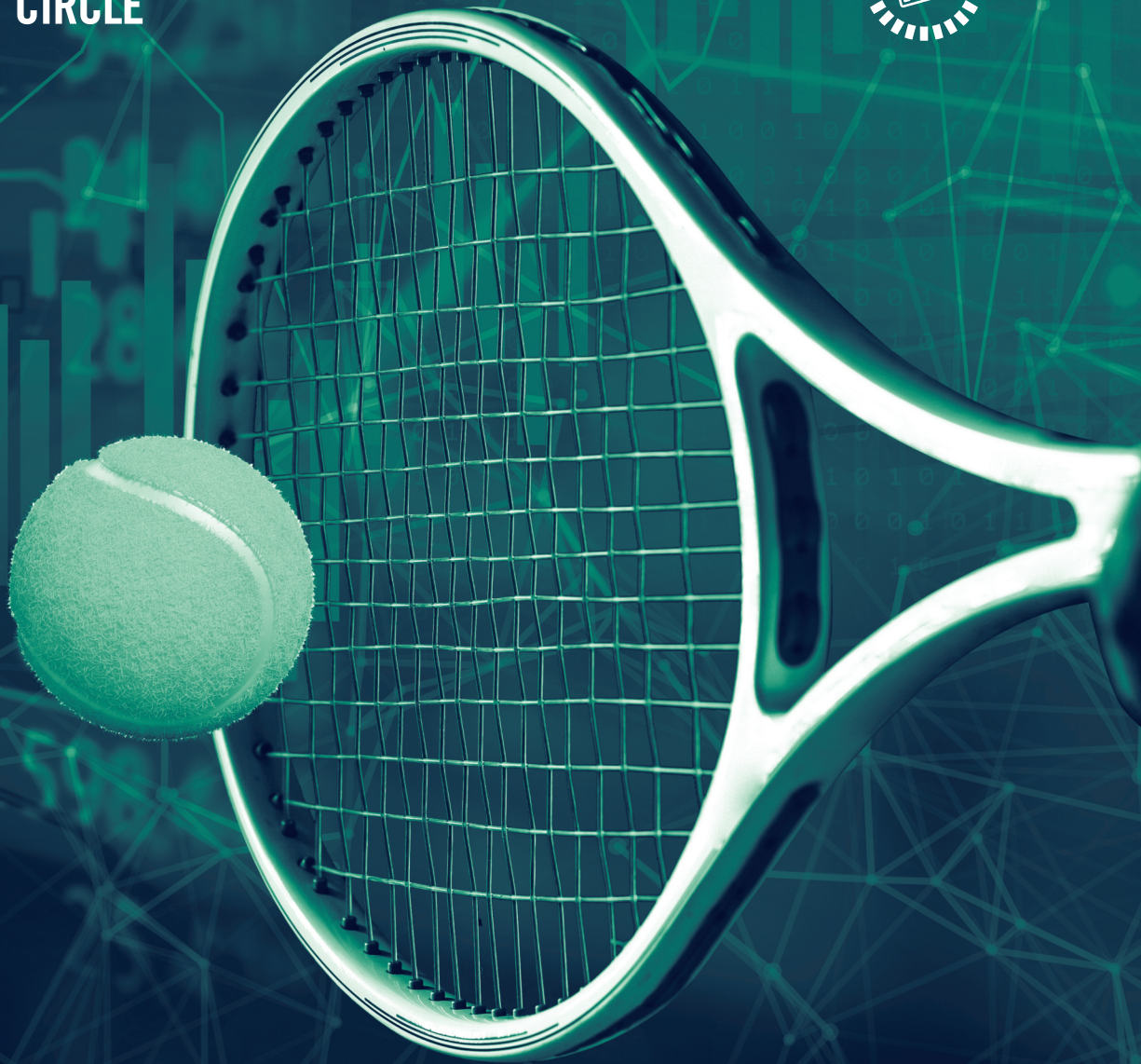




**BANKING
CIRCLE**



PAY, SET, MATCH!

