, 80% of the respondents are integrated with credit bureaus to make credit decisioning faster. In the event of complications, the difference of duration occurs through different elements as follow

- Loan amount and loan products;
- Loan management standards and practices applied by certain borrowers; and
- Customer profile (the customer’s background).

Finally, four solutions offer a step-by-step support from the loan simulation and pre-qualification process to loan reimbursement process.

Figure 2: Technologies supporting the E-KYC

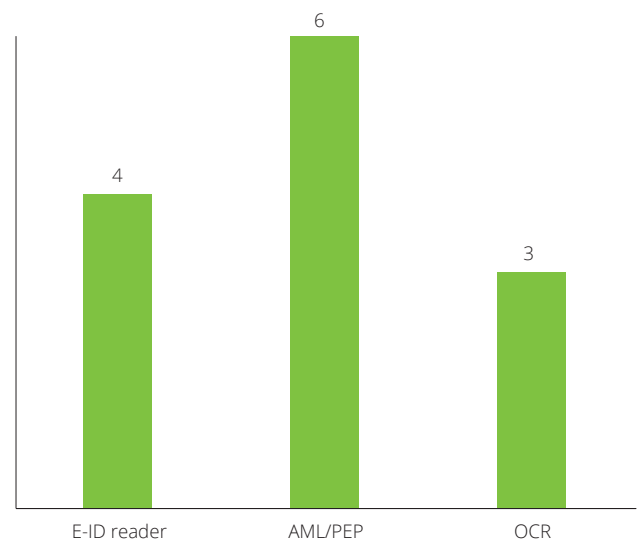
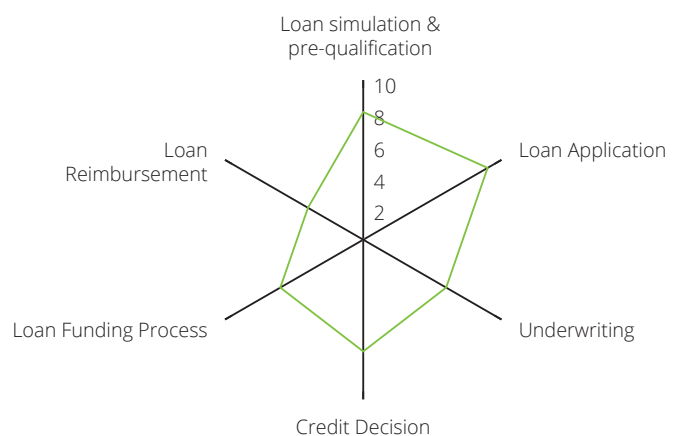


Figure 3: Funding value chain coverage

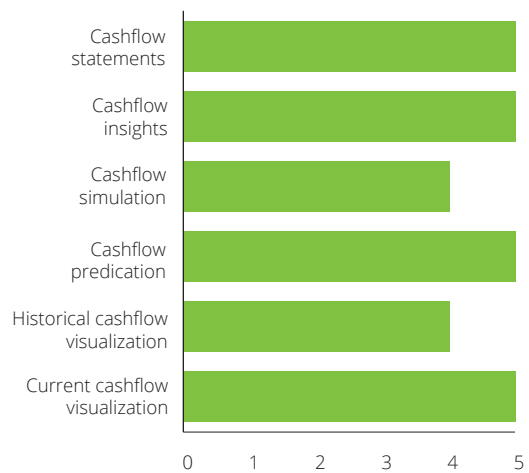


2.3.2 BFM/cashflow management

Regarding solutions that provide BFM to give a better visibility on a business' financial health, half of the participants are offering cashflow management functionalities, which allow a punctual analysis, but also the follow-up on economic trends over several months. Integration with accounting systems is key here, for which nine out of 10 respondents have standard connectors, such as QuickBooks, Sage, or Xero. As the following graph illustrates, cashflow management functionalities are mainly focusing on:

- Current cashflow visualization: The customer is able to consult his cashflow in real-time;
- Historical cashflow visualization: The customer is able to consult the cashflow of the previous months;
- Cashflow prediction: The customer is provided with a projection of his future available cashflow;
- Cashflow simulation: The customer is able to simulate futures cashflows based on different scenarios;
- Cashflow insights: The customer receives notifications related to his cashflow; and
- Cashflow statements: The customer consults financial reports related to his cashflow.

