

---

# **“Why Banks in Emerging Markets are Increasingly Providing Non-Financial Services to SMEs”**

---

*SME Banking Conference*  
*Karachi, Pakistan* March 15, 2011



# Study Objectives

1. Understanding and Differentiating Bank Demand	<ul style="list-style-type: none"><li>§ What are banks looking for and why? What are main objectives?</li><li>§ Is there a difference between 1<sup>st</sup> and 2<sup>nd</sup>/3<sup>rd</sup> tier banks?</li><li>§ Are there regional differences and trends?</li><li>§ When did all of this start? What are the key trends at the demand</li></ul>
2. Understanding the Supply Side	<ul style="list-style-type: none"><li>§ What kind of tools, products, and services are currently being provided?</li><li>§ Who are the main suppliers? Are banks using internal training centers?</li><li>§ Are banks charging for these services?</li><li>§ What is the current market benchmark globally in emerging markets?</li></ul>
3. Assessing the Market: Trends, Impact, and Gaps	<ul style="list-style-type: none"><li>§ What are the lessons learned?</li><li>§ What are the current market failures/gaps?</li><li>§ What does it take to successfully provide such services?</li><li>§ What do we know about impact assessment?</li></ul>
4. Moving Forward: <b>IFC's Role</b>	<ul style="list-style-type: none"><li>§ Does IFC have a comparative advantage in this field?</li><li>§ Prospects and forecast for future demand?</li><li>§ †</li></ul>

## 22 Commercial Banks Interviewed

Region	Bank	Country	Tier
Sub-Saharan Africa	Access Bank Plc	Nigeria	Tier 3
	AdvansBank	Congo	Tier 3
	Barclays	Africa Region, Uganda	Tier 1
	7 Bank	Namibia	Tier 3
	Invest Trust Bank	Zambia	Tier 3
	NBS Bank	Malawi	Tier 3
	NedBank	South Africa, Namibia	Tier 2
	Standard Bank	Malawi	Tier 1
East Asia & the Pacific	Westpac	Australia, Pacific	Tier 2
	Cambodian Public Bank	Cambodia	Tier 3
	Planters Development Bank	Philippines	Tier 3
South Asia	NIC Bank	Nepal	Tier 3
Europe & Central Asia	Pro Credit Macedonia	Macedonia	Tier 2
Latin America & The Caribbean	Banco BCSC	Colombia	Tier 2
	Banco Galicia	Argentina	Tier 2
	Banco Santander	Brazil	Tier 1
	Republic Bank	Trinidad & Tobago	Tier 3
Middle East & North Africa	Standard Chartered Bank	Pakistan, Kenya	Tier 1

---

## 1. Understanding Bank Demand:

**Banks' primary incentives are differentiation from competitors (94%) and client retention (69%).** A majority of banks report starting to offer non-financial services in the past 1-5 years.

Other important bank objectives include:

- ” Portfolio growth (50%)
- ” Customer service (44%)
- ” Response to competitor offerings
- ” Decrease SME loan account delinquency

# 1. Understanding Bank Demand (continued): Summary of Key Trends

Banks serve both current and prospective clients

Selfhelp SME information is offered to all clients. However, banks target existing clients (70-80% participants) for seminars and workshops.

Banks mainly use needs analysis to determine service offerings

observations and input from Account Managers (58%), consultation with SME experts (47%), and formal market surveys (32%).

Banks plan to expand current offerings

Of the banks interviewed, 50% plan to expand current offerings, 47% plan to increase volume of activities, and 44% plan to increase locations offering services.

Banks modify service offerings

Banks primarily differentiate their service offerings for different sectors (56%) and for gender considerations (31%).

## 2. Understanding the Supply Side:

### Typology of Non-Financial Services Offered to SMEs

#### Information Services

Self-help knowledge delivered to SMEs via websites, publications, business centers, or interactions with Account Managers.

#### Training Services

Interactive activities designed to facilitate the learning and development of new and existing skills and to improve performance.

#### Consulting Services

Direct interactions with knowledgeable experts to gain insights and expertise (can be in the form of counseling or mentoring).

## 2. Understanding the Supply Side (continued): Summary of Key Trends

### Banks utilize variety of distribution channels

Banks use Account Managers as main distribution channel in offering financial services (100%). Other methods include seminars/workshops (94%), website (69%), information sessions (69%), software (25%), newsletters (19%), and brochures/books (6%).