Payment services for SMEs – Jump-starting a virtuous digital payment circle



CONTENTS

- 3 PAYMENT SERVICES FOR SMEs – JUMP-STARTING
A VIRTUOUS DIGITAL PAYMENT CIRCLE
- 4 THE SMALL BUSINESS CHALLENGE
- 5 THE OPPORTUNITY FOR PSPs
- 8 MORE INSIGHTS



PAYMENT SERVICES FOR SMEs – JUMP-STARTING A VIRTUOUS DIGITAL PAYMENT CIRCLE

Financial inclusion for SMEs is a hot topic for European governments, financial institutions, banking representatives and small business associations. All recognise that SMEs are a significant part of the region's economy and agree that enabling and improving access to funding is a priority.

However, our conversations with SMEs and service providers make it clear that this interpretation of financial inclusion is too narrow. Access to financing and funding has certainly increased in the past few

years, but this success – valuable and necessary though it is – can often disguise SMEs' dissatisfaction with the financial services available to them.

Many are wrestling with payments solutions that do not meet their specific needs. This is unhelpful in itself. But it also sets up a negative idea that there is little to be gained by developing services specifically for SMEs. Viewed in this way, financial inclusion among SMEs actually remains a significant problem.

Even the most disruptive FinTechs and Payment Service Providers (PSPs) have focused more on larger businesses or individual consumers over SMEs. That can and should change. Digitisation in particular holds the potential to transform payments and related services as part of a broader and far more comprehensive set of financial services for small businesses.

The SME sector in Europe



24 million

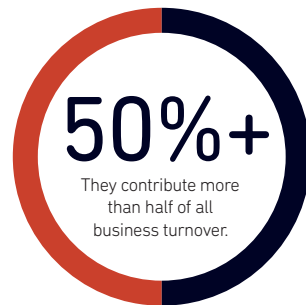
There are more than 24 million SMEs in Europe.



They make up more than **99%** of all the region's businesses.



2/3 They account for two thirds of all employment.



50%+
They contribute more than half of all business turnover.



260,000 are classified as Innovative Enterprises by the EC¹.



¹ Eurostat, Product and process innovative enterprises by NACE Rev. 2 activity and size class [inn_cis9_prod]



THE SMALL BUSINESS CHALLENGE

Much of the problem lies in the nature of Europe’s SME market itself – or more accurately, Europe’s many SME markets. Small companies dominate the business landscape, but are dispersed, diverse and highly differentiated.

“There’s no data on them and so it’s expensive to reach out to them,” says Ivo Gueorguiev, the chairman of Paynetics, an infrastructure payments provider to FinTechs and smaller players. Economies of scale have been hard to achieve, which reduces the affordability and consequent viability of SME solutions. Hence the shortage of solutions.

Kent Vorland, the CEO of SmartTrade App, a platform for micro-businesses and sole traders, has seen the consequences of this in action with providers who try to attract SMEs with consumer products on the one hand or enterprise services on the other. “[Consumer products] are not agile enough and providers have little knowledge of small businesses,” he points out. “Equally, the big boys have complicated functionalities, but nothing optimised for small merchants.”

In fact, scratch the surface and tales of late payments, limited access to efficient transaction services and

restricted credit lines quickly emerge. Common complaints from SME owners often concern the lack of such essentials as access to payment services or the time it takes to open a merchant account, or support for accounts payable.

David Selves, an entrepreneur and owner of the Selves Group of Companies explains why this can be such a big problem: “Three to five banking days for card payments is still the norm, which causes considerable issues for many small businesses who need to restock rapidly.”

Michael Ault, the CEO of Universal Transaction Processing, agrees: “[SMEs] have already been through an arduous process to get a merchant services account, and then it takes days to get their funds.”

Despite SMEs exporting goods worth 12% of EU GDP in 2018, cross border payments remain a challenge, especially for online retailers. As Phil McGriskin, CEO at Vitesse, explains: “Due to bank fees, the amounts actually received vary from the amount expected. When invoicing, it’s difficult to know how much you need to add for transaction fees.”