Figure 4: Cashflow services

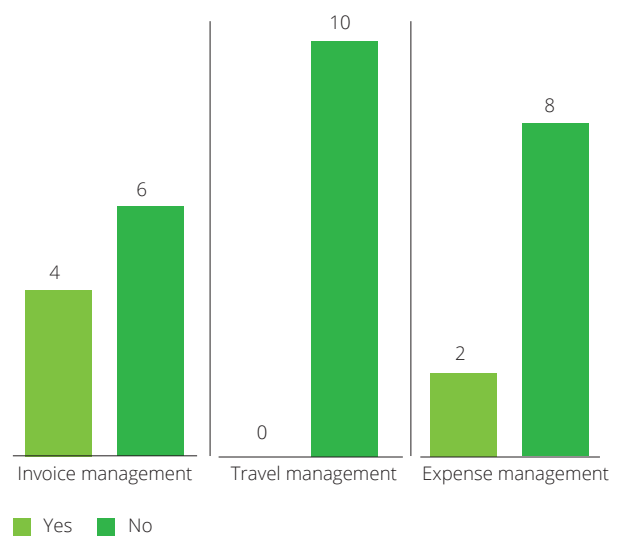


2.3.3 Beyond banking

Looking now to the beyond banking trends, with the opening up of information systems and through the use of microservice architectures, non-financial services are developed to add-on financial services. Some results were unexpected, like the fact that beyond banking services and payment services are covered by a minority.

With PSD2 opening up bank infrastructure to third party providers, we have seen new use cases beyond banking arise, mostly in the consumer banking segment. For SMEs' needs, as this questionnaire outlines, beyond banking capabilities are still very limited. Through the Figure 5: Beyond banking graphic, the services of invoice management, travel management, and expense management are poorly covered by the solutions. These are not the only ones, there is also everything related to inventories (good inventory, raw material, unsold goods) that is covered very little. However, it is true that not all businesses are concerned with these kinds of services.

Figure 5: Beyond banking



2.3.4 Technology

Looking now to the technology supporting the aforementioned functionalities. No matter the type of service offered, funding, or BFM, the main focus on technology investment mostly shared between the 10 respondents was as follow:

- 10 are developing microservices/APIs;
- Nine are developing technologies such as artificial intelligence; and
- Eight are developing technologies such as machine learning and data lake and analytics.

Technologies such as AI and machine learning are being developed to increase automation of processes by capturing a large amount of data. A typical use case would include the use of an AI model for the credit decisioning without human intervention. In general, in the banking sector, it will help drive innovation and growth in business and business intelligence. It will lead to more accurate, reliable results and more personalized services to strengthen the customer relationship. In addition, it will increasingly enable the simulation of human behavior.

Regarding microservices/API technology, since each microservice has a focused task, it is easier to create, maintain, and test services as they flow through the various transformation processes. Furthermore, this architecture offers more flexibility as the microservices are not dependent on each other and it is easier to make changes without disrupting the overall functionality of the platform.

While many vendors do not have a standard connector to market leading Core Banking Systems (CBS) such as T24 or Avaloq, they are all open API-based to easily integrate with any other system.

Seven solutions are omni-channel, meaning the user can start a process in one application and then continue in another one from the point where the user left. Omni-channel experiences unify inbound and outbound communications to provide customers with proactive interactions. Having a solution that provides an effortless user experience is highly valued.

