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Digital banking for small and
medium-sized enterprises
Improving access to finance
for the underserved



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Foreword



Small and Medium-sized Enterprises (SMEs) are an important segment in the economies of member states in the Association of Southeast Asian Nations (ASEAN). Across the five countries of Indonesia, Malaysia, Philippines, Singapore and Thailand, SMEs contribute between 30% and 60% of the countries' gross domestic product (GDP) and employ between 60% and 90% of the workforce.

These SMEs are fairly resilient to economic shocks and business cycles. In terms of geographical dispersion, 13% to 22% of SMEs are concentrated in the capital cities, while the remaining SMEs are fragmented across the rest of the country.

Despite characteristic differences in the nature, size and composition of SMEs in the five countries, they share common financial needs such as better cash flow management, access to external financing and a more efficient payments system; as well as non-financial needs such as input costs mitigation, access to cheap quality labour, and a business-friendly climate.

Even though SMEs play a significant role in the economy, most have limited access to financing. Less than 60% of SMEs in the five countries have access to bank loans and approximately 50% of the SMEs are unserved or underserved by financial institutions.

With the exception of Thailand, SME loan volumes in the region are less than 60% of their contribution to GDP, and constitute less than 20% of total loans. This presents a sizeable opportunity for banks to target and increase lending to the SME market.

However, several key factors impede SME lending and results in the poor financial inclusion of SMEs:

- Financial infrastructure such as low SME coverage by credit bureaus/registries increases the cost of SME credit risk assessment;
- Inadequate distribution channels limit banks from reaching out and servicing SMEs in either the physical or digital space;
- The lack of cash-flow visibility forces banks to adopt stringent collateral-based credit risk models which hinder lending to SMEs without collateral; and
- Regulations dictate that higher risk weights be allocated for SME loans and this raises the cost of lending.

These impediments are not unique to ASEAN but also prevalent in more advanced economies where SMEs have easier access to loans. In those countries, we see incumbent banks, challenger banks, financial technologies (FinTechs) and e-commerce providers seeking to fill the SME financing gap by adopting innovative business solutions.

These new business models are able to overcome the aforementioned key factors limiting SME lending and address the varied financial and non-financial needs by financing SMEs through alternative channels; using payments data to supplement credit risk models; capitalising on digital infrastructure to extend outreach; and offering a comprehensive suite of products and services.

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

Financial institutions have options to organically build capabilities by leveraging digital solution providers or import capabilities by forming strategic partnerships with challenger banks, FinTechs and e-commerce providers.

Given the importance of SMEs to ASEAN's national economies through their significant contribution to employment and GDP, a strong well financed "banked" SME base which is able to expand regionally and internationally will support broader national economic stability and growth.

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Mohit Mehrotra
Deloitte Consulting

SME: An unserved and underserved market

With SMEs playing a key role in ASEAN economies, ASEAN governments have increasingly focused on developing the SME sector through various schemes, initiatives and policies. However, the current state of SME financing in ASEAN remains both a sizeable gap to fill and opportunity to serve. In order to better target the SME market and grow the SME banking business, banks and governments will need to understand the profile, needs and preferences of SMEs to develop tailored approaches and overcome various historical challenges such as high credit risk and cost to serve.

SME definitions vary across countries and institutions¹ – despite the close geographical proximity of countries in ASEAN – and this poses a challenge for cross-country comparison. Indonesia and Malaysia, for instance, define SMEs as companies that have more than five but less than 75 employees. Philippines, Singapore and Thailand, on the other hand, adopt a broader definition and consider SMEs as firms with no more than 200 employees and a turnover of less than USD 74 million. At the lower end of the SME sector, there is a group of smaller “micro” enterprises. Usually consisting of the self-employed, these micro businesses are typically found in the informal sector or the shadow economy. More than 90% of SMEs across the five chosen markets are made up of small and micro enterprises.²

Definitions of SMEs

	 Indonesia	 Malaysia ¹	 Philippines	 Singapore	 Thailand ²				
Enterprises	Turnover (USD ³ '000)	Net Assets (USD ³ '000)	Turnover (USD ³ '000)	Employee (No.)	Turnover (USD ³ '000)	Employee (No.)	Turnover (USD ³ '000)	Employee (No.)	
Medium	200-4,000	40-800	800-6,000	30-75	340-2,300	100-199			
Small	20-200	4-40	80-800	5-30	68-340	10-99	<74,000	<200	
Micro	<20	<4	<80	<5	<68	<10			
								900-6,000	16-200
								<900	<15

Note: ¹ Does not apply to manufacturing sector

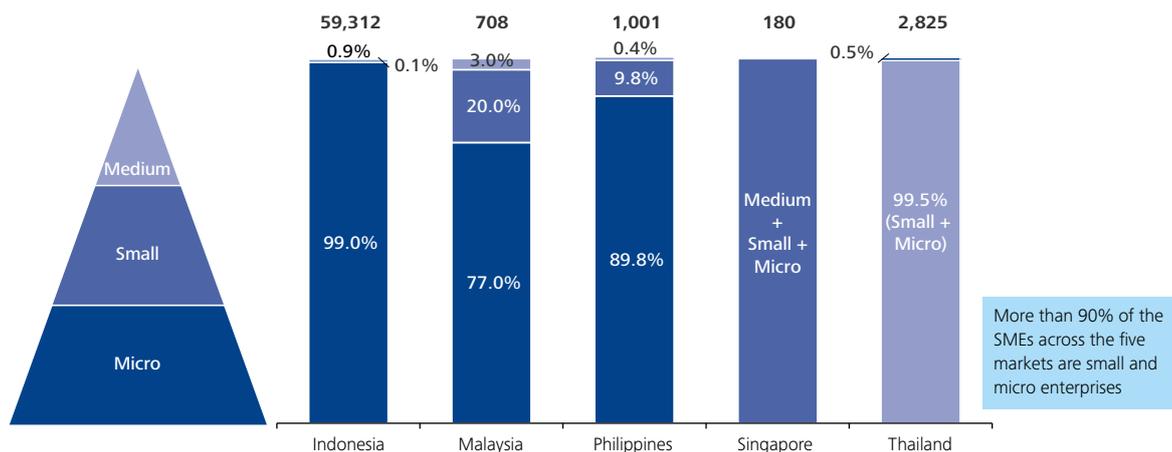
² Specific figures differ across industries

³ March 08, 2015 exchange rate used: 1 USD = 3.6 MYR, 1 USD = 44.31 PHP, 1 USD = 12747 IDR, 1 USD = 33 THB, 1 USD = 1.36 SGD

¹ Source: Malaysia SME Corporation; Malaysia Department of Statistics; SME Act No 20/2008 Indonesia Ministry of Cooperatives and SMEs; Thailand Ministry of Industry; Thailand Office of SME Promotion SME White Paper 2014; Spring Singapore; International Finance Corporation.

² Source: Malaysia SME Corporation; Malaysia Department of Statistics; SME Act No 20/2008 Indonesia Ministry of Cooperatives and SMEs; Thailand Ministry of Industry; Thailand Office of SME Promotion SME White Paper 2014; Spring Singapore; International Finance Corporation; Deloitte Analysis

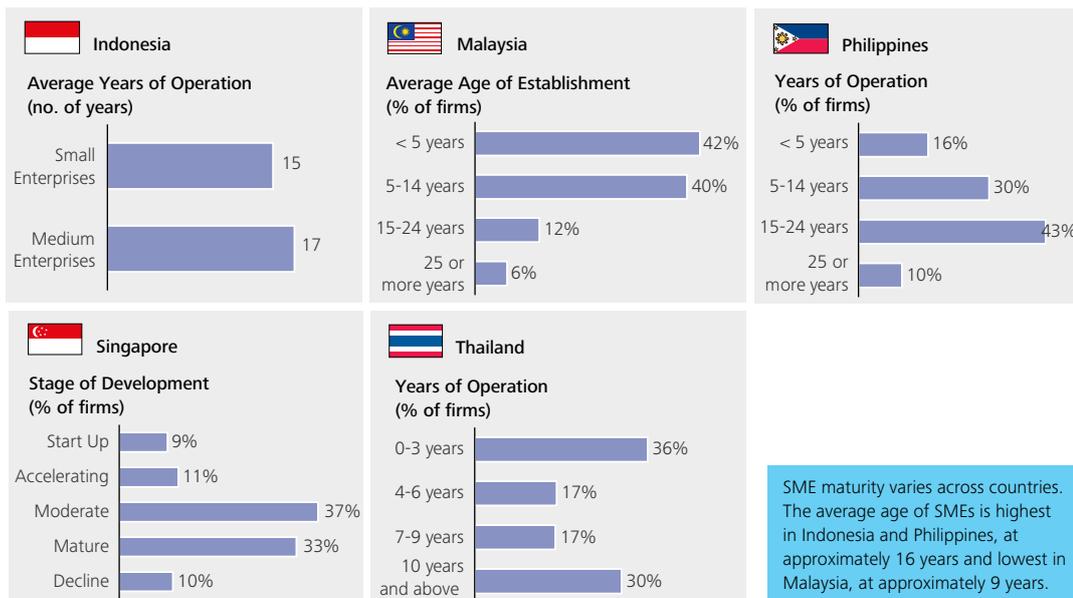
Number and Proportion¹ of SMEs ('000, no. of entities, 2014)



Note: ¹ Proportion of SMEs: Indonesia data from 2012, Malaysia from 2010, Philippines from 2012, Singapore from 2011, Thailand from 2013. Thailand does not differentiate between small and micro enterprises while Singapore groups medium, small and micro enterprises together as a bloc.

Source: Malaysia SME Corporation; Malaysia Department of Statistics; SME Act No 20/2008 Indonesia Ministry of Cooperatives and SMEs; Thailand Ministry of Industry; Thailand Office of SME Promotion SME White Paper 2014; Spring Singapore; International Finance Corporation; Deloitte Analysis

SME Maturity

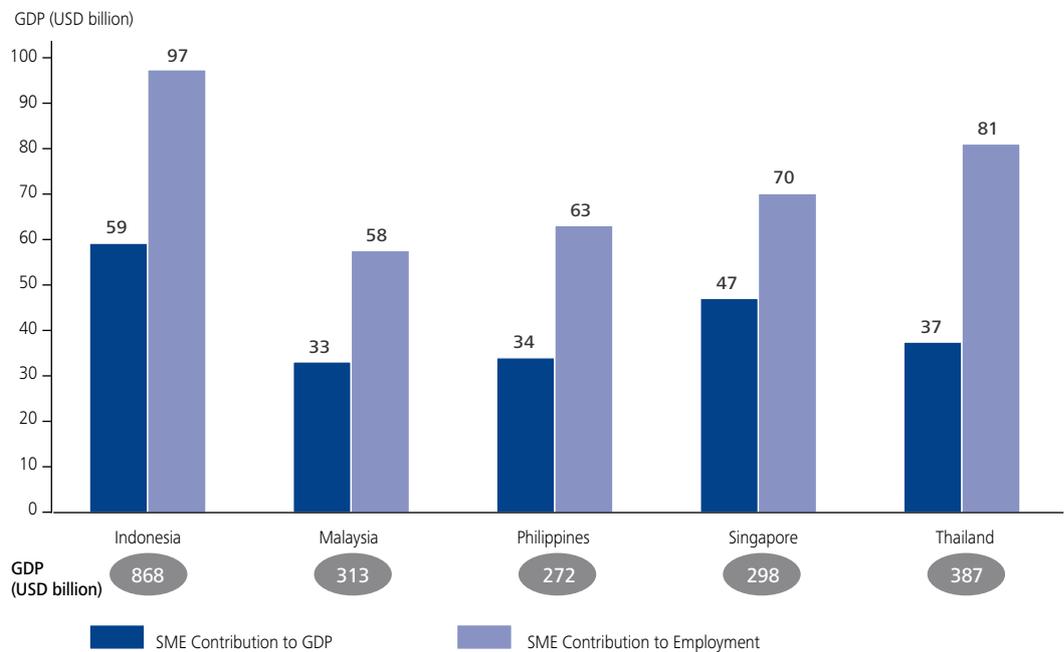


SME maturity varies across countries. The average age of SMEs is highest in Indonesia and Philippines, at approximately 16 years and lowest in Malaysia, at approximately 9 years.

A source of growth and employment

Across the five countries of Indonesia, Malaysia, Philippines, Singapore and Thailand, SME contribution is at least a third of GDP and approximately 70% of employment with its share being the highest in Indonesia.³ SME contribution to a GDP stands at 59% in Indonesia, followed by Singapore (47%), Thailand (37%), Philippines (34%) and Malaysia (33%). SME contribution to employment stands at 97% in Indonesia with Thailand in second place at 81%. This is followed by Singapore (70%), Philippines (63%) and Malaysia (58%).

SME Contribution to GDP and Employment (%)



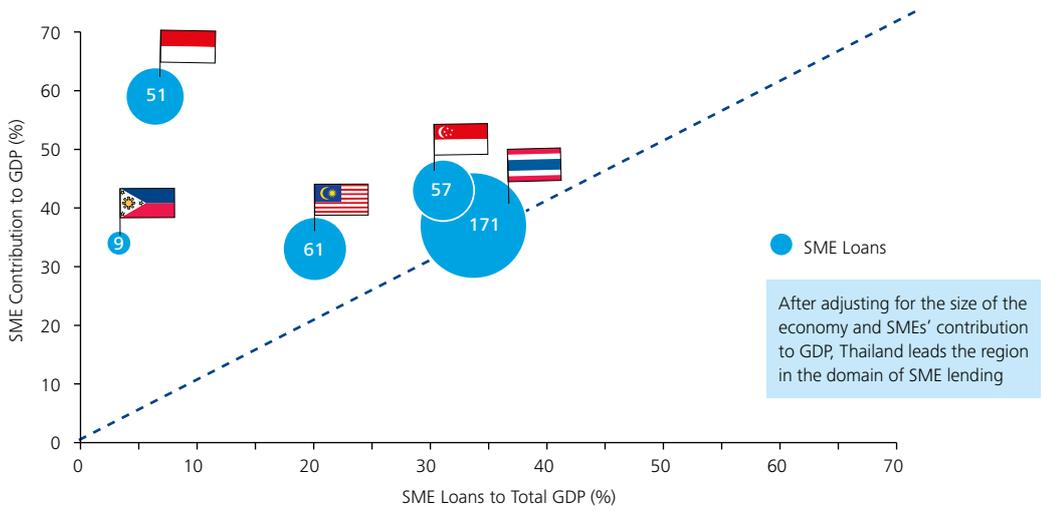
Note: Data from 2013 except for Indonesia (2012)

Source: Asia SME Finance Monitor 2013; SME Corporation Malaysia; Department of Statistics Malaysia; Indonesia Ministry of Cooperatives and SMEs; Thailand Office of SME Promotion SME White Paper 2014; APEC Policy Support Unit; Singapore Department of Statistics; DP Information Group

³ Source: Asia SME Finance Monitor 2013; SME Corporation Malaysia; Department of Statistics Malaysia; Indonesia Ministry of Cooperatives and SMEs; Thailand Office of SME Promotion SME White Paper 2014; APEC Policy Support Unit; Singapore Department of Statistics; DP Information Group

Compared to their respective GDPs, the size of SME loans across the five countries remains small, with SME loans-to-GDP ratio varying from 3% to 34%.

SME Loans-to-GDP vs SME Contribution to GDP (USD billion¹, 2014²)



Note: ¹ March 08, 2015 exchange rate used: 1 USD = 3.6 MYR, 1 USD = 44.31 PHP 1 USD = 12,747 IDR, 1 USD = 33 THB, 1 USD = 1.36 SGD
² GDP figures from 2013

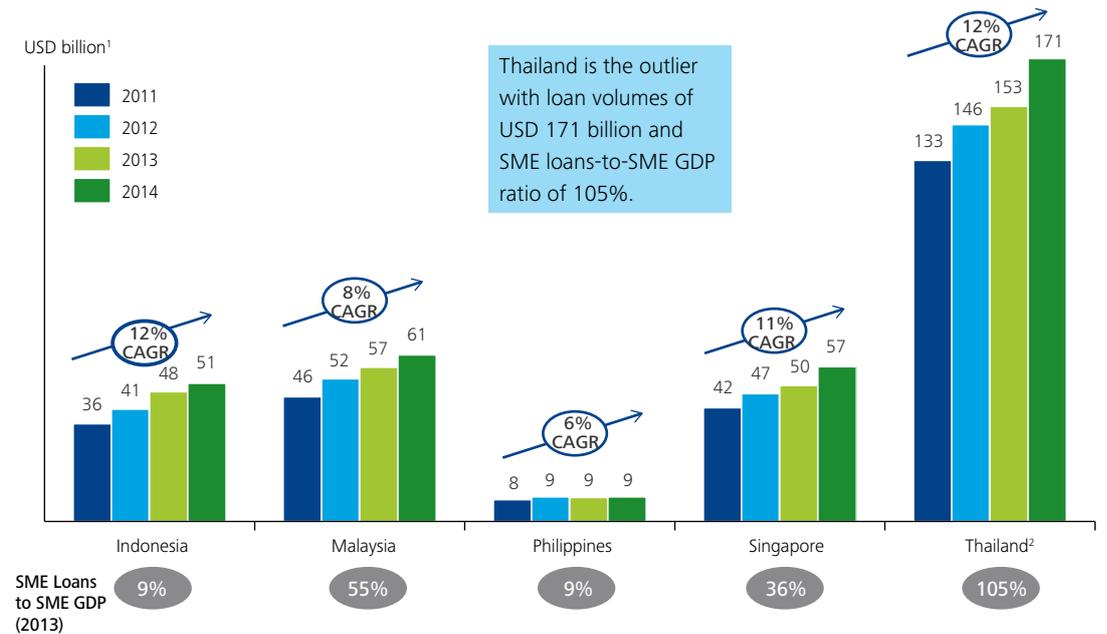
Source: Asia SME Finance Monitor 2013, Bank Negara Malaysia, SME Corporation, Securities Commission Malaysia, Bank Indonesia, Bank of Thailand, MAS, Banko Sentral ng Philipinas, World Bank, Deloitte Analysis

The state of SME financing in ASEAN

SME banking is an industry in transition. From a market that was once considered challenging and niche to serve, it has now become a strategic target of banks. This follows on from the 2008 financial crisis where banks shifted their focus away from large corporates, facilitated by the desire to seek high yields given low interest rates.