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Kent Vorland, CEO, SmartTrade App



Three to five banking days for card payments is still the norm, which causes considerable issues for many small businesses who need to restock rapidly.”

David Selves, Selves Group of Companies

The UK’s late payment epidemic

£21.1 bn



In 2017, unpaid invoices were worth £21.1bn.²



78% of SMEs wait one month and more beyond agreed payment terms.⁴



£6.7bn

In the UK collecting late payments costs SMEs £6.7bn.³



Late payments cause the death of

50,000

SMEs every year in the UK.⁵

² MarketInvoice

³ BACS

⁴ BACS

⁵ Federation of Small Businesses



THE OPPORTUNITY FOR PSPs

Rob Israch, chief marketing officer at Tipalti, firmly believes that the SME market has plenty of potential, simply because it is where there is the greatest need. “SMEs value their time and cannot afford to just keep throwing people at their manual problems.”

Dr Barbara Fretter and Maarten Lammens agree. They co-own Solids Development Consult in Germany and although they turn to their bank for account administration and troubleshooting, it is not a source of new ideas or technology for them. “If we have a problem, such as how a workshop participant can pay us directly with a credit card at the seminar, we have to search for a solution ourselves.”

For Nick Warmerdam, co-owner of EE Care in the Netherlands, automation and products are just presented from the banks’ perspective. “I have to take the initiative to find out more,” he says. “They do not think about it from my perspective. [EE Care] has to personalise our services to our clients – our bank could do that for us.”

SMEs are by no means wedded to their banks. In the UK, arguably Europe’s most advanced FinTech market, nearly half of all small businesses said they would move to a non-bank provider. Crucially, fees and service levels are very much a secondary factor when making that decision; far more important is having their financial needs met in new and innovative ways .

That reinforces Gueorguiev’s view that any service providers deploying digital technology are ideally placed to serve SMEs, and would, he says, address the problems of scalability, access, utilisation and viability. There is plenty of evidence to back him up. AI, for example, is being used to reduce audit-processing times, automatically match payments to invoices, identify suppliers likely to pay late, and of course in fraud reduction.



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Ivo Gueorguiev, Paynetics

Location matters

Merchants and traders in Western Europe typically have access to better services simply because the infrastructure is in place, including a wide network of PSPs. In South Eastern Europe, with a more limited number of PSPs, firms typically need to negotiate directly with their bank. A similar situation prevails in Southern Europe, which can be characterised as vibrant – but inefficient.

In Central and Eastern Europe, it’s a mixed picture. Poland is well served with bigger institutions that have an international presence in contrast to the smaller banks and lack of infrastructure in Bulgaria and Romania. The upside is that CEE markets do not have the same legacy problems as those in the west, and can leapfrog stages of development.



THE OPPORTUNITY FOR PSPs

Serving SMEs requires PSPs (and others) to understand the reality of small business life. PSPs cannot simply replicate the bank’s sub-optimal model. Instead, solutions need to be localised and made SME-specific, and even targeted for different sizes within the SME class.

Many resource-strapped, time-poor SMEs are not yet convinced of the benefits of digital technology in general. There has been little incentive for them to find out more: hard-to-access solutions have kept prices high and reinforced barriers to entry.

To counter this problem, SMEs need to make use of services ostensibly targeted at them: if they don’t it simply reinforces the perception that this is a market not worth serving. But placing the onus on SMEs is not enough. A degree of education is required. And that, in turn, demands participation from all elements in the value chain.

Saving SMEs time. And money



Machine learning and data analytics can save 15 minutes per invoice processed.⁶

The twist here is, of course, that many new PSPs are themselves SMEs. They demonstrate the value that digital tools bring to a small business in their own day-to-day operations. Their business model is predicated on generating cost savings from digital distribution, scale, product enhancement and exponential development – and passing them on to clients.