Figure 6: Technologies in development

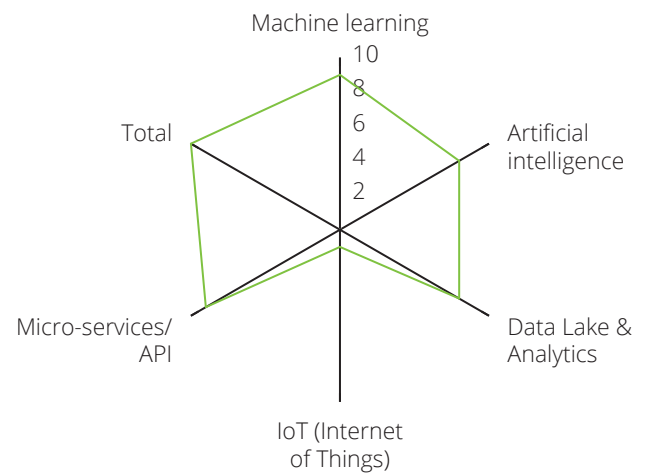
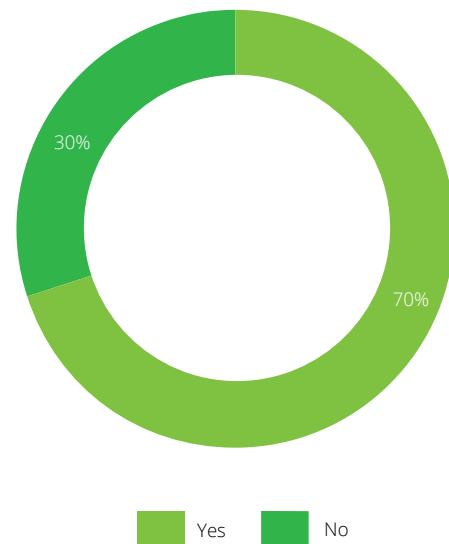


Figure 7: Omni-channel solutions



3. Conclusion

What emerges from our questionnaire is that the digital banking providers surveyed do provide solutions which can significantly help SMEs in managing and financing their business. A majority provides funding platforms who deal with digital lending and then rarely touch cashflow management or payment services. On the other hand, other vendors offer BFM covering cashflow management without providing funding services. Either way, both solutions under-served the beyond banking aspects.

Banks are in the position of trusted advisors and act as intermediaries between SMEs and platform providers. It is then up to digital banking providers to create solutions via banks, that will offer SMEs ecosystems able to combine all types of services from funding and BFM to beyond banking in a single environment.



To meet customers' expectations, the solution should provide great user experiences that can be configured easily. Platforms should be simple, fast, and fully digital. Solutions must focus on customer and employee needs by using approaches through different channels (omnichannel solutions). Indeed, since COVID-19 using omnichannel has become a norm, which puts the user at the core of a seamless ecosystem, maximizing self-service.



Banks are integrating solutions provided by vendors hosted in a cloud through different delivery models (e.g. SaaS). The cloud-native application development approach has become a standard through the use of API and microservices. This process is able to build a flexible, scalable, and robust architecture. It also facilitates data management such as data collection, data storing, and data access by integrating seamlessly with different systems such as core banking systems or accounting software. As a result, the solution gives visibility to the financial health of SMEs.



To exploit this data, AIs and machine learning are seamlessly becoming part of the banking industry to personalize the relationship with each customer. These technologies are starting to be implemented in different models to simulate customer behaviors, or because they process data faster and more efficiently than human beings.

In light of this outcome, several solutions can be easily integrated, but do not currently offer the ecosystem covering all the needs of an SME. We would recommend financial institutions to review their operating models to serve SMEs. Starting from confirming this target segment, to defining products and services, and subsequently distributing them in an omni-channel way. Selecting the right processes and tools according to the SMEs' need between funding and BFM solutions is a necessity. Regardless of the solution, collecting and exploiting data is essential and is the main challenge of every digital banking platform. Ensuring a deeper knowledge of the customer will guarantee personalized services that are key to creating and maintaining strong customer relationships.