Although SME loan size across countries have grown at 6% to 12% (compound annual growth rate), the size of SME loans across the five countries remains small, with SME loans-to-GDP ratio varying from as little as 3% to 34%.⁴ SME loan volumes in Indonesia and Philippines are considered miniscule compared to their contribution to GDP. The amount of loans SMEs receive is disproportionately less than corporates despite their more significant contribution to GDP and employment. After adjusting for the size of the economy and SMEs' contribution to GDP, Thailand leads the region in the domain of SME lending.

SME Loans and Percentage of SME Contribution to GDP (USD billion¹, 2011 - 2014)



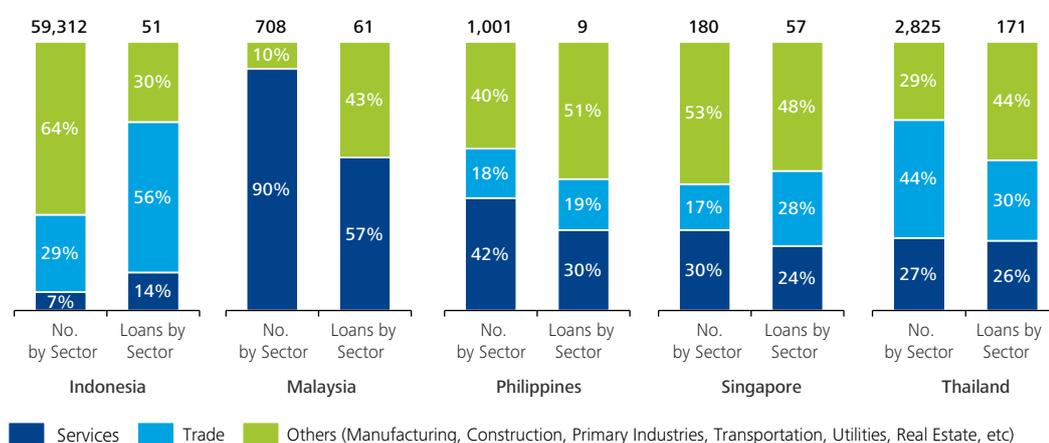
Note: ¹ 1 March 08, 2015 exchange rate used: 1 USD = 3.6 MYR, 1 USD = 44.31 PHP 1 USD = 12,747 IDR, 1 USD = 33 THB, 1 USD = 1.36 SGD
² Includes loans from Public Financial Institutions (~20% - 25% of SME loans)

Source: Asia SME Finance Monitor 2013, Bank Negara Malaysia, SME Corporation, Securities Commission Malaysia, Bank Indonesia, Bank of Thailand, MAS, Bangko Sentral ng Philipinas, Deloitte Analysis (data for 2014 estimated)

⁴ Source: Asia SME Finance Monitor 2013, Bank Negara Malaysia, SME Corporation, Securities Commission Malaysia, Bank Indonesia, Bank of Thailand, MAS, Bangko Sentral ng Philipinas, Deloitte Analysis (data for 2014 estimated)

SMEs are typically deemed more risky than large corporations due to a lack of credit history, poor financial backing, less business experience and low business diversification. While generally true, such generalisations do not necessarily apply to SMEs across all industries and geographies. For instance, SMEs in Indonesia and Philippines are usually smaller in size, less globally-connected and therefore more insulated from economic volatility. The industry a SME is in affects its access to loans. SMEs operating in sectors that have a more stable industry outlook are also expected to have a more stable cash-flow. The result is SMEs having a higher than expected maturity level. The average age of SMEs in Indonesia, for example, stands at 16 years.

Number of SME and Loans by Sector¹ ('000, no. of entities, USD billion)

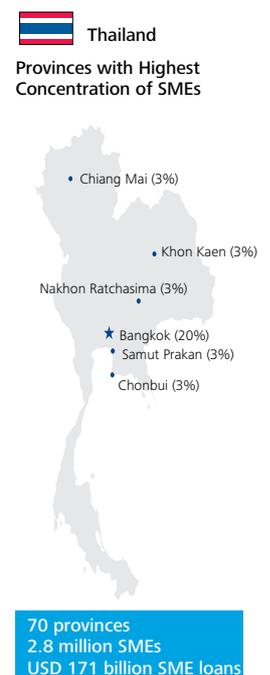
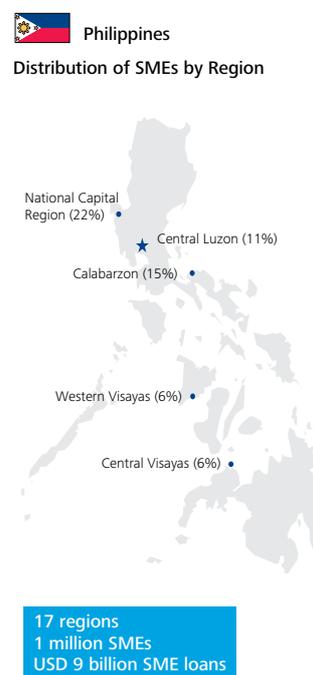
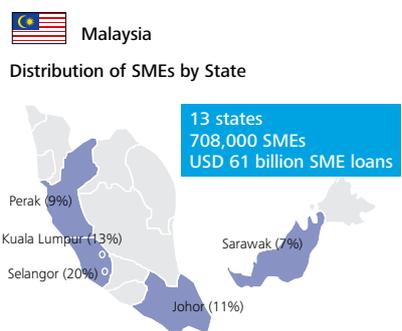
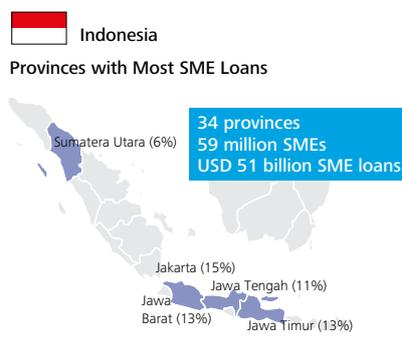


Note: ¹Indonesia SME numbers (2011), Indonesia loans (2014); Malaysia (2011); Philippines (2012); Singapore SME numbers (2011), Singapore loans (2014); Thailand (2013) ¹Malaysia splits its industries into Services, Agriculture, Construction, Manufacturing, Mining/Quarrying

Source: Asia SME Finance Monitor 2013; Malaysia SME Corporation; Bank Indonesia; MAS; Singapore Business Federation National Business Survey; Philippines Department of Trade and Industry; Bank of Thailand; Thailand Office of SME Promotion; Deloitte Analysis

The geographical dispersions of SMEs in Malaysia, Indonesia and Thailand are typically concentrated in five to six major states and provinces. For example, there are 59 million SMEs found in 34 provinces in Indonesia. SMEs are concentrated in five regions, with 58% of the SME loans coming from five provinces: Jakarta (15%), Jawa Barat (13%), Jawa Tengah (11%), Jawa Timur (13%) and Sumatera Utara (6%).⁵

Geographical Dispersion of SMEs



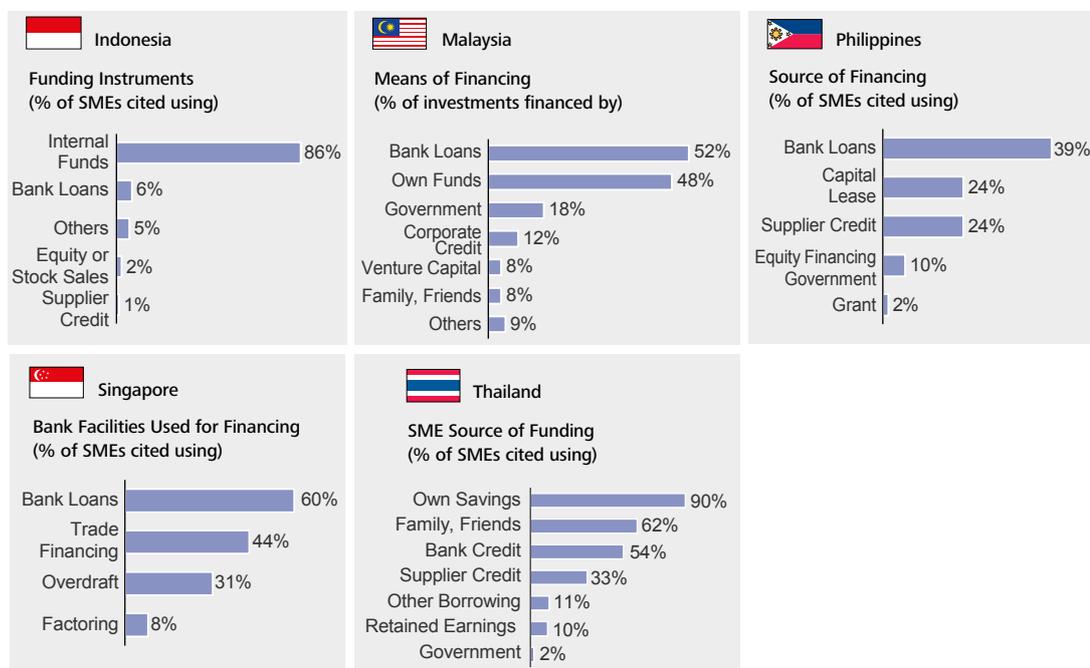
Source: Department of Statistics, Malaysia; Bank Indonesia; Office of SME Promotion, Thailand; The Philippine National Statistics Office, Industry and Trade Department, 2012 List of Establishments

⁵ Source: Department of Statistics, Malaysia; Bank Indonesia; Office of SME Promotion, Thailand; The Philippine national statistics office, Industry and Trade Department, 2012 List of Establishments.

Poor access to finance

Currently, less than 60% of SMEs in the five countries use bank loans as a means of financing. Personal funds continue to be a dominant source, especially in Indonesia, where only 6% of SMEs cited using bank loans as a source of financing. In Philippines, this figure stands at 39%. The poor access to bank credit can be attributed to enterprise size, as a strong correlation exists between size and funding. Both Indonesia and Philippines have a larger number of micro-enterprises compared to their regional counterparts.

SME Sources of Funding



One of the challenges in SME financing is that their financial requirements are too large for microfinance, but are too small to be effectively served by corporate banking models.

Another factor that limits SMEs access to credit is their large geographical dispersion around the region. ASEAN’s growth story, thus far, has been centred on its capitals and financial centres such as Bangkok, Jakarta, Kuala Lumpur, Manila, Singapore and others. While 13% to 22% of SMEs are still concentrated in the capital cities, the remaining are fragmented across the rest of the country. Known as secondary cities, they play an equally important role in contributing to a country’s economic growth and development.

The lack of access to financing is consistently cited by SMEs as one of the main barriers to growth. With SMEs still considered by commercial banks and financial institutions as risky and costly to serve, SMEs are largely underserved when it comes to basic financial services.

⁶ Indonesia data from 2013; Malaysia, Singapore and Thailand data from 2009; Philippines data from 2011. Source: Asian Development Bank – Capital Market Financing for SMEs; World Bank Enterprise Survey; Singapore Business Federation National Business Survey 2013; ERIA SME Survey 2010; : Aldaba, R. M. (2011), ‘SMEs Access to Finance: Philippines’, in Harvie, C.; S. Oum, and D. Narjoko (eds.), Small and Medium Enterprises (SMEs) Access to Finance in Selected East Asian Economies; ERIA Research Project Report 2010-14, Jakarta: ERIA. pp.291-350

So different, yet so similar

Despite characteristic differences in the nature, size and composition of SMEs in the five countries, they share common financial needs which include better cash flow management, access to external financing and a more efficient payments system as well as non-financial needs such as input costs mitigation, access to cheap quality labour, and a business-friendly climate.

	Indonesia	Malaysia	Philippines	Singapore	Thailand	
Common financial needs	Cash Flow / Working Capital Management	<ul style="list-style-type: none"> 31% of SMEs stated that they faced challenges in maintaining adequate cash flow 	<ul style="list-style-type: none"> 39% of SMEs highlighted the need for better cash flow management 	<ul style="list-style-type: none"> 72% of SMEs require funds to better manage their working capital and mitigate cash flow problems 		
	External Financing	<ul style="list-style-type: none"> 13% of SMEs prefer banks to relax their lending restrictions 82% of SMEs require some form of external financing 	<ul style="list-style-type: none"> 55% of SMEs require a larger amount of loans for business operations 	<ul style="list-style-type: none"> Majority of SMEs in the Philippines find that lenders overemphasise on the need for collateral 	<ul style="list-style-type: none"> 46% of SMEs require cheaper loans 25% are unable to come up with the required collateral 	<ul style="list-style-type: none"> 58% of SMEs have no access to external financing 49% felt that they were underserved / unserved
	Accelerated Payments / Factoring / Invoice Management	<ul style="list-style-type: none"> SMEs received late payments 22-26% of the time Most of them have difficulty collecting invoices 	<ul style="list-style-type: none"> 32% of SMEs cited delayed payments as a challenge Factoring volume tripled in the last 6 years 	<ul style="list-style-type: none"> SMEs find that slow fund disbursement is a major challenge when dealing with lenders 	<ul style="list-style-type: none"> SMEs received late payments 35% of the time. Complex payment procedures and an inefficient banking system are cited as key reasons. 	
Common non-financial needs	Input Cost Mitigation	<ul style="list-style-type: none"> 55% of SMEs were concerned with rising business cost 	<ul style="list-style-type: none"> 74% of SMEs are looking to mitigate rising costs by increasing productivity and raising profit margins 	<ul style="list-style-type: none"> 23% of SMEs cited rising business costs as a key constraint to growth 	<ul style="list-style-type: none"> 31% of SMEs were concerned with high rental costs, and 19% faced high material costs 	<ul style="list-style-type: none"> High production cost was cited as a key challenge
	Cheap, Quality Labour	<ul style="list-style-type: none"> SME's labour productivity is 10 times lower than that of large enterprises 29% of SMEs cited difficulties in finding quality labour 	<ul style="list-style-type: none"> 78% of SMEs are labour-intensive and face substantial labour shortages 28% cited a lack of skill labour as a key challenge 	<ul style="list-style-type: none"> 10% of SMEs cited the difficulty of finding cheap, quality labour as the key constraint to growth 	<ul style="list-style-type: none"> Manpower issues were the top concern for SMEs 87% of SMEs are looking to improve labour productivity 	<ul style="list-style-type: none"> The minimum wage in Thailand was increased while the growth in labour productivity slowed
	Business-Friendly Climate	<ul style="list-style-type: none"> SMEs prefer less complicated licensing processes and lower tax compliance costs 	<ul style="list-style-type: none"> 16-18% of SMEs felt that regulations were too stringent and that there was a lack of pro-business government initiatives 	<ul style="list-style-type: none"> Intense business competition, unstable demand and government regulations were of the key challenges faced by Philippine SMEs 		<ul style="list-style-type: none"> 85% of SMEs reported being negatively affected by the political unrest in Thailand

Source: First Quarter 2014 SME Survey; Second Quarter 2012 SME Survey; SME Corporation Malaysia; First Quarter 2014 SME Survey, Second Quarter 2012 SME Survey, SME Corporation Malaysia, World Bank Enterprise Survey; National Statistical Office Thailand; Singapore SME Development Survey 2014; ERIA SMEs Access to Finance: Philippines; Habito, Cielito F. Small & Medium Enterprises: Key to Inclusive Growth in the Philippines

Our analysis of individual countries in ASEAN reveals that the support SMEs receive from financial institutions to help finance their businesses does not reflect their contributions to their country's GDP and employment, despite being critical drivers of economic growth.

- SMEs want simple products and services: products need to be simple and easy to use with quick turnaround times.
- SMEs often require access to unsecured credit and are willing to pay a higher interest rate to obtain it through reliable, convenient channels such as branches, ATMs, internet banking and call centres.
- SMEs want to lower their business costs, improve productivity and be better prepared for the global market.

While financial institutions address the financial needs of SMEs to a limited extent, they are also unable to meet the majority of SME's non-financial needs.

There is a clear disparity between what SMEs want and expect from banks and what the banks can deliver.

In light of these demands, the financial sector ecosystem – comprising financial institutions, non-bank financial institutions, regulators and central banks – will need to be responsive to the needs and preferences of SMEs, build an environment conducive to providing SMEs with the relevant financial and non-financial products and services.