Educating SMEs is just one aspect of the collaboration and communication needed in this sector. There are plenty of ambitious but underserved businesses with very specific needs that can be met by a joined-up ecosystem. There are plenty of potential PSPs with innovative ‘point’ solutions. Currently, there is a lack of connection between the two, outside individual series, of transactional relationships.

PSPs should therefore see themselves as a key element in a wider industry in which everyone has responsibility for kick-starting adoption rates among SMEs. To ensure that innovation can continue in previously untapped or unserved markets, individual businesses need to recognise where others add value, whether that’s big banks or local

FinTechs. From there it becomes possible to establish where and how to build more productive relationships across the board.

It also has to be recognised that financial inclusion based on digital technologies is not an isolated process. It occurs within a broader spectrum of technology, communication, collaboration and analytics – and even society as a whole. The key for all members of this ecosystem is to keep dialogues open while competing to develop solutions that fit this diverse and disparate market.

The first few years after the adoption of PSD2 have demonstrated that it is possible to transform finance – albeit largely for consumers. There is now evidence that there are gains to be made by all participants, and that they can be significant. However, although top-down directives from state institutions and regulators may be the driver to change, the response has to be closer to a grass-roots movement – led by participants who can find and develop solutions from the ground up.

How can PSPs and payment intermediaries build an ecosystem to support SMEs?



Find your niche:
where to collaborate and where to dominate the market



Think SME:
develop SME specific services that challenge traditional ways of doing things



Focus on benefits:
reducing costs of services, speeding up access to finance, and keeping everything simple and intuitive

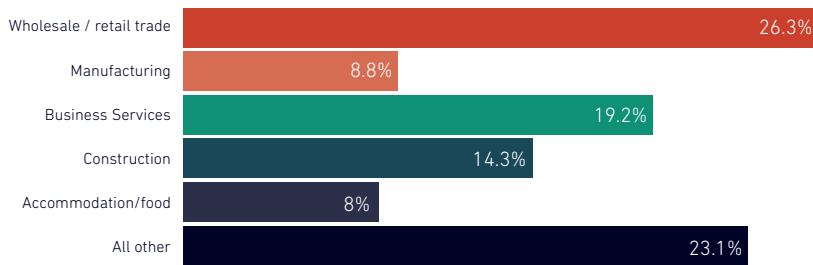


Build the conversation:
communicate effectively with Banks, FinTechs and SMEs to increase understanding of the infrastructure landscape

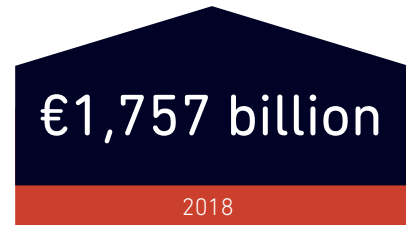
⁶ AODocs



What do SMEs do?



SMEs and exports



EU SMEs exported goods worth €1,757 billion in 2018.

Why financial inclusion?