To conclude, the added-value of digital banking providers surveyed help SME owners in their daily routine. Business owners will have more time to focus on growing their business (less financial management, help with business management, improved business results). At a bank level, it provides knowledge on the business in order to secure any decision of the bank regarding the different businesses. The more information the solution is able to gather, the more it will be able to deliver a tailor-made solution to the business owner at the right time.



Acknowledgements

The completion of this survey could not have been possible without the participation and assistance of the respondents. It has been a pleasure to collaborate and share information with everyone. We want to thank all of you for the time taken to complete the questionnaire, the quality of responses has been highly appreciated and has been a great help in the analysis.

Along with this executive summary, the aim was to establish current trends in the market and the sharing of this knowledge will help build better digital banks.

The role of digital technology will continue to grow in the management of companies by facilitating access to ultra-personalized services, while human contact will continue to generate added-value in this increasingly virtual world.

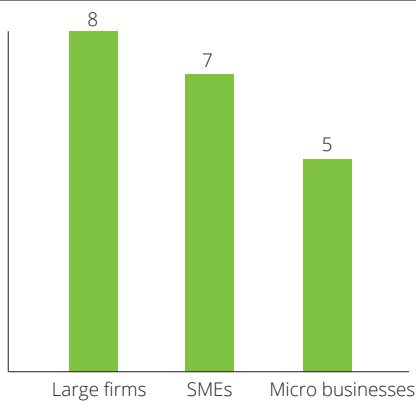


4. Appendix

Key results

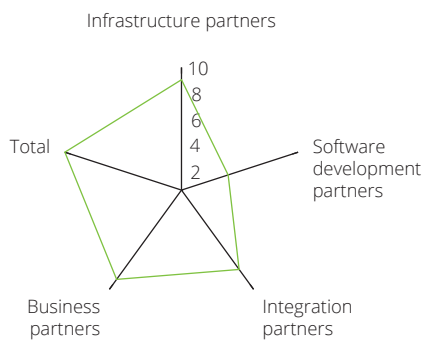
Firm & Market View

Targeted customer



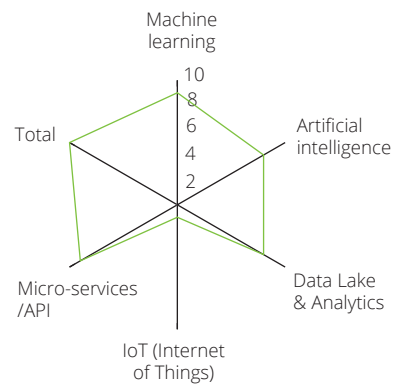
Respondents are not only targeting one segment market. Their solution was to target large firms and subsequently adapt their solution to SMEs' needs.

Partnerships



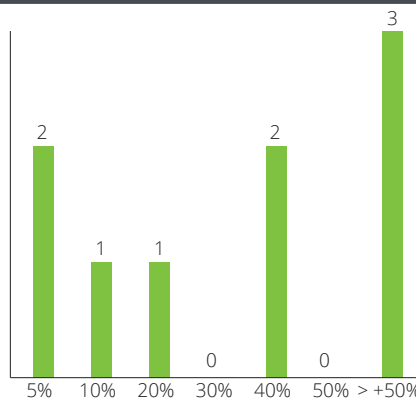
Digital platform providers have created partnerships. The benefit of creating alliances is to enrich products or for cost savings.