The SME landscape

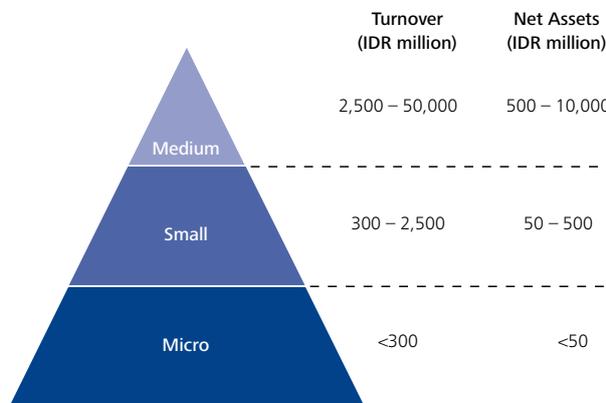


Indonesia

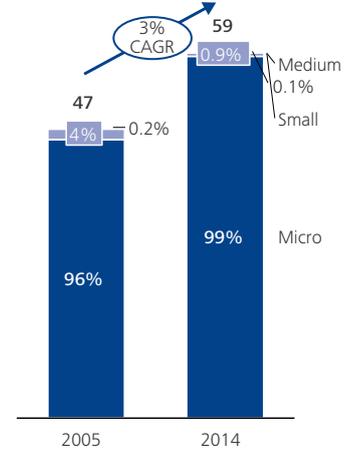
Contribution to economy

In Indonesia, SME is defined by turnover and net assets. The number of SMEs in Indonesia grew at 3% CAGR to 59 million.⁷

SME Definition



Growth of SMEs (million, no. of entities)

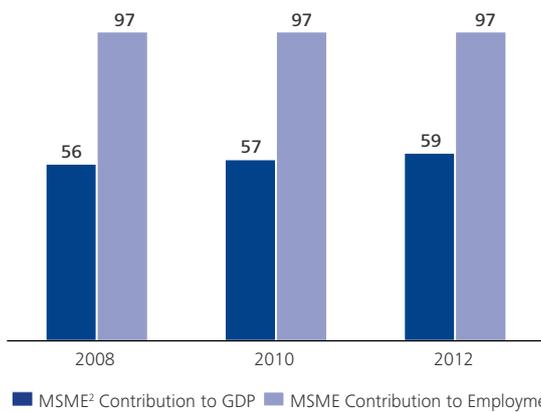


Source: SME Act No 20/2008; Indonesia Ministry of Cooperatives and SMEs; Deloitte Analysis

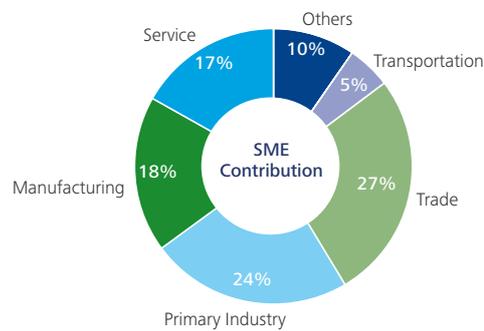
⁷ Source: SME Act No 20/2008; Indonesia Ministry of Cooperatives and SMEs; Deloitte Analysis.

SMEs contribute 59% of Indonesia's GDP and 97% of employment. The SME market is dominated by the trade (27%) and primary (24%) sectors.⁸

SME Contribution to GDP and Employment (%)



SME Contribution to GDP by Sector¹



Note: ¹ Data from 2011

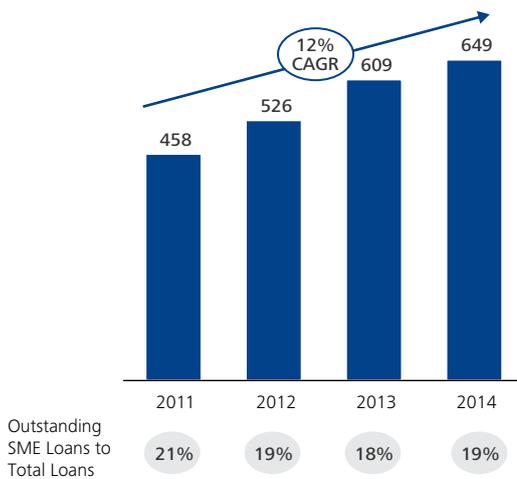
Primary sector includes agriculture, forestry and fisheries. Trade includes wholesale and retail trade, hotel and restaurant sectors

² MSME refers to Micro, Small and Medium Enterprises

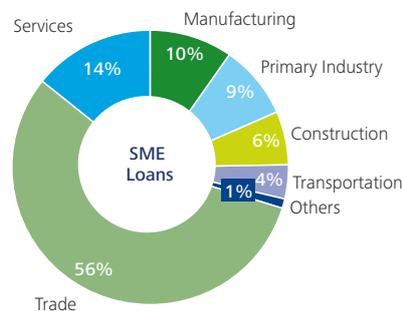
Source: Asia SME Finance Monitor 2013, Indonesia Ministry of Cooperatives and SMEs

Outstanding SME loans have grown at 12% CAGR to constitute 19% of total loans, with 56% of the loans coming from the trade sector.

Outstanding SME Loans¹ (IDR trillion)



SME Loans by Sector (2014)



Note: Primary sector includes agriculture, forestry and fisheries. Trade includes wholesale and retail trade, hotel and restaurant sectors

¹Based on fair value. Since January 2011, SME credits are calculated based on fair value.

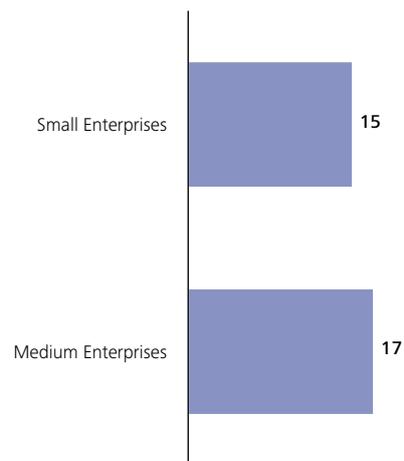
Source: Asia SME Finance Monitor 2013, Bank Indonesia

⁸ Source: Asia SME Finance Monitor 2013, Indonesia Ministry of Cooperatives and SMEs

SME maturity and geographical dispersion

The average Indonesian SME has been in operation for 15 to 17 years.

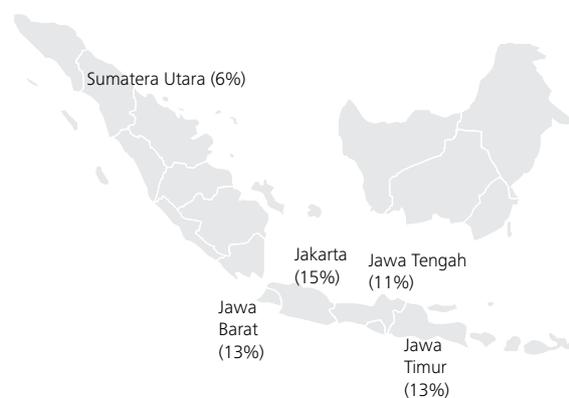
SME Average Age of Establishment (no. of years)



Source: World Bank Enterprise Survey, 2009

SMEs are concentrated in five regions, with 58% of the SME loans coming from five provinces: Jakarta (15%), Jawa Barat (13%), Jawa Tengah (11%), Jawa Timur (13%) and Sumatera Utara (6%).⁹

Provinces with Most SME Loans (2014)



Source: Bank Indonesia

Provinces with Most SME Loans (IDR trillion, 2014)

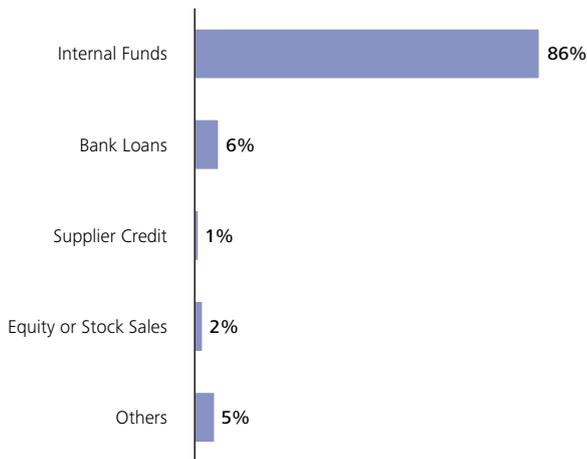


⁹ Source: Bank Indonesia

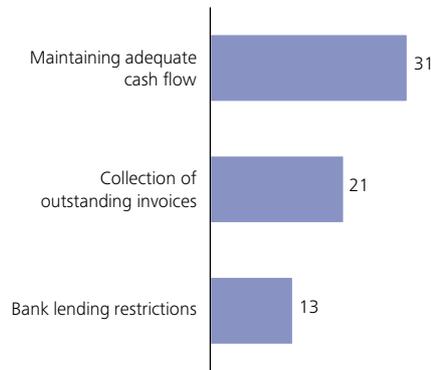
SME financial and non-financial needs

Bank loans only make up of 6% of SME funding sources while 86% of all SME investments were financed by internal funds.¹⁰ SMEs require better solutions in cash flow management and the collection of outstanding invoices. SMEs face various financing challenges around cash flow, delayed payments and formal external financing.¹¹ Our analysis reveals that cash flow is the biggest challenge SMEs face and SMEs face challenges in collecting invoices, receiving payments late 22% to 26% of the time. SMEs also face challenges in access to external financing.

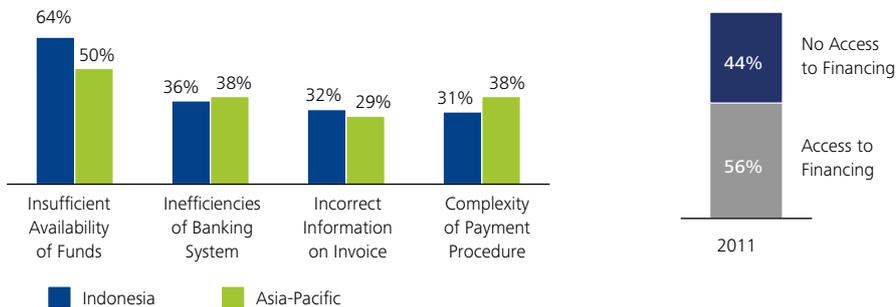
Means of Financing
(% of investments financed by)



Financing Challenges of SMEs¹
(% of Respondents)



Financing Challenges of SMEs



Note: ¹ 86% of survey respondents were SMEs, with 14% consisting of large corporations; data from 2013
Source: Atradius International B2B Payment Survey; ERIA SME Access to Finance in Selected East Asian Economies Report

¹⁰ Source: World Bank Enterprise Survey

¹¹ Source: Atradius International B2B Payment Survey; ERIA SME Access to Finance in Selected East Asian Economies Report

Starting a business in Indonesia is more difficult than regional peers; it takes a longer time and costs more in Indonesia than any other country in the region. External formal financing is sufficient to cover financing needs for only 3% of SMEs and a majority of SMEs surveyed (82%) require financing from a combination of formal and informal channels. Indonesian banks are reaching out to unserved SMEs by increasing their footprint across the country and improving access to banking services.

SME Financial Needs	Products/Services Offered by Top Indonesian SME Banks	Ability to Meet SME Needs	Rationale ¹
1 Adequate Cash Flow	a) Working Capital Loans b) Revolving Credit c) Open Account Financing	<input checked="" type="checkbox"/>	Poor visibility of SME transactions and low risk appetite of banks limit the amount of lending
2 Faster Receipt of Invoice Payments	a) Bill Purchasing	<input checked="" type="checkbox"/>	- Offered at a discount of invoice amount - Insufficient factoring products
3 Access to External Financing	a) Investment Loans b) Entrepreneur Loans c) Franchise Credit	<input checked="" type="checkbox"/>	- Collateral usually needed - High borrowing cost - Stringent criteria for loan application
4 Effortless Electronic Payments	a) Online/Mobile Payments b) Mass Transaction Systems	<input checked="" type="checkbox"/>	—
5 Trade Service	a) Letter of Credit b) Bank Guarantees c) Document Collection d) Trust Receipts	<input checked="" type="checkbox"/>	—
6 Liquidity Management	a) Cash Concentration b) Notional Pooling	<input checked="" type="checkbox"/>	—
7 Investment Opportunities	a) Fixed Deposits b) Yield Enhancement Products	<input checked="" type="checkbox"/>	—
8 Access to Financial Needs Advisory	a) Business Centres b) Retail Branches c) Mobile Banking	<input checked="" type="checkbox"/>	—

Legend: Able to meet Able to meet to a certain extent Not a core value proposition

Note: ¹ Only provided where banks are 1) able to meet needs to a certain extent or 2) it is not their core value proposition

Source: Atradius International B2B Payment Survey; ERIA; Bank Websites and Annual Reports; Deloitte Analysis

SMEs look for a less regulated business environment, and are concerned with lowering their business costs and improving overall labour productivity.¹²

SMEs employ 97% of the Indonesian workforce and face major constraints. For example, labour productivity of SMEs is a tenth of the large enterprises in Indonesia and unit labour costs have been steadily increasing since mid-1990s at faster pace than regional peers

In terms of regulations, a complicated and costly licensing process and excessive tax compliance costs are key challenges faced by SMEs. These cumbersome and onerous business regulations and restrictions hamper an SME's business activities.

Non-Financing Challenges of SMEs (% of Respondents¹)



¹ Survey from 2011

Source: ERIA SMEs' Access to Finance: An Indonesia Case Study; ADB-OECD

With the bank's priorities on improving reach and footprint, there is less focus on providing innovative products and services that address SME non-financial needs.

SME Non-Financial Needs	Products/Services Offered by Top Indonesian SME Banks	Ability to Meet SME Needs	Rationale ¹
1 Management Training	Mentorship Programmes	<input checked="" type="checkbox"/>	- Insufficient scope - Does not comprehensively cover the training of managers
2 Lower Operating Costs		<input checked="" type="checkbox"/>	Not a core value proposition
3 Stable Consumer Demand		<input checked="" type="checkbox"/>	Not a core value proposition
4 Cheap, Quality Labour		<input checked="" type="checkbox"/>	Not a core value proposition
5 Assistance on Compliance to Environmental Regulations		<input checked="" type="checkbox"/>	Not a core value proposition
6 Coping with Complicated Licensing Process		<input checked="" type="checkbox"/>	Not a core value proposition

Legend: Able to meet Able to meet to a certain extent Not a core value proposition

Note: ¹ Only provided where banks are 1) able to meet needs to a certain extent or 2) it is not their core value proposition

Source: ERIA SMEs' Access to Finance: An Indonesia Case Study; ADB-OECD; Bank Websites and Annual Reports; Deloitte Analysis

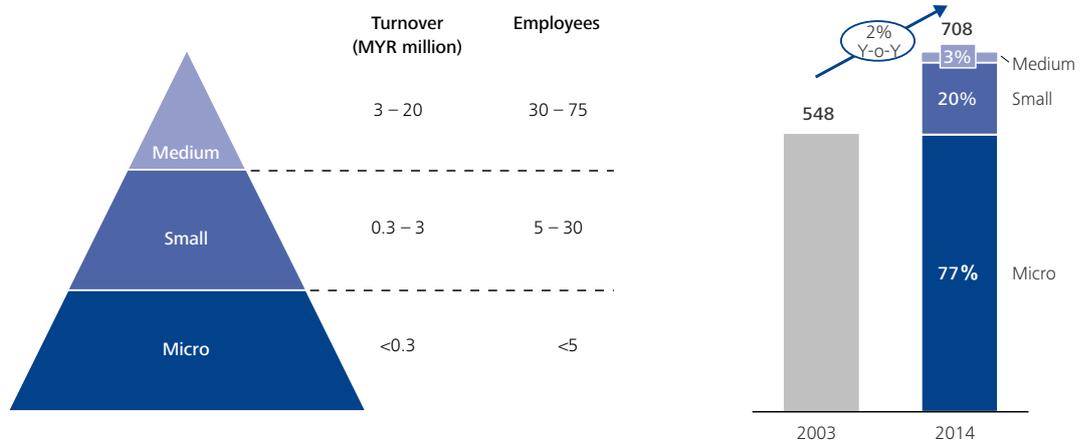
¹² Source: ERIA SMEs' Access to Finance: An Indonesia Case Study; ADB-OECD



Malaysia

Contribution to economy

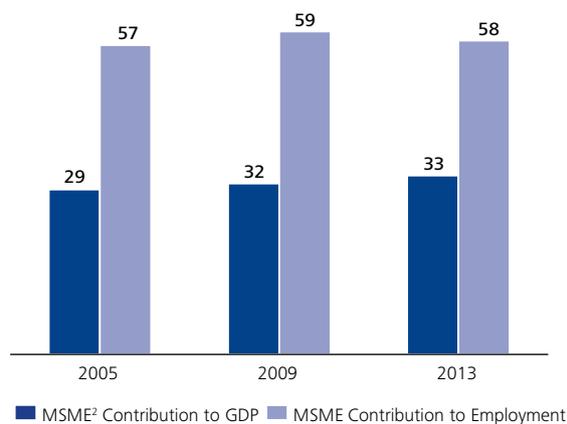
Malaysia has approximately 708,000 SMEs, of which 77% are micro enterprises. SME numbers have grown by 2% year-on-year.¹³



Note: ¹ SME defined by turnover or employees, whichever is lower (not applicable to manufacturing sector); ² Latest data only available for 2010
Source: SME Corporation, Department of Statistics, Malaysia; Deloitte Analysis

SMEs contribute one third of Malaysia's GDP, with the majority of their contribution from the services (63%) and manufacturing (24%) sectors, and employ more than half of Malaysia's workforce.¹⁴

SME Contribution to GDP and Employment (%)

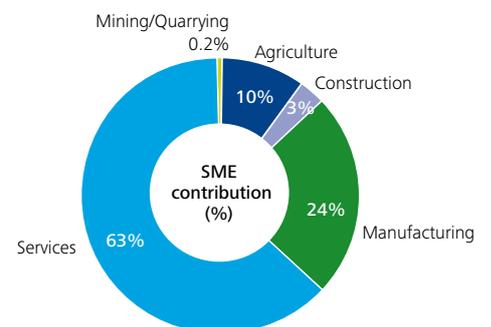


Note: ¹ Data from 2013

² MSME refers to Micro, Small and Medium Enterprises

Source: Asia SME Finance Monitor 2013, SME Corporation Malaysia, Department of Statistics Malaysia