Sustainable business growth



Skills development



Job creation



Innovative product development



Export growth

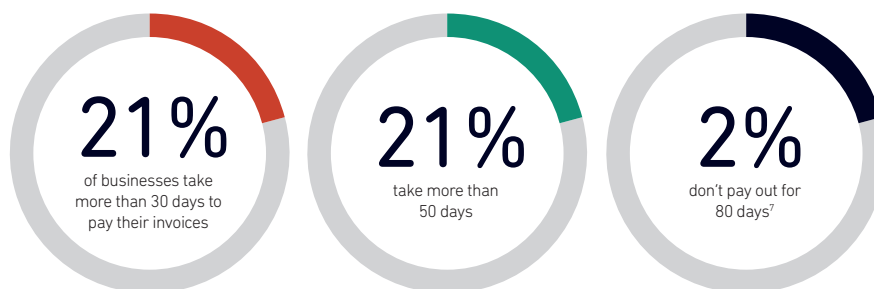


Diversification of wider economy



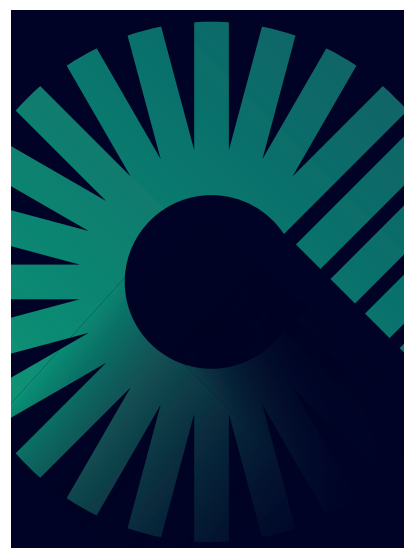
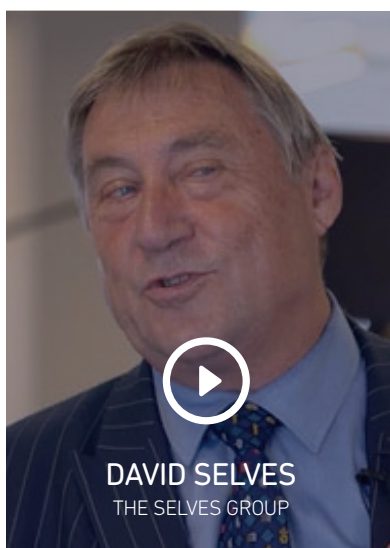
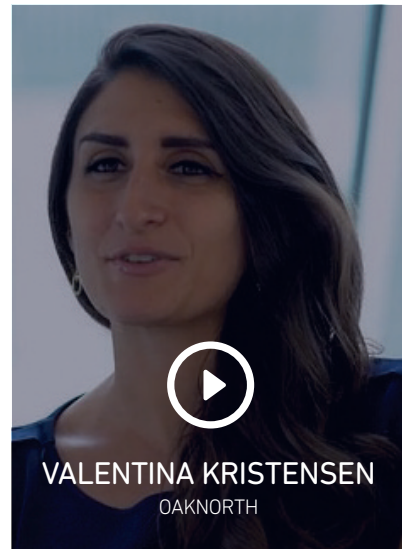
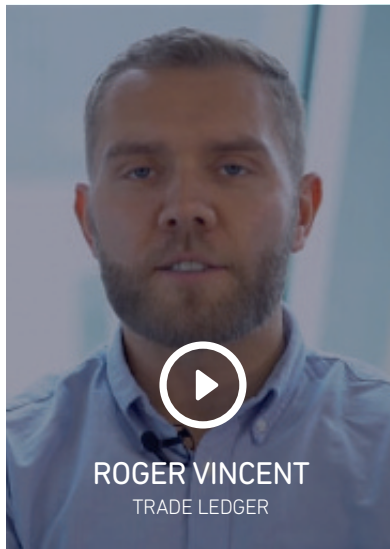
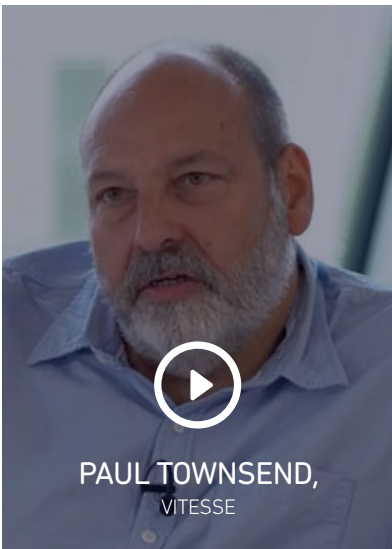
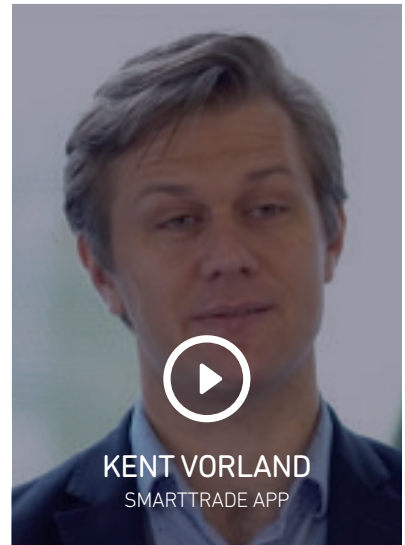
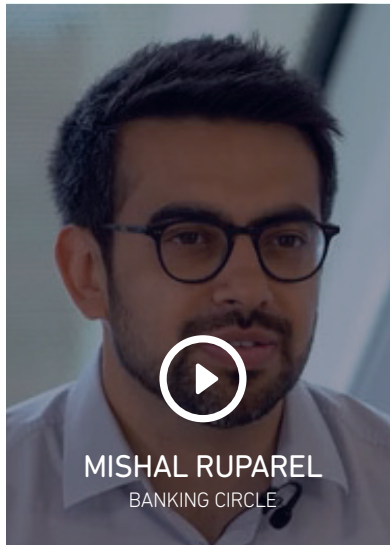
Social integration

