



EMBRACING TECHNOLOGY IN FINANCIAL SERVICES

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SEASON 2, EPISODE 7 TRANSCRIPT

Know the SME mindset – growth opportunities for Australian banks

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GUEST: Alex Trott, Managing Director – Financial Services Banking Lead, Accenture Australia and New Zealand, and Laura Valmorbida, Managing Director – Financial Services, Management Consulting, Accenture Australia and New Zealand

Tim: With small to medium enterprises contributing to a third of Australia's economy, how can banks provide a more personalised service through the ever-changing life of a business?

Presenter: Welcome to Embracing Technology in Financial Services, a podcast brought to you by Accenture, where leading experts, share insights on business issues facing Australia's financial services industry and beyond. Now, here's your host, Tim Broome.

Tim: I have the pleasure of being joined today by Laura Valmorbida, who is a managing director from our banking practice, and Alex Trott, who is the banking lead for Australia and New Zealand. Alex, welcome back for the third time. How are you?

Alex: I'm very well, thank you. Good morning.

Tim: Third time. That is now an equal record! Well done.

Alex: Is that right? Thank you.

Tim: And Laura, welcome. First time.

Laura: Thank you. Delighted to be here.

Tim: How are things with you?

Laura: Not too bad, keeping busy. There's a lot of movement going on in the marketplace and a lot of people with a lot of opinions, but importantly a lot to be done.

Tim: Well, what we're here to talk about today is the SME marketplace and exactly where is that going, what we've seen in the past, what do we think the future holds? I'd be very interested to know; do we think the Fintech landscape is doing any exciting things in this space and are the Neobanks also starting to operate in this space? So, Alex, let's start off with you.

Alex: I think the sort of SME segment, so small and medium size enterprise, is really very interesting at the moment and is going through an amount of change. I think if you look historically, many of the big banks have under invested in their offerings in this space, predominantly focusing on retail and home lending, those areas, but actually right now the market is sort of hotting up around the smaller medium size enterprises, so SMEs. I think they're really seeing that this is an area that not only can they drive differentiation in the market, but also there's some quite good returns to have. And it's probably one of those areas where there is actually growth over and above what they might see in the retail sector and again, certainly growth above where home lending was six months ago.

Tim: You mentioned where home lending was. So, do you actually see a different opportunity for the banks in the long-term in this space?

Alex: Absolutely, and I think if you look at the macro sort of trends in banking, there's a whole number of aspects where there are more niche offerings coming through. So, very much thinking about how do we segment our offerings to either a group of customers or a type of customer and try and create more specific propositions for them? I think as that starts to happen as that continues, the SME segment is one that is really going to see more propositions that are highly targeted for them. Again, because they often fall between the gaps of retail or commercial, but actually what we can see is some very specific offerings for them happening in banking.

Tim: Laura, on that point, so you're about to say something. Go.

Laura: I was going to say that's interesting your point about the gap between retail and the commercial offerings because I think a lot of the traditional players are struggling to work out how to service the small business sector. And thinking about is it a retail plus or is it a corporate minus type of offering that they're doing in terms of the amount of hands on service, face to face service, the digital offerings and so on. It's almost like this identity inspection and exploration if you like, that a lot of the traditional players are going through.

And interestingly though, if you actually speak to small business owners and directors of small and medium enterprises, they would say that their needs have fundamentally been the same for a long period of time. But, actually, the expectations about how those needs are being met is changing because they are humans, after all, and they've had brilliant experiences in their personal lives through consumer interactions. And now they're expecting that level of service in their small business and medium business interactions with their banks and other service providers.

Tim: Are we seeing a similar push from the big tech players into this space as we're starting to see more generally in payments and the broader areas where we were starting to see big tech make an entrance?

Laura: Absolutely, there's big tech. There's also the Neo players as Alex mentioned earlier. And what we can see from an Australian perspective is that the system growth is fairly flat with regards to SME lending and SME services from a financial services perspective. So traditional players are losing ground, but in the meantime, the Neo players are coming in. And they're not coming in as full-service providers, they're coming in to fill the needs of very specific moments of need for a small medium business owner. And that need could be something as simple but important as payments, so the likes of Square and Stripe and PayPal are coming in to fill that need. They're not necessarily providing end-to-end lending services right now, although down the track potentially they might move into that, but right now they're focusing on that type of capability and offering it really well for low fees, very speedy service and that's actually what the business owners are caring about at this point in time.

Tim: Alex, that sounds very, very close to our last conversation on the fragmentation of the market more broadly. Our conversation on Neobanks and then filling particular niches and doing them very, very well. So, it looks as though this is now happening right the way across the banking landscape.