SME Contribution to GDP by Sector¹



¹³ Source: SME Corporation, Department of Statistics, Malaysia; Deloitte Analysis

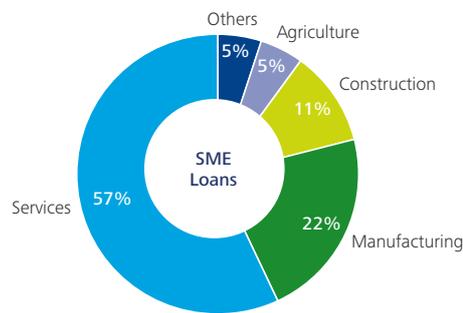
¹⁴ Source: Asia SME Finance Monitor 2013, SME Corporation Malaysia, Department of Statistics Malaysia

Outstanding SME loans have grown at 8% CAGR to constitute 17% of total loans, with the majority of loans coming from the services and manufacturing sector.¹⁵

Outstanding SME Loans (MYR billion)



SME Loans by Sector (2011)

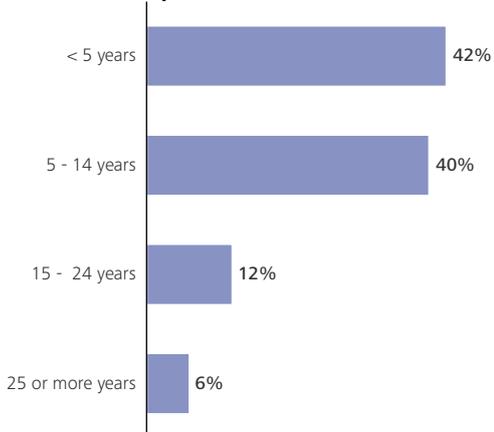


Source: Asia SME Finance Monitor 2013; Bank Negara Malaysia; SME Corporation; Securities Commission Malaysia; Deloitte Analysis

SME maturity and geographical dispersion

More than 80% of SMEs in Malaysia are less than 14 years old.¹⁶

SME Years of Operation¹



¹ Data from 2010

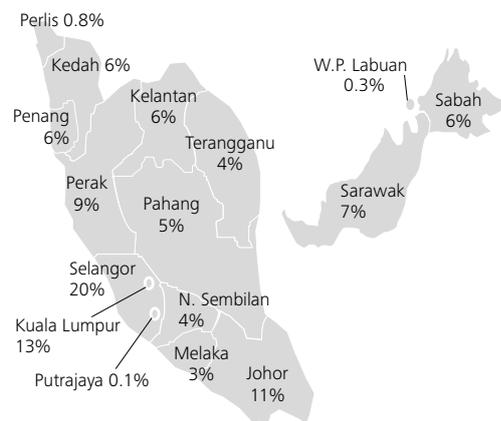
Source: Asian Development Bank – Capital Market Financing for SMEs; Department of Statistics Malaysia Economic Census 2011

¹⁵ Source: Asia SME Finance Monitor 2013; Bank Negara Malaysia; SME Corporation; Securities Commission Malaysia; Deloitte Analysis

¹⁶ Source: Asian Development Bank – Capital Market Financing for SMEs; Department of Statistics Malaysia Economic Census 2011

SMEs are concentrated in five regions: 60% of the SMEs are located in Selangor (20%), Kuala Lumpur (13%), Johor (11%), Perak (9%) and Sarawak (7%).¹⁷

Distribution of SMEs by State



Distribution of SMEs by State ('000, no. of entities)

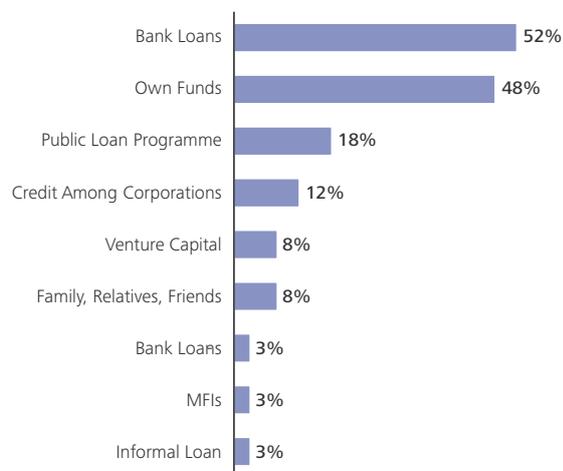


Source: Department of Statistics, Malaysia, 2010

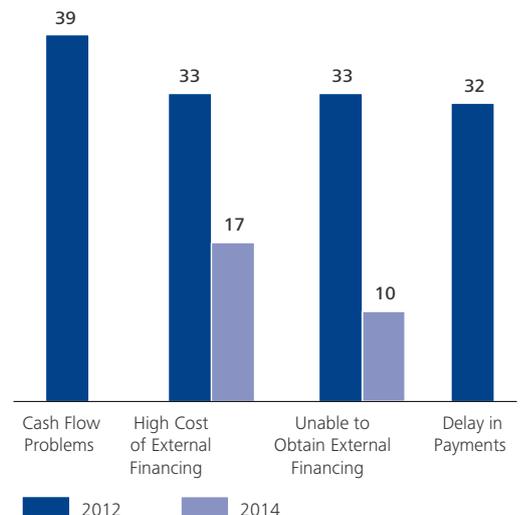
SME financial and non-financial needs

SMEs use financing sources that include bank loans, government loans and internal funds. SMEs require greater access to external financing and are primarily looking to resolve their cash flow problems.

Funding Instruments¹ (% of SMEs cited using)



Financing Challenges of SMEs² (% of Respondents)



Note: ¹ Data from 2013

² SME Corporation has removed 'cash flow problems' and 'delay in payments' from survey in 2014 after assessment of current needs condition

Source: Third Quarter 2014 Malaysia SME Survey; First Quarter 2012 Malaysia SME Survey; SME Corporation Malaysia; World Factoring Yearbook

¹⁷ Source: Department of Statistics, Malaysia

55% of SMEs require a larger amount of loans for business operations while 58% of SMEs did not apply for financing.¹⁸ The main reasons provided include: no requirement for financing (51%); a reluctance to be in debt (32%) and the perception of a long processing time as well as facing other challenges in the process of application (18%). Another financial challenge faced by SMEs is the delay in payments where factoring volume has tripled in the last six years.

Malaysian banks provide a wide-range of financial services to facilitate SME business development, and have advanced solutions in the payments space.

SME Financial Needs	Products/Services Offered by Top Malaysian SME Banks	Ability to Meet SME Needs	Rationale ¹
1 Adequate Cash Flow	a) Overdrafts b) Factoring c) Trade Financing	<input checked="" type="checkbox"/>	Poor visibility of SME transactions and low risk appetite of banks limit the amount of lending
2 Cheap External Financing	a) Commercial Hire Purchase b) Property/Asset Financing c) Term Loans	<input checked="" type="checkbox"/>	Does not extend to all SMEs as majority of SMEs have insufficient collateral
3 Access to External Financing	a) Entrepreneurship Funds b) Government Funding Schemes c) Micro Financing d) Bank Negara Malaysia Funded Loans	<input checked="" type="checkbox"/>	- Stringent criteria for application - High borrowing cost
4 Fast and Convenient Payment Options	a) Auto-Payments b) Internet/Mobile Payments c) Internet Merchant Account	<input checked="" type="checkbox"/>	—
5 Trade Service	a) Letter of Credit b) Bank Guarantees c) Document Collection d) Trust Receipts	<input checked="" type="checkbox"/>	—
6 Visibility of Cash Flow	a) Integrated Cash Management Services b) Internet Banking Platforms	<input checked="" type="checkbox"/>	—
7 Islamic Finance	a) Shariah-Compliant Financing Schemes	<input checked="" type="checkbox"/>	—

Legend: Able to meet Able to meet to a certain extent Not a core value proposition

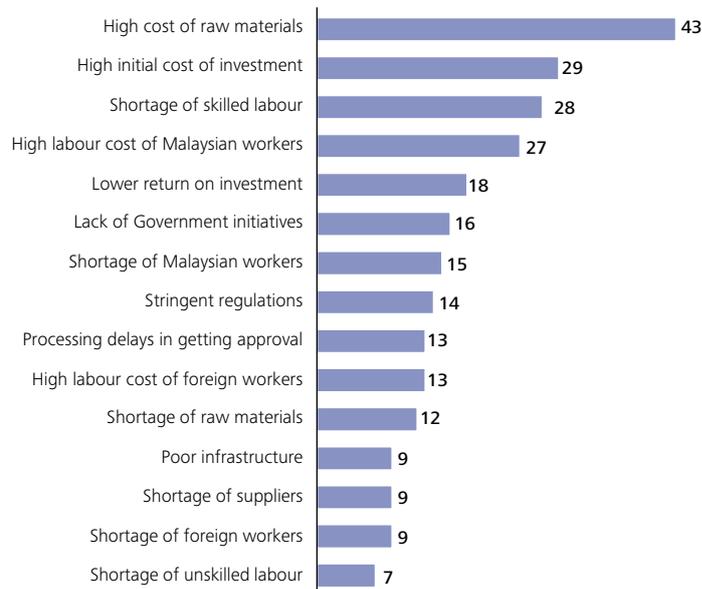
Note: ¹ Only provided where banks are 1) able to meet needs to a certain extent or 2) it is not their core value proposition

Source: Third Quarter 2014 Malaysia SME Survey; SME Corporation Malaysia; Bank Websites and Annual Reports; Deloitte Analysis

¹⁸ Source: Third Quarter 2014 Malaysia SME Survey; First Quarter 2012 Malaysia SME Survey; SME Corporation Malaysia; World Factoring Yearbook

SMEs are also eager to lower their cost of production, address the shortage of quality labour and cope with the reduction in customer demand.

Non-Financing Challenges of SMEs (% of Respondents, 2014)



Source: First Quarter 2014 SME Survey, Second Quarter 2012 SME Survey, SME Corporation Malaysia

74% of SMEs are affected by rising costs, and are exploring ways to mitigate rising costs, through increasing productivity (57%); increasing profit margin (39%); or lowering utilities and other expenses (30%).¹⁹

78% of SMEs are moderately labour-intensive, but face labour shortage and other labour needs. 85% prefer local workers due to ease of communication while 15% prefer foreign workers due to lower labour costs.²⁰

Domestic demand remains strong but SMEs exposed to the global market face challenges from weaker external demand, especially from China.

However, Malaysian banks have limited offerings to address SME non-financial needs.

SME Non-Financial Needs	Products/Services Offered by Top Malaysian SME Banks	Ability to Meet SME Needs	Rationale ¹
1 Business Management Advisory	a) SME Support Community and Networks	☑	—
2 Employee Insurance	a) Group Life Insurance	☑	—
3 Lower Cost of Raw Materials		☒	Not a core value proposition
4 Skilled Labour		☒	Not a core value proposition
5 Lower Labour Cost		☒	Not a core value proposition
6 Greater Pool of Suppliers		☒	Not a core value proposition

Legend: ☑ Able to meet ☒ Able to meet to a certain extent ☒ Not a core value proposition

Note: ¹ Only provided where banks are 1) able to meet needs to a certain extent or 2) it is not their core value proposition

Source: ERIA SMEs' Access to Finance: An Indonesia Case Study; ADB-OECD; Bank Websites and Annual Reports; Deloitte Analysis

¹⁹ Source: First Quarter 2014 SME Survey, Second Quarter 2012 SME Survey, SME Corporation Malaysia

²⁰ Source: First Quarter 2014 SME Survey, Second Quarter 2012 SME Survey, SME Corporation Malaysia



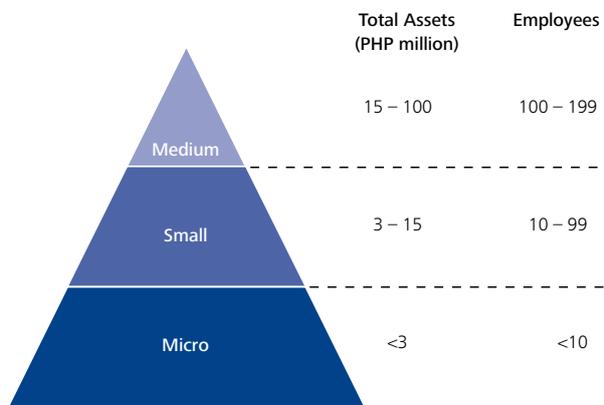
Philippines

Philippines

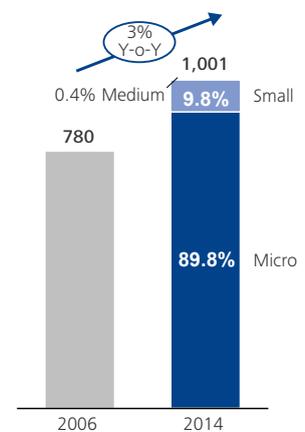
Contribution to economy

The Philippines has approximately one million SMEs with 3% year-on-year growth since 2006, and close to 90% of these enterprises are micro in scale.²¹

SME Definition



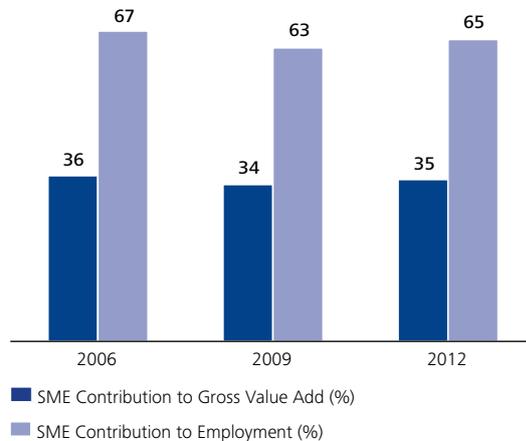
Growth of SMEs ('000, no. of entities)



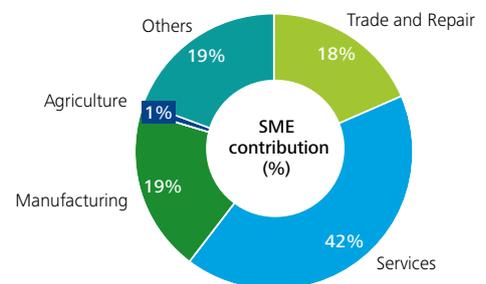
Source: National Statistics Office and Small and Medium Enterprise Development Council Resolution No. 1, Series 2003; Philippines Department of Trade and Industry, Deloitte Analysis

SMEs contribute one third of the Philippines' GDP, with the majority of their contribution from the services (42%) and trade (18%) sectors, and employ more than half of the Philippines' workforce.²²

SME Contribution to Gross Value Add¹ and Employment (%)



SME Contribution to Gross Value Add by Sector²



Note: ¹ Gross Value Add refers to total payment to factors of production, i.e. wages, interest, profits and rests.

² Computation based on available data in the SME Development Plan 2011 – 2016

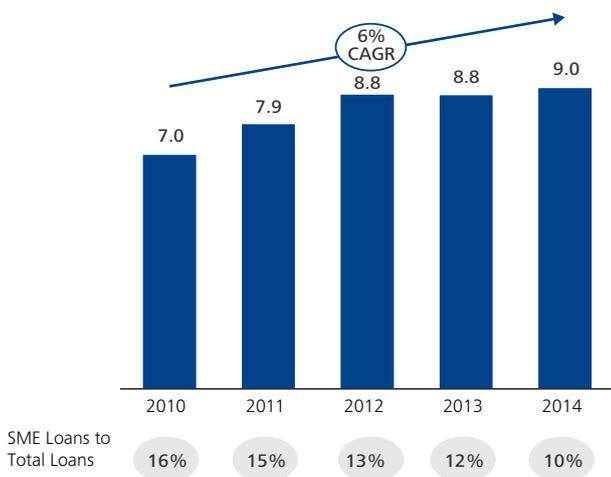
Source: Asia SME Finance Monitor 2013, Philippines Department of Trade and Industry; Deloitte Analysis

²¹ Source: National Statistics Office and Small and Medium Enterprise Development Council Resolution No. 1, Series 2003; Philippines Department of Trade and Industry, Deloitte Analysis

²² Source: Asia SME Finance Monitor 2013, Philippines Department of Trade and Industry; Deloitte Analysis

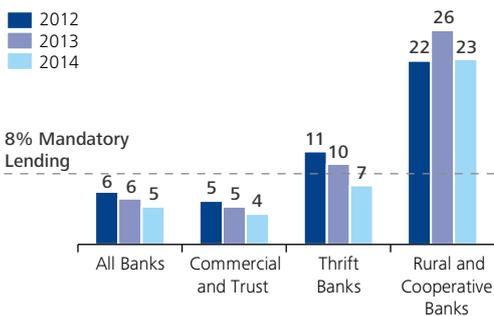
SME loans in the Philippines did not grow as fast as total lending, and the larger banks allocated less loans to micro and small enterprises than mandated. SME loans have grown at 6% CAGR, but its percentage to total loans has been decreasing.²³

SME Loans Portfolio (USD billion)

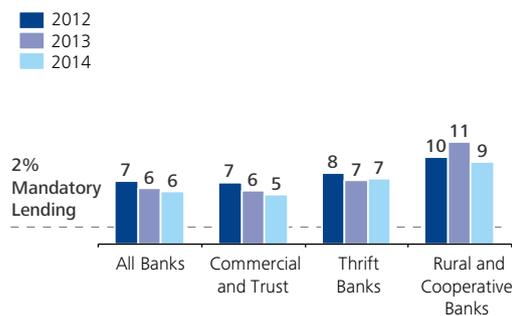


Philippine banks as a whole did not meet the 8% mandatory lending to micro and small enterprises.