SMEs and payments



⁷ Lloyds Bank and the UK small business commissioner Paul Uppal

⁸ Eurostat, Product and process innovative enterprises by NACE Rev. 2 activity and size class [inn_cis9_prod]





ABOUT BANKING CIRCLE

Banking Circle is a global scale financial utility that gives financial institutions the ability to enhance their customer proposition.

Leading the rise of a super-correspondent banking network, Banking Circle is helping FinTechs and banks increase financial inclusion by providing their customers with faster, cheaper banking solutions, including banking accounts, local and cross border payments and lending, without the need to build their own infrastructure and correspondent banking partner network. As such, Banking Circle is empowering financial institutions to support their customers' international trading ambitions, without the need for multiple banking relationships, whilst reducing risk and the operational cost of transactions. And that is enabling them to remain competitive.

When Banking Circle launched the aim was to address the time and cost challenges of existing business payment solutions which had led to many businesses being financially excluded and unable to achieve their potential. The company has remained committed to this mission, developing and delivering effective, valuable solutions to help businesses of all sizes improve payment efficiency and cashflow.

Banking Circle has created a suite of innovative solutions to meet changing market needs and increase financial inclusion.

BANKING ACCOUNTS AND BANKING CIRCLE VIRTUAL IBAN

Through Banking Circle, Banks and Financial Tech businesses can provide customers with accounts in 25+ currencies. Financial institutions can issue multi-currency physical and virtual IBANs for customers in their own name, in multiple jurisdictions. Accounts deliver full transparency and faster settlement, enabling Financial Institutions to offer merchant customers a full transactional service.

Banking Circle Virtual IBAN enables financial institutions to give clients their own virtual IBANs, negating the need for several banking relationships. Improvements are experienced across payments acceptance, screening time, reconciliation/settlement times, and customer experience. Payments are made and received at low cost per transaction, delivering a valuable competitive advantage previously unavailable to smaller firms.

BANKING CIRCLE LENDING AND BANKING CIRCLE INSTANT SETTLEMENT

Banking Circle commissioned a study of 500+ SMEs to uncover pain points they experience in accessing funding through traditional lenders. In response, the company built two propositions: Banking Circle Lending and Banking Circle Instant Settlement.

These innovative solutions provide financial institutions with the capability to offer merchant customers a fast, transparent, flexible, low-cost, and easy-to-manage loan solution. Where once smaller businesses were unable to achieve global ambitions due to a lack of necessary funds, Banking Circle is improving financial inclusion by giving financial institutions the ability to offer SMEs fast access to loans with flexible repayment options.

Banking Circle Instant Settlement enables PSPs to offer their merchants instant access to cash, while they wait for payment from customers or marketplaces – taking up to 90 days. Banking Circle Instant Settlement, a receivables financing solution, gives Merchants access to the cash flow they need to run their business effectively.