Technologies in development



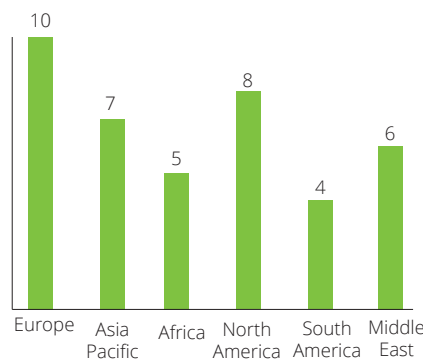
All the respondents are mainly working on the same technologies. AIs and machine learning to develop more accurate tools. The APIs architecture system is the most used currently because of the flexibility and scalability it offers.

Revenue growth over three years



Depending on the revenue, this scheme is subjective. The main thing to note is that no matter the size of the company, the market is increasing.

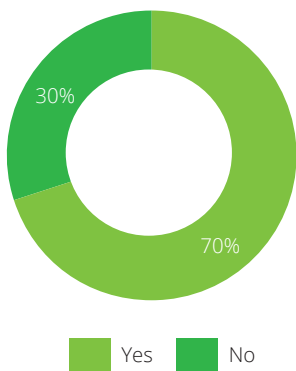
Operating market



The survey is based on the European market. It is interesting to know where your business is positioned geographically as Deloitte is doing business all over the world.

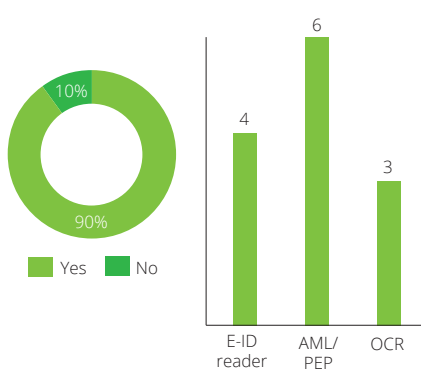
Functional coverage

Omni-channel solution



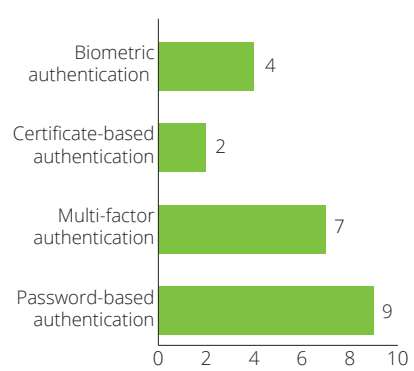
An omni-channel solution allows the user to start a process in one application and then continue in another from the point where the user left. This brings more flexibility and is appreciated by the user.

E-KYC support/process



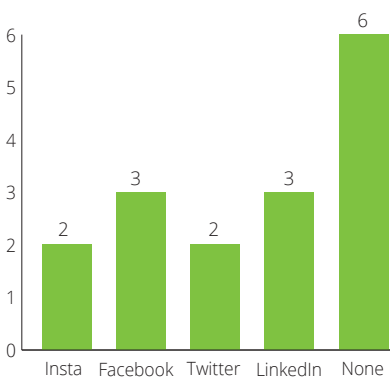
Know Your Client guidelines require banks to make effort to verify the identity, suitability and risks of maintaining a business relationship. This is an important process that must be performed.

Authentication Methods



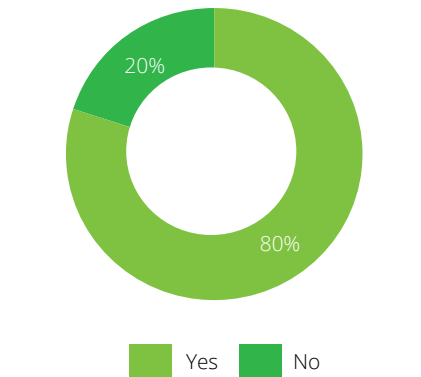
Password-based authentication remains the most common process even if more and more frequently it is possible to authenticate in several different ways (e.g., facial, fingerprint, voice authentication).

Social media integration



Connecting your solution to a social media platform can help you to perform an e-KYC in many ways or to do marketing. Out of 10 responders, three have connected their solution to LinkedIn.