Proportion of Total Loans Allocated to Micro & Small Enterprises¹ (%)



Proportion of Total Loans Allocated to Medium Enterprises¹ (%)



Note: ¹ The Magna Carta for Micro, Small and Medium Enterprises as amended by Republic Act (RA) 9501 mandates banks to allocate at least 8% of their loan portfolio to micro and small enterprises (MSEs) and at least 2% to medium-sized enterprises

Source: Asia SME Finance Monitor 2013, Banko Sentral ng Pilipinas; Deloitte Analysis

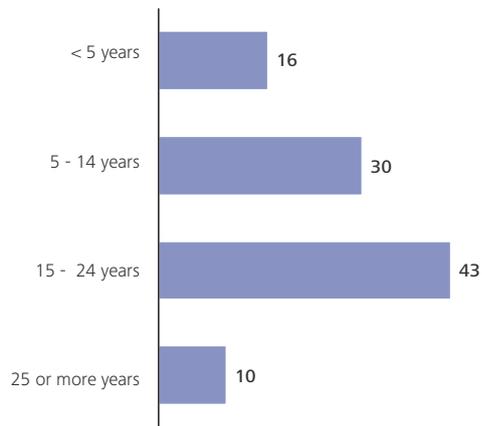
²³ Source: Asia SME Finance Monitor 2013, Banko Sentral ng Pilipinas; Deloitte Analysis

²⁴ Source: Aldaba, R. M. (2011), 'SMEs Access to Finance: Philippines', in Harvie, C.; S. Oum, and D. Narjoko (eds.), Small and Medium Enterprises (SMEs) Access to Finance in Selected East Asian Economies; ERIA Research Project Report 2010-14, Jakarta: ERIA. pp.291-350

SME maturity and geographical dispersion

On average, SMEs in the Philippines have been in operation for 16 years.²⁴

SME Years of Operation¹ (%)



Note: ¹ Data shown based on number of respondents who participated in national SME survey conducted by Philippines Institute for Development Studies (PDIS); Data from 2011

Source: Aldaba, R. M. (2011), 'SMEs Access to Finance: Philippines', in Harvie, C.; S. Oum, and D. Narjoko (eds.), Small and Medium Enterprises (SMEs) Access to Finance in Selected East Asian Economies; ERIA Research Project Report 2010-14, Jakarta: ERIA. pp.291-350

Close to 50% of the SMEs are located in Luzon Island with the majority of enterprises situated in the capital city and its satellites.²⁵

Distribution of SMEs by Region

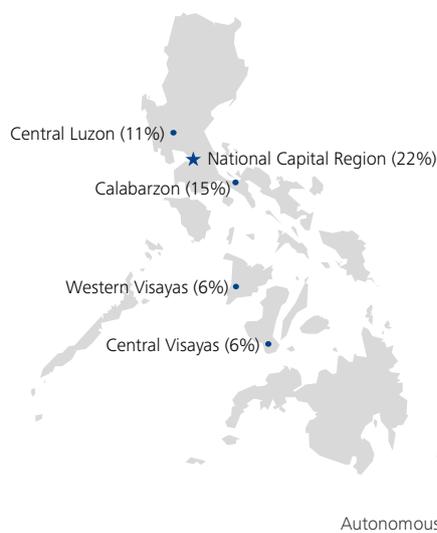
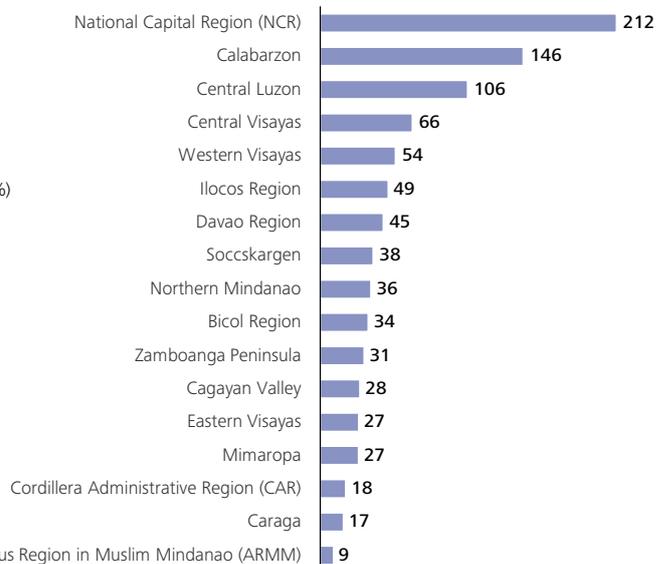


Figure 48: Funding instruments (% of SMEs cited using)



Data from 2012

Source: The Philippine national statistics office, Industry and Trade Department, 2012 List of Establishments

²⁵ Data from 2012. Source: The Philippine national statistics office, Industry and Trade Department, 2012 List of Establishments

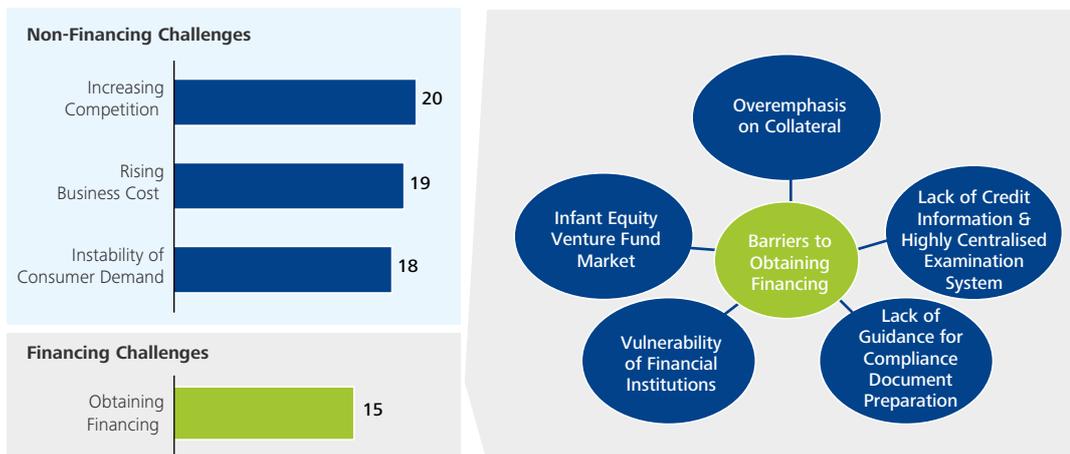
SME financial and non-financial needs

A significant proportion of SMEs have to seek funding from alternative sources like capital leasing and supplier credit. Access to financing is a key challenge for SMEs in the Philippines, with most Philippine lenders requiring collateral before extending credit.²⁶

Funding Instruments (% of SMEs cited using)



Key Challenges to SMEs (% of Respondents)



Source: Philippine Institute for Development Studies (2011), SME Development Plan 2010 – 2014

Additional SME financing challenges include:

- **Overemphasis on collateral:** Lenders in Philippines typically require collateral coverage and ignore the project feasibility of SMEs.
- **Credit assessment:** Philippine banks' centralised credit assessment system and the lack of SME credit information increases loan evaluation time and delays funding for SMEs.
- **Compliance document preparation:** There is a lack of guidance from banks and government institutions on the preparation of compliance documents.
- **Vulnerability of financial institutions:** Many of the financial institutions in Philippines are small and do not have sufficient capital to extend loans to SMEs. This results in high-cost loans.
- **Equity financing:** Equity financing through the Philippine stock market is in its infancy, and would require time for development.

Additional barriers to obtaining financing include Philippine banks' centralised credit assessment system and the lack of SME credit information which results in an increase of loan evaluation time and delays funding for SMEs. There is also a lack of guidance from banks and government institutions on the preparation of compliance documents. Many of the financial institutions in Philippines are small and do not have sufficient capital to extend loans to SMEs. This results in high-cost loans. Lastly, equity financing through the Philippine stock market is in its infancy, and would require time for development.

Philippine banks require more innovative banking solutions to circumvent collateral requirements for SME lending and to accelerate the loan evaluation process.

SME Non-Financial Needs	Products/Services Offered by Top Philippine SME Banks	Ability to Meet SME Needs	Rationale ¹
1 Flexible Collateral Requirements	a) Inventory Collateral b) Receivable Collateral c) Clean Loans	<input checked="" type="checkbox"/>	Poor visibility of collateral value and stringent collateral examination result in slow loans penetration
2 Decentralised and Efficient Credit Approval Process	a) Branch's Autonomous Credit Grant b) Streamlined Back Office Operations on Credit Assessment	<input checked="" type="checkbox"/>	Most banks are still processing credit applications at the provincial rather than the regency level
3 Guidance during Compliance Document Preparation for Credit Extension	a) RM/On-Boarding Servicing Teams b) Reports on Industry and Market Development	<input checked="" type="checkbox"/>	Majority of banks are not equipped with economists and on-boarding teams
4 Committed and Secured Lending	a) Term loans b) Working Capital Loans c) Investment Loans	<input checked="" type="checkbox"/>	—
5 Equity Funding and Venture Capital		<input checked="" type="checkbox"/>	Not a core value proposition

Legend: Able to meet Able to meet to a certain extent Not a core value proposition

Note: ¹ Only provided where banks are 1) able to meet needs to a certain extent or 2) it is not their core value proposition

Source: ERIA SMEs' Access to Finance: An Indonesia Case Study; ADB-OECD; Bank Websites and Annual Reports; Deloitte Analysis

Other than financing, SMEs also need advice and assistance to cope with business competition, high production costs and technology obsolescence.²⁷

Key Constraints to Growth (% of Respondents)



Data from 2011

Source: ERIA SMEs Access to Finance: Philippines; Habito, Cielito F. Small & Medium Enterprises: Key to Inclusive Growth in the Philippines

²⁷ Source: ERIA SMEs Access to Finance: Philippines; Habito, Cielito F. Small & Medium Enterprises: Key to Inclusive Growth in the Philippines

Most SMEs have poor or a low level of technology, resulting in low productivity, inconsistent product quality and high wastage. This is due to the lack of R&D funds, technical know-how, awareness and inadequate mechanism for technology transfer.

SMEs also have difficulty in ensuring input availability due to high input costs and poor transportation infrastructure. Lastly, SMEs have limited access to domestic/international markets due to inferior transport and communication infrastructure as well as the lack of market information.

While Philippine banks provide insurance and business advisory services, they can do more to address other non-financial needs of SMEs.

SME Non-Financial Needs	Products/Services Offered by Top Philippine SME Banks	Ability to Meet SME Needs	Rationale ¹
1 Insurance for Employees and Property	a) Employee Group Life Insurance b) Property Insurance c) Liabilities Insurance	<input checked="" type="checkbox"/>	While insurance services are available, premiums could be costly to some SMEs
2 Business Advice to Compete in Domestic & International Market	a) Business Strategy Training b) Entrepreneurship Roadshows and Events c) ASEAN Integration Preparation	<input checked="" type="checkbox"/>	- Limited outreach to SMEs - Training workshops and seminars are infrequent
3 Management Training		<input type="checkbox"/>	Not a core value proposition
4 Lower Input Costs		<input type="checkbox"/>	Not a core value proposition
5 Cheap, Skilled Labour		<input type="checkbox"/>	Not a core value proposition
6 Assistance to Comply With Government and Environmental Regulations		<input type="checkbox"/>	Not a core value proposition

Legend: Able to meet Able to meet to a certain extent Not a core value proposition

Note: ¹ Only provided where banks are 1) able to meet needs to a certain extent or 2) it is not their core value proposition

Source: ERIA SMEs' Access to Finance: An Indonesia Case Study; ADB-OECD; Bank Websites and Annual Reports; Deloitte Analysis

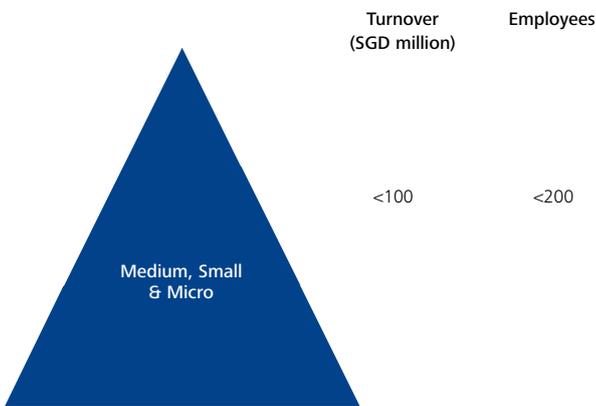


Singapore

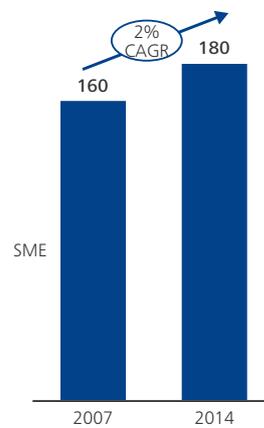
Contribution to economy

In Singapore, SME is defined by turnover and number of employees. It does not distinguish between micro, small and medium enterprises.

SME Definition



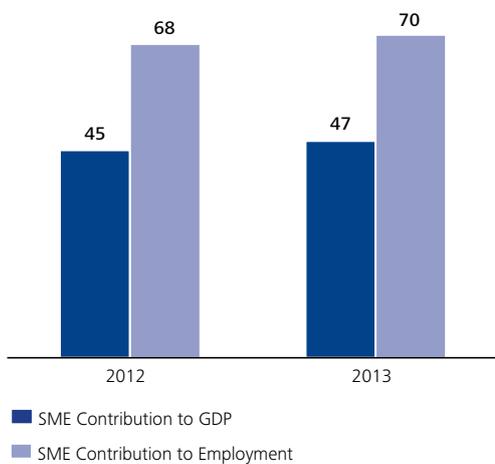
Growth of SMEs ('000, no. of entities)



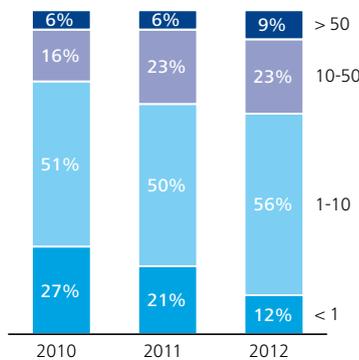
Source: Spring Singapore, International Finance Corporation; Deloitte Analysis

The number of SMEs grew at 2% CAGR. SMEs contribute close to half of Singapore's GDP, and more than 80% of these SMEs have significant turnover in excess of SGD 1 million.²⁸ SME loans have grown at 11% CAGR to constitute one tenth of total loans, with approximately 70% coming from the construction, commerce and NBFIs sectors.²⁹

SME Contribution to GDP and Employment (%)



SME Turnover (SGD million)

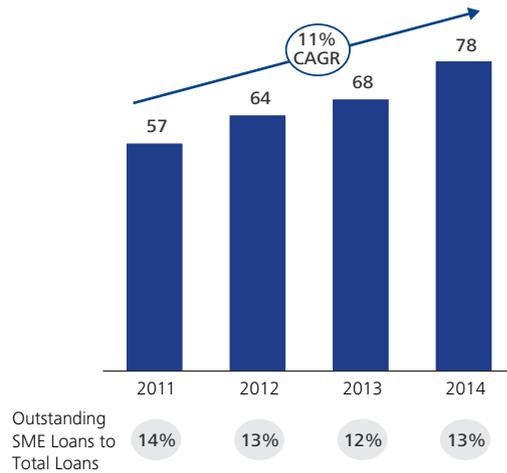


Source: APEC Policy Support Unit, Singapore Department of Statistics, DP Information Group

²⁸ Source: Spring Singapore, International Finance Corporation; Deloitte Analysis

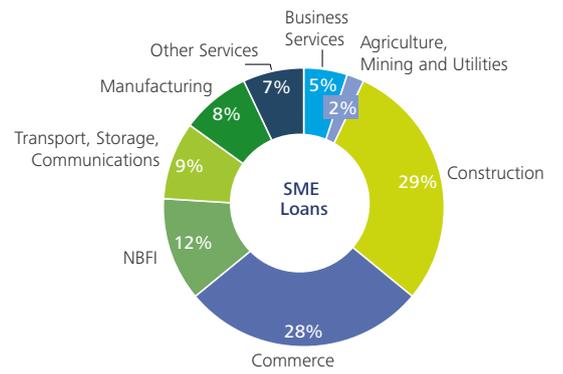
²⁹ Source: Monetary Authority of Singapore

Outstanding SME Loans (SGD billion)



Source: MAS

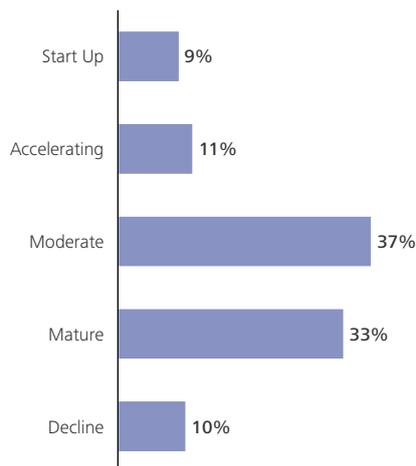
SME Loans by Sector (2014)



SME maturity and geographical dispersion

70% of Singapore SMEs are well-developed.³⁰

SME Stage of Development¹ (% of firms)

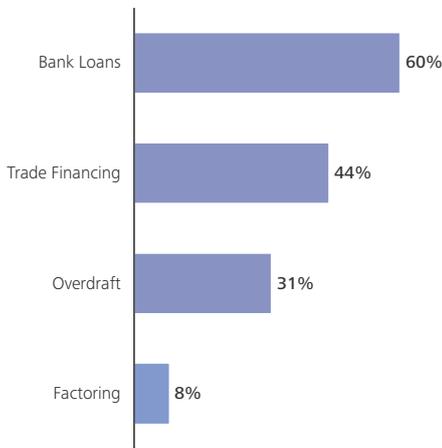


³⁰ Source: Singapore Business Federation National Business Survey 2013

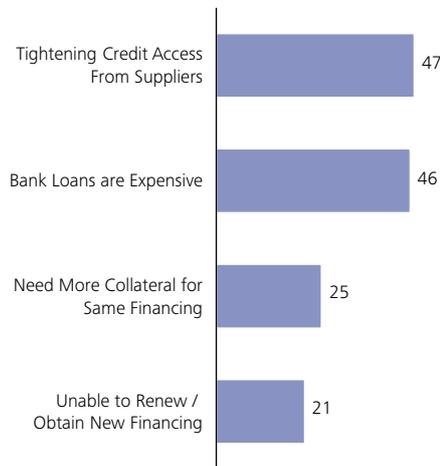
SME financial and non-financial needs

Only 60% of Singapore SMEs use bank loans for financing.³¹ More than half of SMEs in Singapore require working capital financing due to delayed payments. SMEs face various financing challenges around cash flow and delayed payments.