### Banks find sufficient supply of service providers

The majority of banks indicate they can identify sufficient service providers for current needs (79%). However, 29% of banks responded that they do not offer financial services to SMEs because of low quality of service providers.

### Banks partners with both international and local service providers

Banks deliver services through a variety of organizations: trainers (81%), consultants (75%), IT are international organizations.

### Banks offer services in multiple locations

A majority of banks offer SMEs information via the Internet (75%). Also, banks offer seminars and workshops at branch level (69%) and at major centers (31%).

### 3. Assessing the Market: Lessons Learned

#### SMEs' Needs: Technical Assistance

SME client business start-ups are often unplanned: educational need on separating personal and business affairs and finances. Banks reported SMEs need training in effective business management, particularly in the areas of accounting and marketing.

#### Best Practice: Expert Trainers & Interactive Training

Trainers need to be content experts in business management areas. SME participants prefer interactive training modules, such as breakout sessions followed by group discussion and sharing of best practices business to business.

#### Best Practice: Charge for Service Offerings

Banks suggested charging at least a nominal fee for non-financial service offerings as it places value on the services and products.

#### Best Practice: Impact Measurement

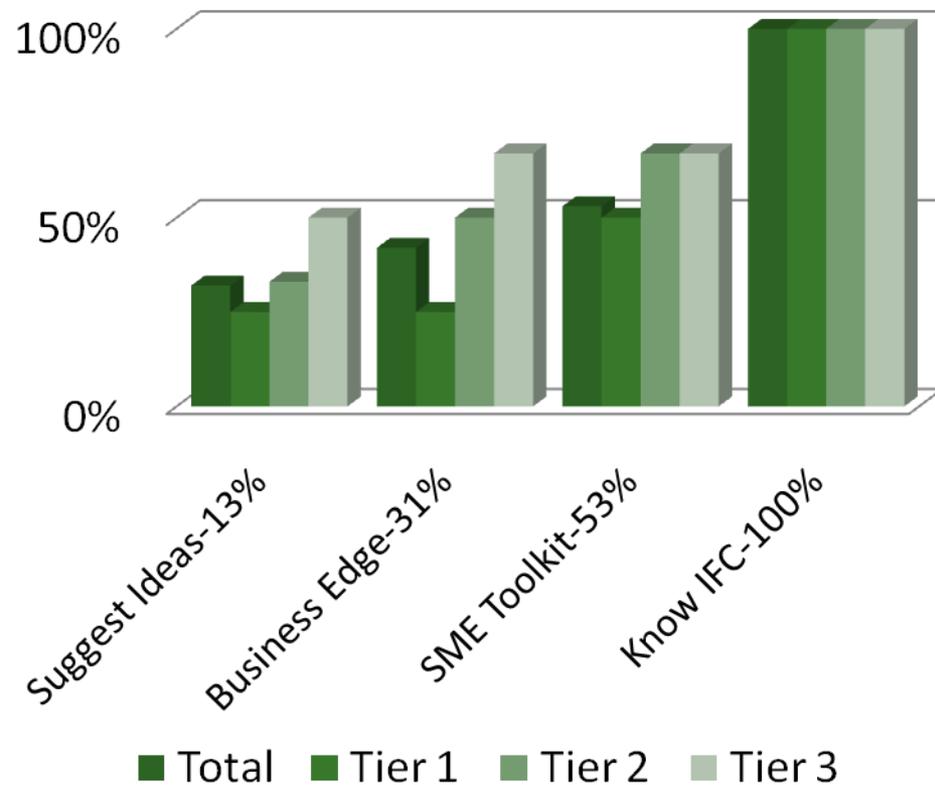
Most of the banks interviewed undertake limited impact assessments and do not conduct ROI calculations for their SME non-financial service offerings. Banks recognize the need to move in this direction in the future.

## 4. Moving Forward, IFC's Role:

Strong IFC brand recognition with banks but limited brand recognition for IFC Business Edge and SME Toolkit.

How can the IFC increase its impact in the field of non-financial service offerings and expand the market reach of Business Edge and SME Toolkit?