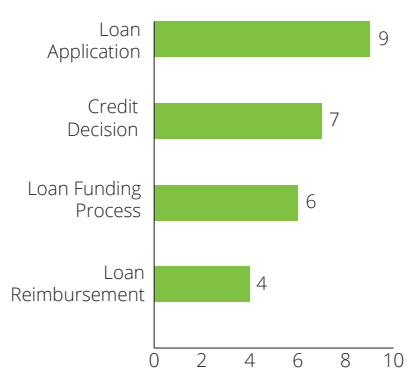
Product origination



Most solutions provide product origination. The most common product origination are the following:

- Several credit products origination; and
- Online account opening.

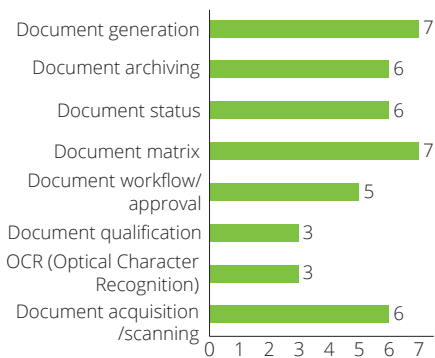
Funding value chain coverage



Solutions intervene in several stages of the life cycle of a loan, especially at the beginning. This trend seems to decrease towards the end of the loan's life.

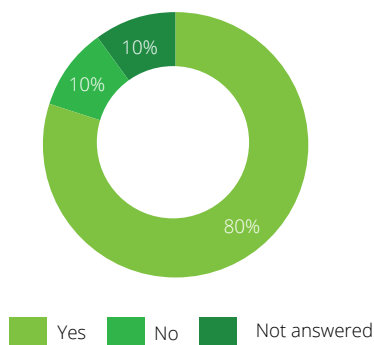
Functional coverage

Document management feature



Seven out of 10 respondents declared to have a system to manage documents. This graph shows us the features used by many solutions.

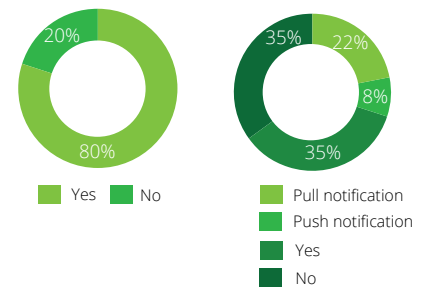
Human intervention within the process



During the loan process, a physical person must intervene for many reasons, such as:

- Intervention in case of complicated cases;
- AML/PEP failure; and
- Questions from the customer.

Notification system and mechanism



Notification systems are a means of communicating and sending information to the user regarding their business. Most of the time, notifications are sent based on pre-defined events, some of which can also be set up by the user.

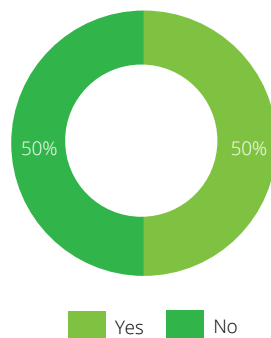
Credit product coverage



The main credit products covered by banks' solutions are the following:

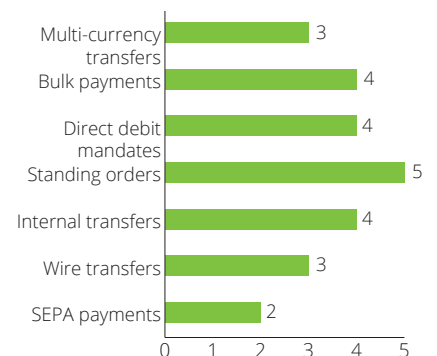
- Term loan;
- Credit line; and
- Overdraft.

Payment capabilities



Payment services are not performed by all respondents because each provider has a specialty. By proposing payment capabilities, they could expand their range of services and differentiate from their competitors.