Bank Facilities Used for Financing¹
(% of SMEs cited using)



Financing Challenges of SMEs²
(% of Respondents)



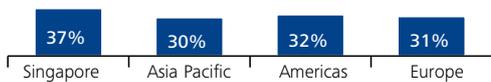
¹ Data from 2009

² Data from 2013

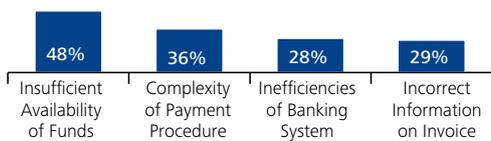
Source: Singapore Business Federation National Business Survey 2013

Buyers pay late because of insufficient funding and inefficient payment and banking systems.

% Overdue Payments >30 Days Late (% of respondents, 2013)



Top Reasons for Delayed Payment (% of respondents, 2013)



Note: Singapore business survey where 85% of respondents SMEs

Source: Singapore Business Federation National Business Survey 2014

³¹ Source: Singapore Business Federation National Business Survey 2013

72% of SMEs surveyed in 2013 face cash flow problems. This is an increase of 10% since 2011.

57% of SMEs seeking financing are doing so to obtain working capital.³³ SMEs face challenges in collecting invoices, receiving payments late 35% of the time.³³ Buyers pay late because of insufficient funding and inefficient payment and banking systems. Singapore banks provide SMEs with high-end financial services such as access to capital markets, automated payments and a wide-range of treasury products.

SME Non-Financial Needs	Products/Services Offered by Top Singapore SME Banks	Ability to Meet SME Needs	Rationale ¹
1 Adequate Cash Flow	a) Receivables Purchase b) Block Discounting c) Overdrafts	<input checked="" type="checkbox"/>	Poor visibility of SME transactions and low risk appetite of banks limit the amount of lending
2 Cheap Bank Loans	a) Local Enterprise Finance Schemes b) Micro Loans c) Venture Debt Financing	<input checked="" type="checkbox"/>	- Stringent criteria for cheap loans - High borrowing cost for other loans
3 Faster Invoice Payments	a) Payment Collection Systems b) Supply-Chain Financing	<input checked="" type="checkbox"/>	—
4 Efficient Banking Services	a) Simplified Loan Application Processes b) Electronic Banking	<input checked="" type="checkbox"/>	—
5 Trade Services	a) Letter of Credit b) Bank Guarantees c) Document Collection d) Trust Receipts	<input checked="" type="checkbox"/>	—
6 Other Funding Sources	a) Access to Equity, Debt Markets and Investment Trusts	<input checked="" type="checkbox"/>	—
7 Treasury Services	a) FOREX Trading b) Commodities Hedging c) Interest Rate Swaps	<input checked="" type="checkbox"/>	—

Legend: Able to meet Able to meet to a certain extent Not a core value proposition

Note: ¹ Only provided where banks are 1) able to meet needs to a certain extent or 2) it is not their core value proposition

Source: Singapore Business Federation National Business Survey 2014; Bank Websites and Annual Reports; Deloitte Analysis

³² Source: Singapore Business Federation National Business Survey 2014

³³ Source: Singapore Business Federation National Business Survey 2014

SMEs are also in need for low cost, high productivity labour. Key non-financing challenges of SMEs are labour and competition.

Non-Financing Challenges of SMEs (% of Respondents, 2014)



Business Strategies to Increase Competition (% of respondents, 2014)



Source: Singapore SME Development Survey 2014

Manpower issues are the top concerns for SMEs, with nearly half of respondents citing difficulty in hiring staff and high manpower costs. 87% of SMEs are looking to improve productivity and 54% of SMEs are looking for ways to optimise use of manpower. Increasing competition was the third most common concern among SMEs, with 51% of SMEs relooking at their business model.³⁴

Banks in Singapore also look to engage SMEs by building a SME community for information sharing and networking, and by providing business advisory services.

SME Non-Financial Needs	Products/Services Offered by Top Singapore SME Banks	Ability to Meet SME Needs	Rationale ¹
1 Access to New Business Opportunities	a) Employee Group Life Insurance b) Property Insurance c) Liabilities Insurance	☑	—
2 Business Management Expertise	a) Business Strategy Training b) Entrepreneurship Roadshows and Events c) ASEAN Integration Preparation	☑	—
3 Market Information		☑	—
4 Cheap, Quality Labour		☒	Not a core value proposition
5 Lower Rental Costs		☒	Not a core value proposition
6 Resilience Against Volatile Economic Environment		☒	Not a core value proposition
7 Lower Cost of Production		☒	Not a core value proposition

Legend: ☑ Able to meet ☒ Able to meet to a certain extent ☒ Not a core value proposition

Note: ¹ Only provided where banks are 1) able to meet needs to a certain extent or 2) it is not their core value proposition

Source: Singapore Business Federation National Business Survey 2014; Bank Websites and Annual Reports; Deloitte Analysis

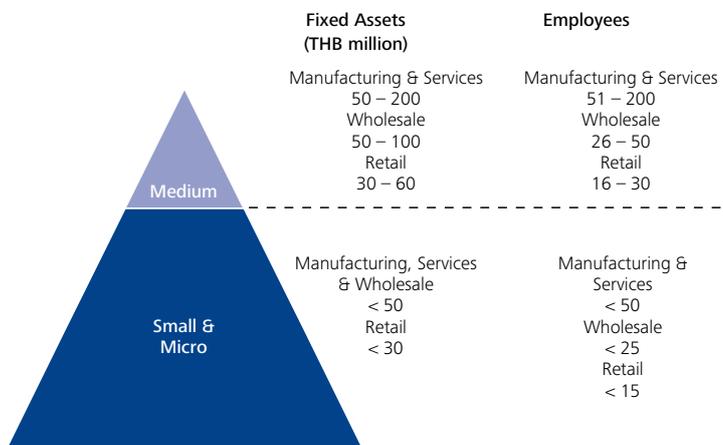
³⁴ Source: Singapore Business Federation National Business Survey 2014

Thailand

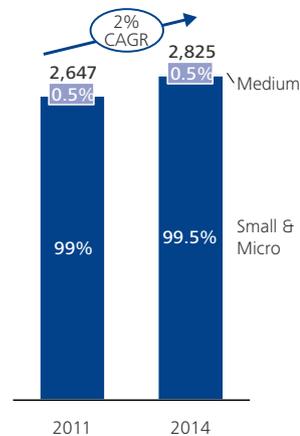
Contribution to economy

Thailand categorises enterprises by fixed assets and number of employees. The number of SMEs grew at 2% CAGR to about three million.³⁵

SME Definition



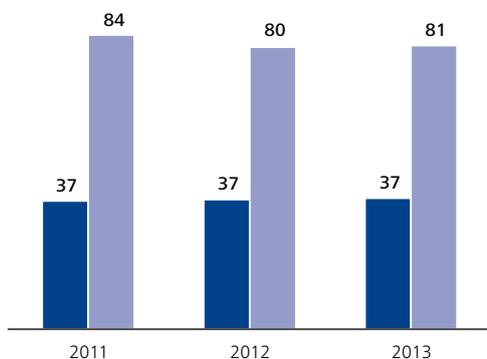
Growth of SMEs ('000, no. of entities)



Source: Thailand Ministry of Industry, Office of SME Promotion SME White Paper 2014; Deloitte Analysis

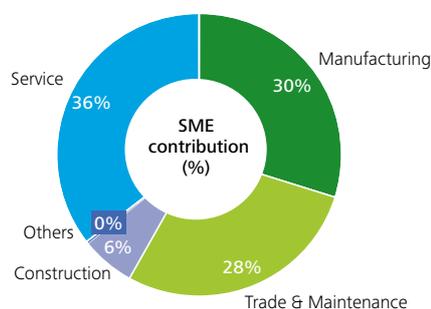
SMEs account for 37% of Thailand's GDP and employ more than 80% of Thailand's workforce. The SME market is dominated by the services (36%) and trade (28%) sectors.³⁶

SME Contribution to GDP and Employment (%)



■ MSME¹ Contribution to GDP ■ MSME Contribution to Employment

SME Contribution to GDP by Sector



Data from 2013

¹ MSME refers to Micro, Small and Medium Enterprises

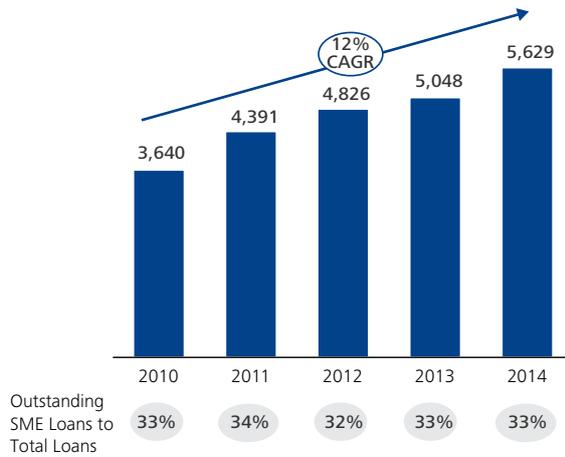
Source: Asia SME Finance Monitor 2013, Office of SME Promotion SME White Paper 2014

³⁵ Source: Thailand Ministry of Industry, Office of SME Promotion SME White Paper 2014; Deloitte Analysis

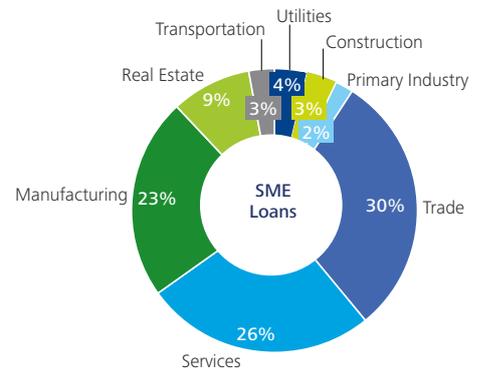
³⁶ Source: Asia SME Finance Monitor 2013, Office of SME Promotion SME White Paper 2014

Outstanding SME loans have grown at 12% CAGR to constitute one third of total loans, with approximately 80% coming from trade (30%), services (26%) and manufacturing (23%) sectors.³⁷

Outstanding SME Loans (THB billion)



SME Loans by Sector ¹

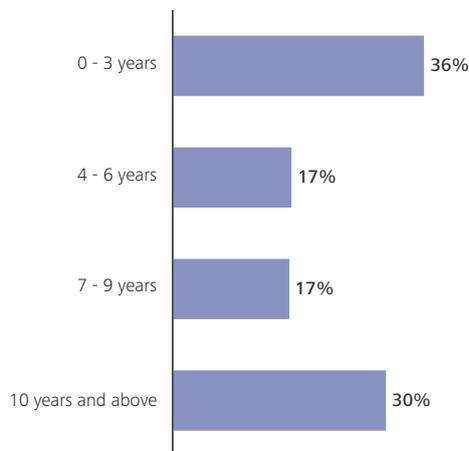


¹ Data from 2013
Source: Asia SME Finance Monitor 2013, Bank of Thailand; Deloitte Analysis

SME maturity and geographical dispersion

The majority of SMEs are either less than three years old or have been in operation for more than 10 years.

SME Years of Operation¹ (% of SMEs)

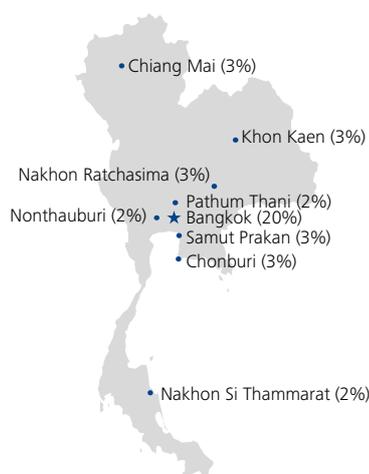


¹ Average of 1999 – 2008
Source: Ministry of Commerce, quoted and compiled in Wesaratchakit et al. (2010); ERIA SME Survey 2010

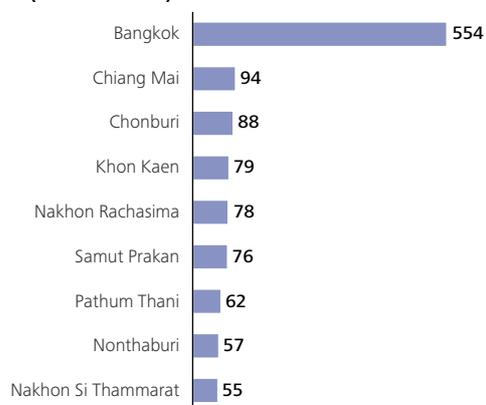
³⁷ Data from 2013. Source: Asia SME Finance Monitor 2013, Bank of Thailand; Deloitte Analysis

SMEs are concentrated in Bangkok, and dispersed across other provinces. 41% of all SMEs are situated in nine provinces: Bangkok, Chiang Mai, Chonburi, Khon Kaen, Nakton Rachasima, Samut Prakan, Pathum Thani, Nonthaburi and Nakhon Si Thammarat. The other 59% are dispersed across the rest of Thailand's 67 provinces.³⁸

Provinces with Highest Concentration of SMEs



Provinces with Highest Concentration of SMEs ('000 entities)



Data from 2013

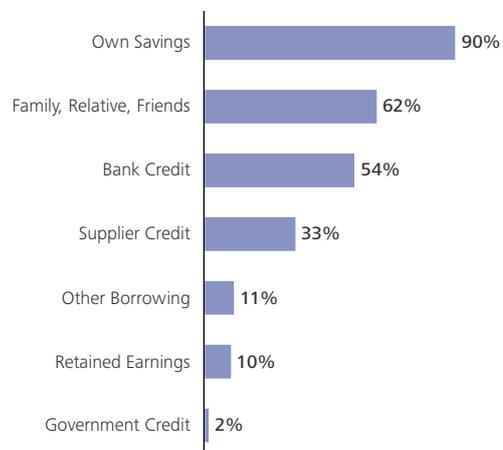
Note: 1 Provinces with less than 2% of SMEs are not shown

Source: Office of SME Promotion

SME financial and non-financial needs

70% of SMEs in Thailand are less than 10 years old, and most of them have to use their own savings or borrow from family and friends to finance investments.³⁹

Source of Financing¹ (% of SMEs cited using)



1 Data from 2009

Source: Ministry of Commerce, quoted and compiled in Wesaratchakit et al. (2010); ERIA SME Survey 2010

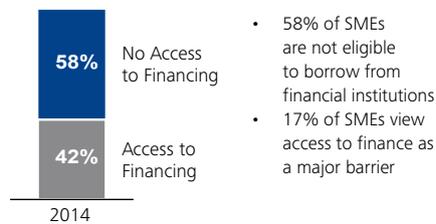
³⁸ Source: Office of SME Promotion

³⁹ Source: Ministry of Commerce, quoted and compiled in Wesaratchakit et al. (2010); ERIA SME Survey 2010

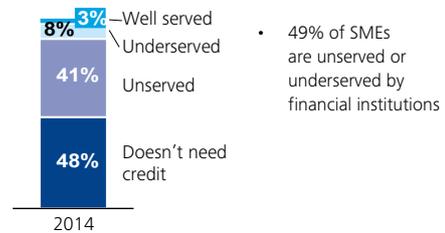
A significant proportion of SMEs have no access to financial institutions and require external financing. 58% of SMEs are not eligible to borrow from financial institutions and 17% of SMEs view access to finance as a major barrier.⁴⁰

Additional financing challenges faced by SMEs include lack of information and advice from financial institutions, high degree of complexity and inconvenience related to the loan application process, inadequate qualification of SMEs, high expenses, fees and interest rate charged and lack of collateral.

Access to Finance (% of Respondents, 2014)



How SMEs are served by financial institutions (% of Respondents, 2014)



Thai banks place significant emphasis on SME Banking. On top of offering low-cost loans, they also provide financial tools and financing advice to start-ups.