### IFC Brand Recognition Findings



# Remaining Questions and Future Areas of Research



## Better Understanding the Market Trend

- § Big picture: How can IFC better understand this new trend of banks providing non-financial services, differentiated by a) geographic location, b) country income level, and c) bank sophistication level (Tier 1 2/3)?
- § Big picture: How can IFC better understand this new trend of banks providing non-financial services, differentiated by a) geographic location, b) country income level, and c) bank sophistication level (Tier 1 2/3)?
- § Big picture: What are lessons learned? What is the current market benchmark globally in emerging markets?
- § Demand: What are the trigger points for banks deciding to offer non-financial services and products? What is a deeper understanding of bank incentives?
- § Supply: What can IFC further determine about the quality of tools, products, services that are currently being provided? What does it take to successfully provide such services, and what are the greatest challenges?
- § Impact: What impact should banks try to measure?

## Better Understanding IFC's Comparative Advantage and Value Proposition to Banks

- § † @ 7 #
- § How is Business Edge/SME Toolkit a better value proposition for banks, and how can IFC better understand this? @ 7 #
- § and reducing credit risk?
- § Where is the market opportunity for IFC in relation to financial services and product offerings? Who are other relevant international providers?
- § † @ 7 #

---

# Annex

# Case 1: *SME Toolkit* for a Financial Institution



## SME Toolkit : An Ecosystem for SMEs

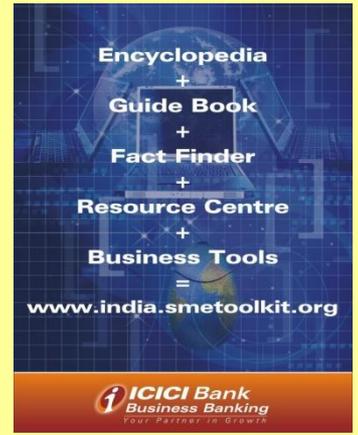
### Objectives

- Provide a complete online resource centre for SMEs and entrepreneurs
- Be a partner in growth for SMEs
- Address key needs of SMEs & fulfilling their beyond banking needs
- Provide an interactive system through which SMEs can share, learn, exchange and grow their business
- Strengthen relationships with SMEs, Trade bodies, vendors and partners
- Collaboration with IFC and IBM



# Case 1 (continued)

- Added thousands of pages of local content on the website with relevance to business India and states within the country
- Using Google analytics to capture user behaviour
- Enabling and capturing user feedback on website and tools
- Using ICICI Bank's existing infrastructure
  - Branch network
  - Sales network
  - Customer network
  - SME group events
- Mass media
  - Advertising in The Economic Times
  - Partnered with NDTV profit as a media partner
- Internet marketing



( ¤ j ' ! | ' ( « « " § ¥ ° ' ¤ š - ' ¤ j " - j Y ' > ± ¥ " Y ' œ® j ' " š a § ' ' š © « a £ ' ¥ ° - ' œ± - ° « © j ® - ' š a Y ' ¥ a Y ± - °

# Case 2: SMS for improving performance of portfolio

## Business Edge for SC (Pakistan)

### The Demand

“SC supports SMEs as its contribution to MDG

“Significant corporate buyin

“Significant corporate buyin



### The Project (FY09)

“ Delivering Management training courses (in Urdu) to 140 SME Stanchart clients in 4 cities of Punjab in order to provide owner managers with skills to grow their business, improve financial management / reporting and increase their customer loyalty.

“Assessing Impact before potential replication in other markets

### Results

“ Improved skills: 69% of clients applied learning and saw improvements in business results

“ Improved financial reporting: preparation of cash flow statements increased from 70% to 89%  
preparation of P&L from 81% to 89%

“Improved credit history: 14% improved their rating with the Credit Information Bureau

“ Improved Customer Care: 60% reported changes in systems to provided customer care

“ SCB is now replicating the project in 4 more countries

# Case 3: Novartis GMS



issues

Business  
solution

Impact

Pharmacies Skills gap (Plan Business, manage stocks, effectively serve the client)

Innovative Training approach for the pharmacy owners, managers and sales staff to improve their Business Planning, General Management, Customer Care & Selling skills

139 participants trained in 7 workshops over 17 days, including 28% women

90% trainee satisfaction rate

increased sales: 281 % ROI measured by Novartis

improved business relationships and loyalty of the distribution chain

"a ripple wave in the Egyptian Market major competitors embarked on similar initiatives

and delivers high-  
Novartis Pharmacists Patient Network

Branch Manager of the Pharmacy Chain.