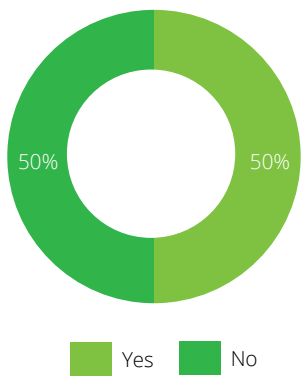
Payment services



Among the five respondents who make payments, they all make standing orders. The common payment capabilities are also the internal transfers, the direct debit mandates, and the bulk payments.

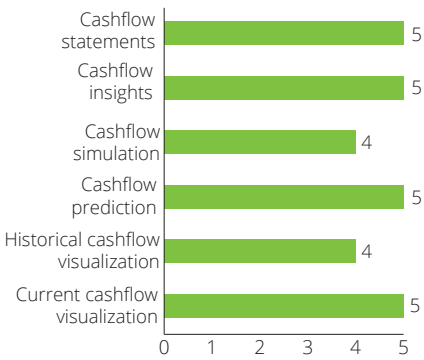
Functional coverage

Cashflow management



Half of the respondents are covering cashflow management.

Cashflow management services



Half of the respondents are covering cashflow management and these services may require more advanced technology such as AI.

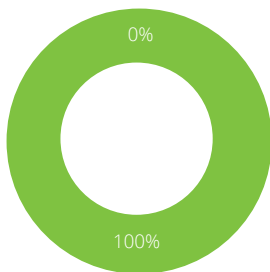
KPIs



A majority of the respondents propose a dashboard in which many KPIs are displayed. KPIs can be set by the user's preferences.

Architecture

CRM integration

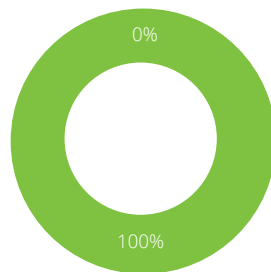


■ Yes ■ No

Our participants are integrated with standard CRMs such as:

- Salesforce
- Microsoft Dynamics 365

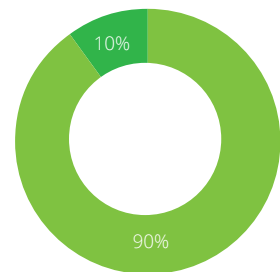
APIs/microservices access



■ Yes ■ No

From a technical point of view, the APIs and the microservices are the most used to retrieve data, to interpret it, and to perform the correct action to bring information to the user.

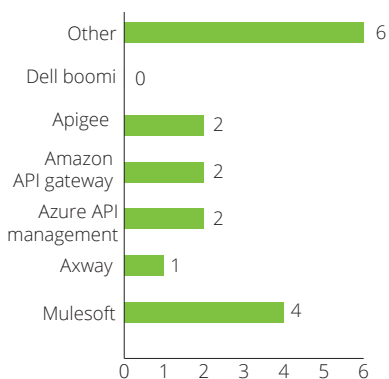
Minimal contract duration



■ Yes ■ No

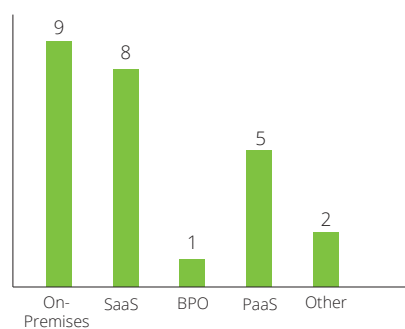
Different minimal duration contracts were quoted, with one and three years of minimal duration being the most common. In the comments, it was mentioned that the duration was also open to discussion.

API management integration



Many systems have standard connectors with major API management tools to integrate seamlessly into a company's landscape. Other tools mentioned include Kong and Peekdata.

Delivery model



The most common delivery models, by far, are on-premises and SaaS.

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