SME Non-Financial Needs	Products/Services Offered by Top Thai SME Banks	Ability to Meet SME Needs	Rationale ¹
1 Access to External Financing	a) SME Start-Up Loans b) Corporation/Government-Supported Loans	<input checked="" type="checkbox"/>	—
2 Cheap, Unsecured Loans	a) Term Loans b) Collateral-Free Loans c) Flexible Installment Loans	<input checked="" type="checkbox"/>	—
3 Financial Advice and Tools	a) Start-Up Solutions b) Newsletters c) Business Centres d) SME Toolbox	<input checked="" type="checkbox"/>	—
4 Working Capital Financing	a) Promissory Note b) Bill Discounts c) Overdrafts	<input type="checkbox"/>	Insufficient factoring options to cater for all of SME needs
5 Trade Service	a) Letter of Credit b) Bank Guarantees, c) Document Collection d) Trust Receipts	<input checked="" type="checkbox"/>	—
6 Visibility of Cash Flow	a) Liquidity Management Systems b) SMS Alerts c) Invoice Presentment	<input checked="" type="checkbox"/>	—
7 Trade Protection	a) Trade Credit Insurance b) Cross-Currency Swaps	<input checked="" type="checkbox"/>	—

Legend: Able to meet Able to meet to a certain extent Not a core value proposition

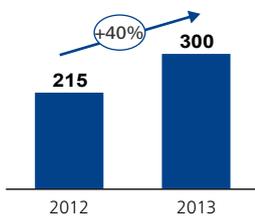
Note: ¹ Only provided where banks are 1) able to meet needs to a certain extent or 2) it is not their core value proposition

Source: Thai Credit Guarantee; IFC; Bank Websites and Annual Reports; Deloitte Analysis

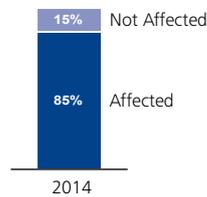
⁴⁰ Source: Thai Credit Guarantee; IFC

SMEs are also pressured by rising labour costs and are affected by the political instability. The Ministry of Labour in Thailand increased the minimum wage across the country, in effect from 1 January 2013. Labour productivity slowed significantly to 2.5% from 2000 to 2013 as compared to 6.7% between 1986 and 1996. Thailand's deep-rooted political conflict, since 2006, has been the biggest hurdle for SMEs. Our research reveals that 85% of SMEs were negatively affected by the political unrest.

Labour Cost (2013)



Political Crisis Negativity (% of Respondents, 2014)



Additional non-financing challenges faced by SMEs include lack of technology and infrastructure, high production cost, low purchasing power and the lack of understanding of the impacts of the upcoming AEC and how SMEs can successfully compete in home market. Thai banks seek to value-add to SME business operations by holding workshops and programmes on business management and succession.⁴¹

SME Non-Financial Needs	Products/Services Offered by Top Thai SME Banks	Ability to Meet SME Needs	Rationale ¹
1 Succession Planning	a) Workshops b) Seminars c) Training on Sustainable Business	✓	—
2 Business Management & Expansion	a) Professional Workshops b) Networking Events c) Business Life Stage Advisory	✓	—
3 Agriculture Expertise (Farmers)	a) Tie-Ups with Universities and Government Organisations	✓	—
4 Resistance Against Unstable Political Environment		✗	Not a core value proposition
5 Access to Better Technology		✗	Not a core value proposition
6 Lower Production Costs		✗	Not a core value proposition
7 AEC-Specific Business Strategy and Advice		✗	Not a core value proposition

Legend: ✓ Able to meet ☑ Able to meet to a certain extent ✗ Not a core value proposition

Note: ¹ Only provided where banks are 1) able to meet needs to a certain extent or 2) it is not their core value proposition

Source: National Statistical Office Thailand; University of Thai Chamber of Commerce; Bank Websites and Annual Reports; Deloitte Analysis

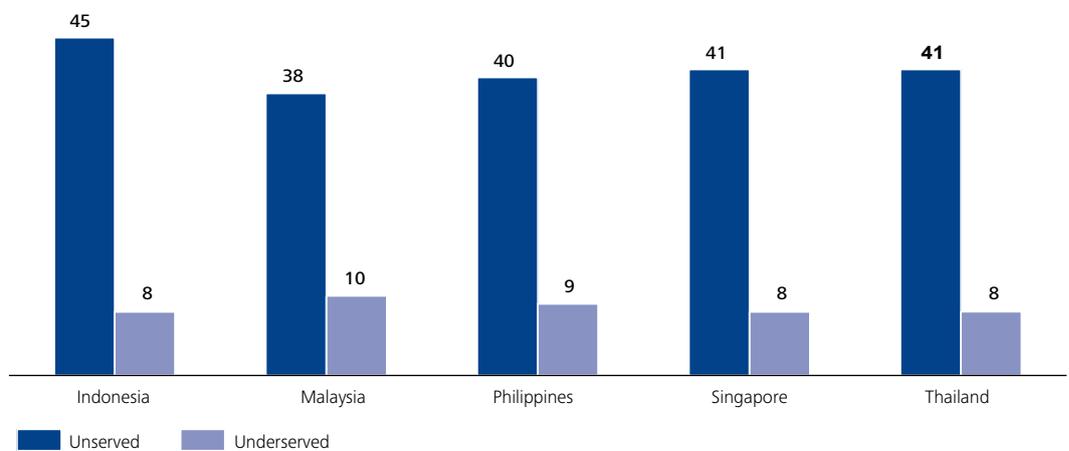
⁴¹ Source: National Statistical Office Thailand, University of Thai Chamber of Commerce

Key challenges to serving the SME market

SME access to finance

As established, less than 60% of SMEs in the five countries use bank loans as a means of financing and personal funds continue to be a dominant source. While banks in the five countries offer solutions that address SMEs needs to varying extents, an alarming 50% or so of the SMEs in this region remain unserved and underserved.⁴²

SME Access to Finance¹ (%)



Note: ¹Report published in 2011 with Indonesia data from 2008, Malaysia data from 2009, Philippine data from 2009, Thailand data from 2006 and Singapore data from 2007.

Unserved refer to SMEs who do not have a loan or overdraft but require a loan; Underserved refer to SMEs who have a loan or overdraft but face financing constraints

Source: International Finance Corporation Enterprise Finance Gap Database

Several key factors that impede SME lending and result in the poor financial inclusion of SMEs across the five countries are illustrated in the table below:

	Definition	Impact on SME Lending
 Regulations	<ul style="list-style-type: none"> Legal structures and frameworks that affect SME lending For e.g. Basel regulations 	<ul style="list-style-type: none"> Basel III dictates greater risk weights be assigned for SME loans - Increases competition for deposits - Results in reduced SME lending volumes and higher SME loan interest rates
 Financial Infrastructure	<ul style="list-style-type: none"> National-level support and structures to improve access to financing Includes the use of government schemes and guarantees to supplant private sector funding 	<ul style="list-style-type: none"> Poor SME coverage by credit bureaus denies financial institutions of SME credit information, raises the cost of credit risk assessment and impedes credit extension The lack of government funding and credit guarantees deprives SMEs of low-cost alternative financing
 Distribution Infrastructure	<ul style="list-style-type: none"> Financial services channels which facilitate the disbursement of loans For e.g. bank branches, RMs, credit analysts and digital infrastructure 	<ul style="list-style-type: none"> Poor banking distribution infrastructure alienates SMEs in the rural regions Also limits banks' outreach and forces unbanked SMEs into alternative funding sources
 Credit Risk Models	<ul style="list-style-type: none"> Models used by banks to assess the credit worthiness of SMEs 	<ul style="list-style-type: none"> Stringent and strict variables used to assess credit risk prevents banks from lending sufficient funds to SMEs

Source: World Bank; ASEAN SME Report

⁴² Source: International Finance Corporation Enterprise Finance Gap Database

Factors limiting SME financial inclusion

Regulations

Legal structures and frameworks such as Basel III regulations dictate that higher risk weights be allocated for SME loans. This increases competition for deposits and results in reduced SME lending volumes and higher SME loan interest rates. Despite their efforts, regulators continue to struggle to negate the adverse impact of Basel III regulations on SME lending.



Thailand

The Business Guarantee Act promotes SME lending by defining an increased number of assets (such as the value of the business) which can be used as collateral for loans from financial institutions



Indonesia

Bank Indonesia mandates all Indonesian commercial lenders to allocate 20% of loan portfolio to SMEs by 2018, potentially increasing SME loan volumes



Malaysia

The 2013 Financial Services Act and Islamic Financial Services Act made it easier for commercial lenders to obtain approval to conduct factoring, leasing, development finance, and credit business, increasing the number of lenders



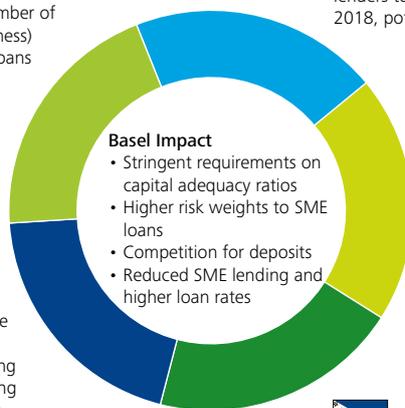
Singapore

The Monetary Authority of Singapore is looking into facilitating access by SMEs to alternative sources of funding through securities-based crowdfunding (SCF). In the interim, it has eased the requirements for SCF license applications



Philippines

Under the Magna Carta, financial institutions are mandated to set aside 8% of their loan portfolio for micro and small business and 2% for medium enterprises



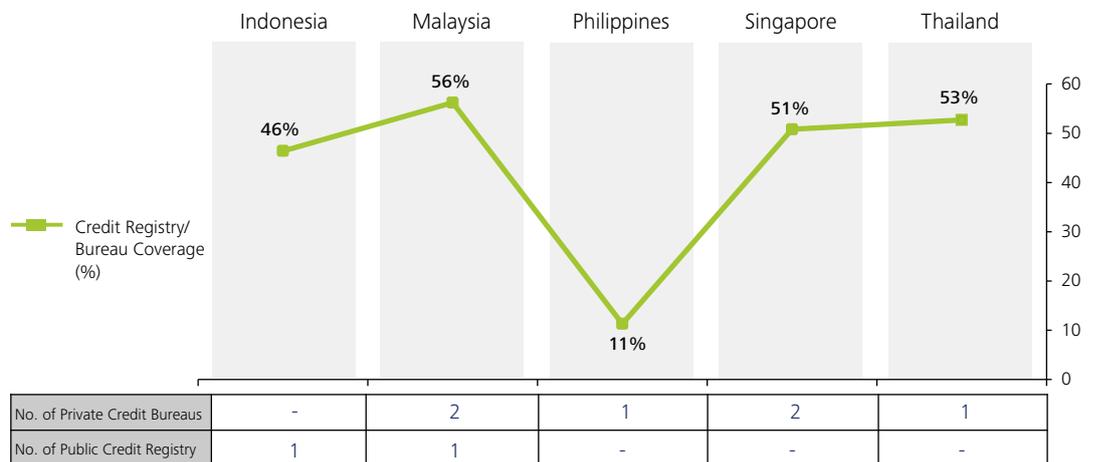
Source: ASEAN SME Report; ADB SME Finance Monitor; Bank of Thailand; Bank Indonesia; Indonesia Financial Services Authority; Ministry of Cooperatives and SMEs; Bank Negara Malaysia; Bursa Malaysia; Department of Statistics Malaysia; Securities Commission Malaysia; SME Corporation Malaysia; Monetary Authority of Singapore

Financial infrastructure

Poor financial infrastructure such as low SME coverage by credit bureaus and registries increases the cost of SME credit risk assessment.

The low SME coverage – Indonesia (46%), Malaysia (56%), Philippines (11%), Singapore (51%) and Thailand (53%) – by credit bureaus and registries across the five countries hinders the ability of banks and governments to extend credit to SMEs.⁴³ The lack of credit information raises the cost of credit risk assessment, and makes it less tenable for financial institutions to service certain segments of the SME market.

Credit Coverage (2014)



Note: Public Credit Registry coverage figures for Malaysia is used instead of Private Credit Bureau coverage as the former has access to more banking information and is deemed more accurate (International Financial Corporation)
 Credit Bureaus/Registries: Indonesia – Debtor Information System Indonesian Business Information Data (DIB) Bank Indonesia; Malaysia – SME Credit Bureau; SMEs CTOS Sdn Bhd, BASIS RAM-DP Information Services Sdn Bhd (BRIS); Philippines – BAP Credit Bureau CIBI; Singapore – SME Credit Bureau, DB Information Group; Thailand – National Credit Bureau

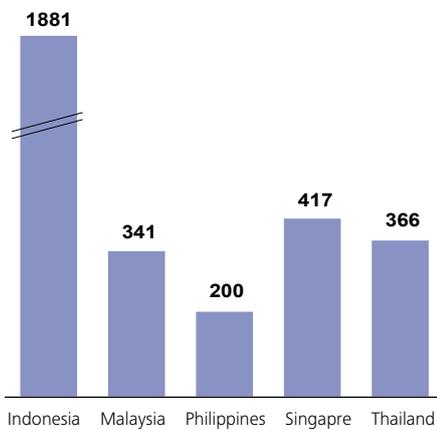
Source: World Bank; IFC; Deloitte Analysis

⁴³ Source: World Bank; IFC; Deloitte Analysis

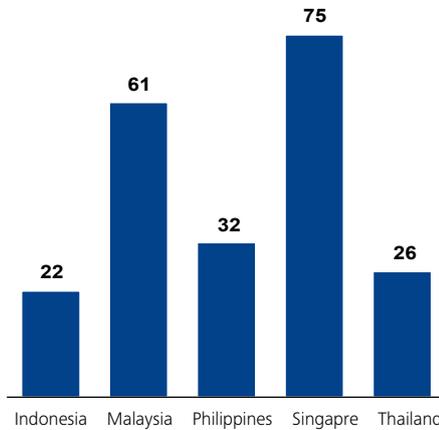
Distribution infrastructure

Inadequate distribution channels, which facilitate the disbursement of loans such as bank branches, relationship managers, credit analysts and digital infrastructure, limit banks from reaching out and servicing SMEs in either the physical or the digital space. Poor banking distribution infrastructure also alienates SMEs in the rural regions, limiting the banks' outreach and forcing unbanked SMEs into alternative funding sources.⁴⁴

Ratio of SMEs to Bank Branches (No. of SMEs/Branch)



Internet Penetration (%)



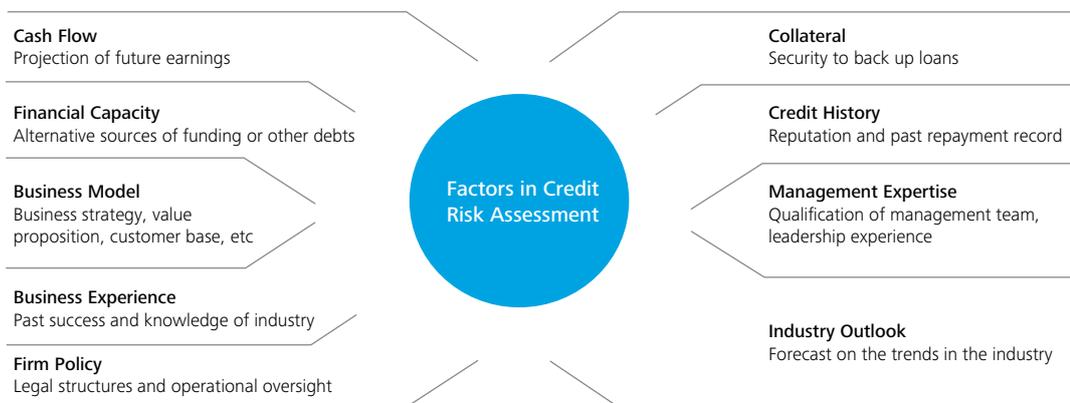
Bank branch data from 2011, Internet penetration data from 2012

Note: Internet penetration refers to the percentage of total population that uses the internet

Source: Standard Chartered Special Report "Financial Inclusion: Reaching the Unbanked"; World Bank; Tech in Asia "How Ready is Southeast Asia for Online Payments" dated 3 Dec 2013; Deloitte Analysis

Credit risk models

Credit risk models are models used by banks to assess the credit worthiness of SMEs. The lack of cash-flow visibility forces banks to adopt stringent collateral-based credit risk models which hinder lending to SMEs without collateral.⁴⁵

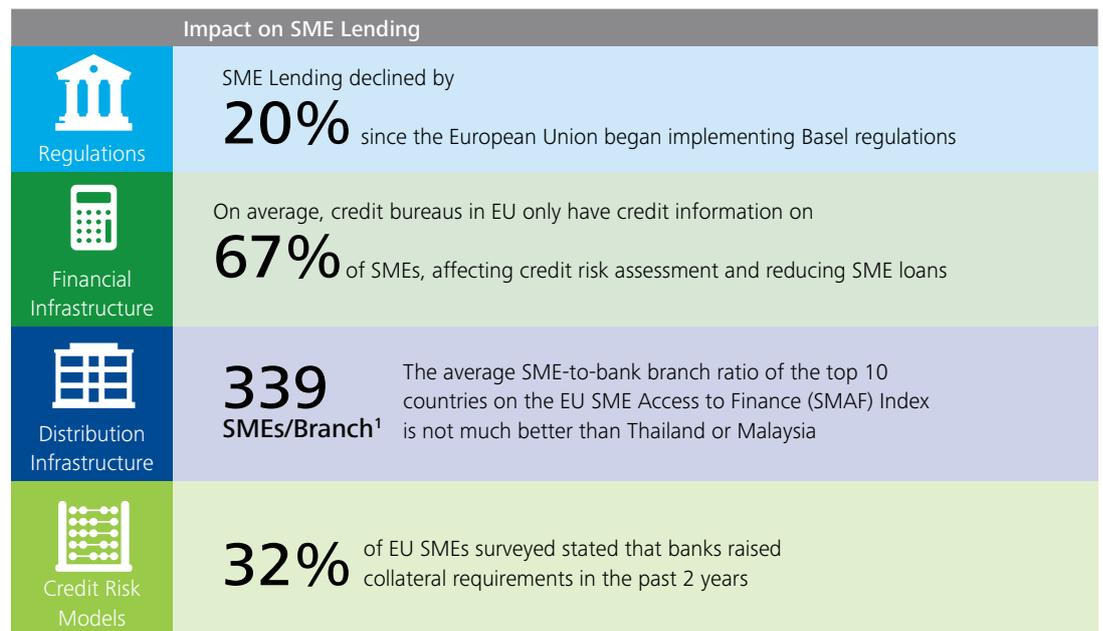


Source: Haron et al (2013) 'Factors Influencing SMEs in Obtaining Loans'; Belas et al (2014) 'Determinants of Credit Risk of SMEs in the Banking Sector of Czech Republic and Slovakia; Deloitte Analysis