Alex: Absolutely and I think the – again, to build on the examples that Laura was providing – that sort of maybe point of sale or payment pieces then allow those companies to start to get into other ancillary services that the banks may well have been providing in the past. So, looking at, as you start to create merchant services, maybe data analytics around that as well. And actually, then starting to provide those other things that then the banks become sidelined around. I agree and I think that it just demonstrates those new organisations, the Neobanks, all those other sort of single product providers are just really focusing on the experience around that. They're focusing on doing that really well and really taking the market.

Tim: Okay, so Laura, when we look at the retail side of things, we're often looking at the digitisation of services and people backing ways, "I don't need to go to a branch anymore." When we're getting into the SME space, are there still periods that the life of a business where I actually have a need and I want a more personalised and a human touch service, or are we starting to see a pull away from that saying, no, actually people are more than happy to deal purely online digital components of setting up a business, growing a business, even selling a business.

Laura: There is definitely still a place for that human interaction but what also we know from our SMEs, and actually we found this through the UK study [[Finding the balance – UK SME banking survey](#)] that we did with our SMEs at the beginning of the year, was that a number of SMEs and SMEs owners, directors and so on actually just want to be left alone by their banks. And in terms of, they want to be able to have the digital services where they can actually manage their own funds and so on, but yes, to your point, there are points in time where they still want to speak with individuals.

And that might be whether, because they're taking a leap in their business plan and they're seeking a significant amount of funding and maybe they actually just want someone to speak with more from a business advisory perspective. And that's interesting because you see the likes of Judo coming in, really making a splash in the Australian scene and one of their key propositions is actually having qualified bankers who specialise in those conversations with their customers.

Tim: And, if we kind of poke a bit further into that, does the same personalisation lens that we're looking at more broadly, does that exactly apply in the same way here? There is an expectation that if I'm running a business that the bank knows me as an individual and knows what my business is doing and the stage I'm in and the types of, the way my business operates, in the same way that we're expecting the bank to understand the way that I live my personal life, how I spend my money? Is there a like for like here?

Laura: I think it's quite similar. There's a lot of, I suppose experiential expectation if you like, from SME business owners and directors in that. But interestingly the extra layer on this is not just who you are as an individual, but the mindset that you might have when approaching business decisions. We've talked about segments previously and segments in the SME space used to be based on value. Then it's kind of a bit moved into industry. It's moved into lifecycle now in terms of whether you're starting the business, growing the business, optimising it, or exiting. But the next evolution, if you like, is around mindsets and really how individuals respond to threats or opportunities for their business and therefore the influences that has on their decision making. Absolutely, there is that complexity there and probably even more complex than a consumer relationship.

And on that point actually, I think we need to remember especially in the Australian marketplace, that a lot of small business owners, they mix their personal and commercial banking needs, right? There's a lot of fluidity and so sometimes it's not always that distinct kind of separation when an individual is interacting with a bank or other service provider as to whether they're acting as Joe Blogs or Joe Blogs Enterprises.

Tim: Right, yeah.

Laura: From their point of view, they just want to have the conversation and have their financial needs fulfilled.

Tim: Okay. You mentioned mindsets. Can you expand on that a little bit?

Laura: Yeah, it's an interesting one. I would say it's still a very nascent area in this space. A lot of people are trying to understand it, but importantly once understanding mindsets, what do you actually do with that information? How do you apply it in the interactions with the individuals in the banks? I touched on it before in terms of... there could be conservative operators, there could be aggressive operators, and then how they respond to opportunities of growth or threats to their business. If you kind of think about it in a bit of a quadrant, you can kind of plot the various mindset types if you like.

Tim: If there's one thing we like doing, it's putting people into boxes.

Laura: That exactly it! Yeah, you've got your two by two. But it's fair to say, I don't think anyone's actually perfected how to actually use that type of information whether it's that particular definition or mindset or something else. It's still out there and I think that's where the opportunity is for providers to really kind of get in and understand the mindset and the psyche of individuals when they are operating businesses.

Tim: Yeah, so how I would advise a big risk taker would be very different from how I advise someone who's very conservative in what they want to do with their business.

Laura: Exactly.

Tim: Then understanding the phase of that business puts another lens on top.

Laura: That's right, and then you've got your traditional segmentation of value and industry and so on. Yeah, it's more complex.

Tim: And Alex?

Alex: I think again just to expand on that as well, one of the key sort of product offerings or offerings that the banks or these other organisations have is lending. As you start to then look at those segmentation, you start to look at your credit rules and your credit decisioning as well. Actually, some of these mindset type aspects are so much more important in terms of credit decisioning rather than some of the traditional aspects to it as well. So, actually do you need to look at and do these organisations need to look at a very different way of looking at their credit based on the types of customers rather than just loan size and sort of collateral.