⁴⁴ Source: Standard Chartered Special Report "Financial Inclusion: Reaching the Unbanked"; World Bank; Tech in Asia "How Ready is Southeast Asia for Online Payments" dated 3 Dec 2013; Deloitte Analysis

⁴⁵ Source: Haron et al (2013) 'Factors Influencing SMEs in Obtaining Loans'; Belas et al (2014) 'Determinants of Credit Risk of SMEs in the Banking Sector of Czech Republic and Slovakia; Deloitte Analysis

These impediments are not unique to countries in ASEAN. They are also prevalent in advanced economies such as in the European Union (EU).⁴⁶



¹ Average of 10 top countries in the EU SME Access to Finance Index: Austria, Finland, France, Germany, Hungary, Netherlands, Norway, Sweden, Turkey, UK

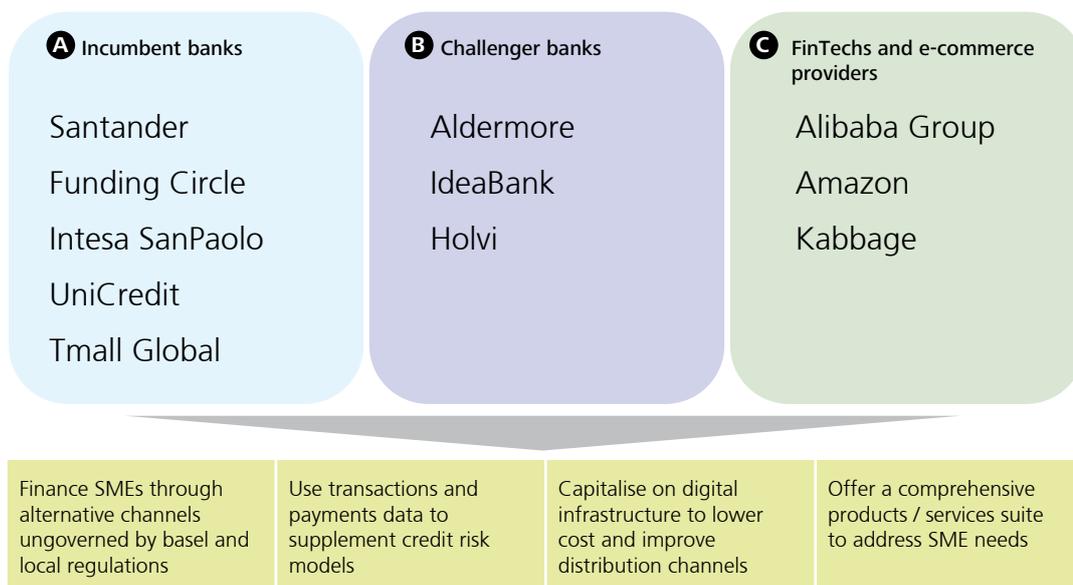
Source: World Bank; European Commission; Sarah Padgett: "The Negative Impact of Basel III on Small Business Financing"; Global Financial Development Database

However, unlike ASEAN, in the EU, incumbent banks, challenger banks as well as FinTechs and e-commerce providers have sought to fill the SME financing gap by adopting innovative business models. Many incumbent banks remain traditional and conservative – while dynamic challengers have experimented with new business models. Government policy, regulations and legal vehicles in the EU similarly lend support towards favourable conditions for innovation and collaboration.

⁴⁶ Source: World Bank; European Commission; Sarah Padgett: "The Negative Impact of Basel III on Small Business Financing"; Global Financial Development Database

Innovative solutions and business models to address SMEs' needs

New business models adapted outside of ASEAN are able to overcome the four factors limiting SME lending and address SMEs' varied non-financial needs by financing SMEs through alternative channels; using payments data to supplement credit risk models; capitalising on digital infrastructure to extend outreach; and offering a comprehensive suite of products and services.



Incumbent banks

Some incumbent banks have sought to better serve the SME market by collaborating with peer-to-peer (P2P) lenders and e-commerce websites.

For example, in the UK, a partnership is created between Santander UK and P2P lender Funding Circle where Santander refers small businesses it turns down for loans to Funding Circle for P2P financing. In return, Funding Circle promotes Santander's current accounts and services to its customers.

In Italy, the "E-Marco Polo" initiative was introduced to support Italian SMEs entering the Chinese market. The initiative provides easy access, end-to-end cross-border financial solutions for Italian SMEs to reach out to Chinese consumers. It also addresses SMEs' e-commerce needs by establishing a storefront on Tmall Global. There is also potential for Intesa SanPaolo and UniCredit to extend loans to Italian SMEs using transactions information available on Tmall Global.

SME-Targeted Business Model	Santander / Funding Circle 	Intesa SanPaolo / UniCredit / Tmall Global 
	<ul style="list-style-type: none">• Partnership created between Santander UK and P2P lender Funding Circle• Santander refers small businesses it turns down for loans to Funding Circle for P2P financing• Funding Circle, in return, promotes Santander's current accounts and services	<ul style="list-style-type: none">• "E-Marco Polo" initiative to support Italian SMEs entering the Chinese market• Provides easy access, end-to-end cross-border financial solutions for Italian SMEs to reach out to Chinese consumers• Also addresses SMEs' e-commerce needs by establishing a storefront on Tmall Global• Potential for Intesa SanPaolo and UniCredit to extend loans to Italian SMEs using transactions information available on Santander / Funding Circle

Source: Bank Websites and Annual Reports, Deloitte Analysis

Challenger banks

Challenger banks utilise online payments and banking technology to lower operating costs, and offer integrated “one-stop” solutions to SMEs.

For example, Aldermore in the UK has no branch network but serves customers online. The challenger bank delivers SME specialised products in “Asset and Invoice Finance” and “SME Commercial & Residential Mortgages”. The bank’s loans to SMEs comprise 46% (USD 3.2 billion) of total lending in 2014. SME deposits doubled to USD 1.5 billion in 2014. Aldermore also saw a 53% increase in SME loans from 2012 to 2013.

Banking services at the IdeaBank is fully provided on cloud technology. The challenger bank based in Poland positions itself as a “One-Stop Shop” for SMEs by offering accounting advice and financial consultancy services. It offers loans to 5% of Polish SME market (approximately 75,000 firms). Its net profit grew 125% in 2014 by solely targeting the Polish SME segment.

Holvi is another example of a challenger bank that occupies purely digital space in the financial services industry. The Finnish bank provides online banking service that charges SMEs through transactions and payments. The bank also provides a range of non-financial services book-keeping and spend-management services, business tools and an online store. In August 2014, Holvi announced that it is taking its online banking service for SMEs beyond its home market of Finland and into 19 new European markets.

SME-Targeted Business Model	Aldermore 	IdeaBank 	Holvi 
	<ul style="list-style-type: none"> • No branch network but serves customers online • Delivers SME specialised products in Asset / Invoice Finance, SME Commercial & Residential Mortgages • Loans to SMEs comprise 46% (USD 3.2 billion) of total lending in 2014 • 53% increase in SME loans from 2012 to 2013 • SME deposits doubled to USD 1.5 billion in 2014 	<ul style="list-style-type: none"> • Banking services fully provided on cloud • Positions itself as a “One-Stop Shop” for SMEs by offering accounting advice and financial consultancy services • Lends to approximately 75,000 SMEs (5% of Polish SME market) • Net profit grew 125% (2014) by targeting SME segment 	<ul style="list-style-type: none"> • Online banking service that charges SMEs through transactions and payments • Provides a range of non-financial services book-keeping and spend management services, business tools and an online store • Rapidly expanding to serve SMEs in 19 EU countries

Source: Bank Websites and Annual Reports, Deloitte Analysis

FinTechs and e-commerce providers

Financial technology, also known as FinTech, is a line of business based on using software to provide financial services. FinTechs are generally startups founded with the purpose of disrupting incumbent financial systems and corporations that rely less on software.

FinTechs and e-commerce providers are able to extend more credit to SMEs by using transactions-based credit risk models to better assess SME credit-worthiness.

Amazon and Kabbage, both from the US, are examples of an e-commerce provider and FinTech, respectively, which have successfully extended more credit to small businesses.

Amazon provides unsecured loans of up to USD 38,000 at better than credit card interest rates to its customers. The e-commerce provider analyses a seller's transaction volume and velocity on its Amazon platform. Amazon sellers can sign up for loans through their existing Amazon merchant accounts and receive loans within five working days if approved.

Kabbage provides unsecured loans of up to USD 100,000. The FinTech looks at real-time business data by accessing a borrower's business checking accounts, e-commerce or accounting platforms. Kabbage's SME loan volume reached approximately USD 500 million in 2014, an increase of over 250% from the previous year.

SME-Targeted Business Model	Alibaba Group 	Amazon 	Kabbage 
	<ul style="list-style-type: none"> • Collects transactions information on Taobao / Tmall and other e-commerce websites • Analyses business volumes and credibility rating of borrower • Provides unsecured loans of up to USD 1.6 million • Extended more than USD 16 billion worth of loans to SMEs by end 2013 	<ul style="list-style-type: none"> • Analyses seller's transaction volume and velocity on its Amazon platform • Amazon sellers can sign up for loans through their existing Amazon merchant accounts and receive loans within 5 working days if approved • Provides unsecured loans of up to USD 38,000 at better than credit card interest rates to Amazon customers 	<ul style="list-style-type: none"> • Looks at real-time business data by accessing borrower's business checking accounts, e-commerce or accounting platforms • Provides unsecured loans of up to USD 100,000 • SME loan volume of about USD 500 million in 2014 and an increase of over 250% from the previous year

Source: ACCA 'Innovations in Access to Finance for SMEs', Wall Street Journal, Kapronasia, Forbes, Karrot, Bank Websites and Annual Reports, Deloitte Analysis

These innovative solutions and new business models allow the incumbent banks, challenger banks, FinTechs and e-commerce providers to better target and engage the SME market thus improving SME loan volumes, increasing SME customer base and creating a loyal following that ensures a high repeat rate for the bank's products and services.

		Finances SMEs through Alternative Channels	Assesses Credit Worthiness Using Payments Data	Extends SME Outreach using Online Banking Technology	Meets SME NFN ¹ through Innovative Products and Integrated Services
Incumbents					
Santander / Funding Circle		●			●
Int. SanPaolo / UniCredit / TMall					●
Challengers					
Aldermore				●	●
IdeaBank				●	●
Holvi				●	●
FinTech / E-commerce					
Alibaba Group		●	●	●	●
Amazon		●	●	●	●
Kabbage		●	●	●	



Improves SME Loan Volumes

Increases SME Customer Base

Creates Stickiness with SMEs

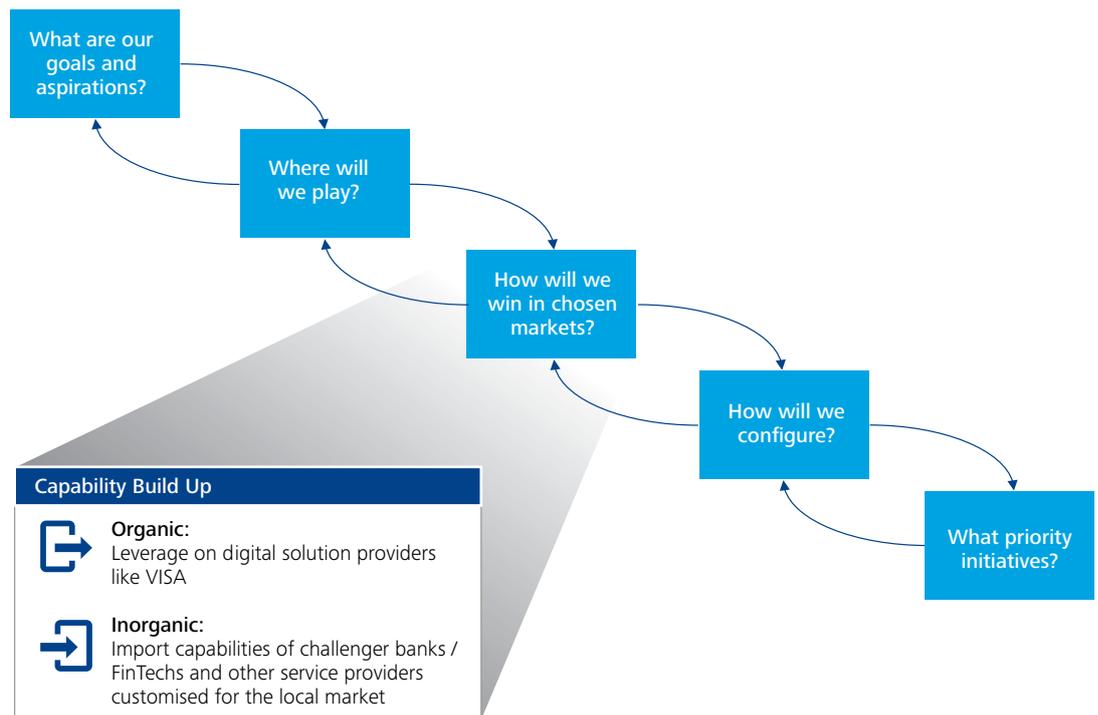
¹ Non-financial needs of SMEs, such as productivity improvements, book-keeping, expense management, business advisory, etc

These solutions are also able to overcome the four factors limiting SME financing as well as address SMEs' varied non-financial needs as summarised in the table.

Issue	Player	Innovative Solutions
Reduced SME lending due to Basel regulations	Santander / Funding Circle	<ul style="list-style-type: none"> SMEs unable to obtain bank loans are directed to alternative funding sources that are not regulated by Basel requirements
Limited credit information due to poor financial infrastructure	Alibaba Group	<ul style="list-style-type: none"> Credit information on SMEs is augmented by transactions data and business volumes information available on e-commerce websites
Reduced SME outreach due to inadequate distribution infrastructure	Aldermore	<ul style="list-style-type: none"> Digital banks are able to overcome the lack of physical branch presence by providing online banking services, and bring greater convenience to SMEs
Over-reliance on collateral due to collateral-based credit risk models	Kabbage	<ul style="list-style-type: none"> Real-time business data is used to assess the credit risk of SMEs, reducing the reliance on collateral and allowing for unsecured lending
Varied non-financial needs of SMEs	IdeaBank	<ul style="list-style-type: none"> SMEs are able to satisfy their varied business requirements by banking with "one-stop shops" that provide a host of financial and non-financial services

Addressing the unserved and underserved opportunity

To address the unserved and underserved SME opportunity in ASEAN in an increasingly digital economy, incumbent players need to make choices about where to play and how to win.



Conclusion

SMEs are a very heterogeneous group. They are found in a wide array of business activities: ranging from the single craftsman producing crafts for the village market, a coffee shop in a small town to a small or medium sized sophisticated engineering or software firm selling in overseas market. The owners may or may not be poor; the firms operate in very different markets, embody different levels of skills, capital, sophistication and growth orientation, and may be in the formal or the informal economy.

Regardless of their make-up, these SMEs across all five countries remain a critical driver of national growth and employment and should be a priority market for various stakeholders such as governments, regulators, financial institutions, non-bank financial institutions to address. Recent nationwide pushes to address SME needs – for example, Singapore’s 2015 call in Parliament for a deep review of the SME sector – underscores the centrality SMEs play in ASEAN economies.

These SMEs share various common financial needs which include working capital financing and access to external financing; as well as non-financial needs such as business advisory services and access to cheap quality labour and suppliers. Today, these needs are inadequately addressed.

Difficulties with access to financial facilities and export markets hinder SME development in the region. SMEs need adequate cash flow for investment, and the continual improvement of operational efficiency and productivity. Without adequate financing, businesses are unable to build competitiveness and resilience, innovate and be sustainable in today’s competitive economic climate.

SMEs in Southeast Asia will be exposed to further liberalised trade and investment as the implementation of the AEC nears completion at the end of 2015. It has become more crucial that SMEs perform consistently in an efficient and productive manner as they face a variety of issues to develop, grow and achieve sustainability in the market.

With the digital revolution, new business models are able to overcome factors limiting SME lending and address SMEs’ varied financial and non-financial needs. These emerging business models with challenger banks, FinTechs and e-commerce providers include benefits such as improved cash flow visibility and the convenience of an integrated purchasing order, e-invoicing and e-payments solutions. They help SMEs establish an e-commerce presence.

Incumbent banks benefit via supplier chain financing. They also have access to payments data for better credit risk assessment and payment visibility for credit extension. Most importantly, they will gain SME market leadership in the SME banking industry. Incumbent banks in the region have to think about what innovation business models works best and which partners will help them achieve the right solutions to cater to this unserved and underserved market. Governments, policy-makers and regulators need to work in tandem to encourage an innovation-friendly business climate which encourages collaboration.

If captured effectively and responsibly, the benefits to banks, SMEs, national economy and society will be immense.

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