Laura: That's really interesting topic Alex because post Royal Commission in Australia and the focus on responsible lending, a lot of the traditional players have been playing it safe, I would say, in terms of giving credit to small and medium enterprises. It goes back to that point earlier about the fluidity between the personal and the commercial finance needs. And so, what we see often in the traditional space, is that small business owners will use their homes as collateral for business loans, but the concern from the big banks is actually then, is that truly a business loan or is that a home loan? Then that has all the implications of responsible lending and obligations that go with that.

Tim: Okay.

Laura: And so, we've seen this... everyone's been talking about the credit crunch for SMEs, but SMEs are a hugely important backbone of our community. From an economic sense, [SMEs contribute a third of our GDP](#), employ 7 million people in Australia. It's a huge contributor to the success and vibrancy of the Australian economy.

Tim: Okay. Alex, the economy is not in its greatest position at the minute. We're probably as close to a recession as we've been in 20 years. How do the banks support the SME landscape through this period?

Alex: It's a very interesting question because it is primarily around lending, but it's not just about lending I think is the challenge. It's that balance of where are banks playing an advisory role in some of these businesses as well? How do you actually use your relationship manager, or again, other experts within the organisation to help you in your business, to do business plans, to think through some of those other aspects, as well as providing access to funds and the lending that's needed to either grow or just to keep the business afloat at certain points. I think with the dynamics, as Laura said, of the post Royal Commission sort of credit crunch as well, that is a really difficult position right now.

Tim: Yeah, absolutely.

Alex: I think what we're seeing is, as a number of the large banks draw back from providing that credit, it is being filled by other new providers that are coming into the market by money lenders. Again, they fall under a different regulatory regime in some cases, and therefore some of these things are again providing a very different sort of landscape over where it was before.

Tim: Do you think that's increasing the risk to the economy?

Alex: Again, it's a balance between actually providing lines of credit to actually keep businesses afloat and to keep them going, which is a positive thing for the economy and the inherent level of risk that's in those portfolios as well, which is obviously the other side to it.

Tim: Okay.

Alex: So again, it could go either way. I think there's so many factors. The housing market is a massive one and again is highly linked to SME success as well, especially where there's cross collateralisation.

Laura: So, you know what's going to be really interesting with the new generations coming through, the younger generations coming through, where home ownership is declining, is the new generation still have aspirations to have businesses of their own. There are stats out there, something like 37 percent of 18 to 24-year-olds want to have their own business at some point [[Comparison UK statistics](#)]. It's not necessarily wealth generation priority by the way. It's actually to have a higher meaning, higher purpose as far as contributions to society.

But the point is there's a massive cohort of younger people who intend to be in business and if those younger cohort of people do not actually have homes to secure their lending, what does it actually mean for them? But also, what does it mean for the people who are providing finance to these younger generations? I think that's where we're going to see some developments also in terms of how is credit actually offered? On what basis is credit adjudicated, if you like?

There's some really interesting propositions coming out across the world, particularly in the UK, in terms of how can you assess credit without looking at a massive piece of collateral for your default position and what do you know about the individuals? What do you know about their mindsets towards money in terms of how they would repay their obligations and so on? But also, can you do some interesting stuff with AI, looking at cash flows and understanding therefore how a business could service their debt?

Tim: Maybe a subject for another episode, but your comment on a new generation and the motivations. I was involved in a hackathon. I was a judge, a couple of weeks ago, and I'd say two thirds of the entered solutions, and this was all around the financial services industry, was focused on not how can I make money, it's how am I doing the right thing for society? How am I doing the right thing for the environment? Very interesting from a loan perspective to get a business off the ground when that business might not have such a direct financial structure behind it. Do we then look at, I guess ethical loaning versus purely a dollar behind it? Very interesting times ahead, I think.

Laura: I think so.

Tim: Well, this has been a really, really great conversation, Alex, I really appreciate your time. Thank you very much.



Alex: Thank you.

Tim: That's number three. We might get back for number four and then you got the record.

Alex: Hope so.

Tim: Laura, really appreciate your time. Thank you very much.

Laura: Thank you, Tim. Pleasure.

Tim: If anybody wants to share any more information on this topic, we'd love to continue the conversation with you. Please reach out to me on LinkedIn, share your comments, share your thoughts. You can reach me, Tim Broome or Laura Valmorbida or Alex Trott and we'd love to continue the conversation. Have a great day.

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