



POINT OF VIEW

The Future of Business Banking for SMEs

Introduction

While digital banking in the retail space has transformed over the last decade to offer consumers highly personalised, seamless experience, digital banking for SMEs has struggled to make the same progress. Not only is this frustrating from a customer perspective, it also makes it harder for SMEs to access financial products that will be critical to the business.

As the threat of recession looms, many SMEs face intensified pressure to access finance in a fast and convenient way. Unfortunately, we fear that the much-needed digital transformation in banking has still not progressed enough to save thousands of small-mediums sized businesses who may otherwise have survived with some short-term support.

SME's represent a huge market. According to a World Bank report, the world's SMEs have unmet finance needs of approximately \$5.2 trillion a year, roughly 1.5 times the current lending market for such businesses - a vast opportunity. In the UK alone there are approximately 5.5 million small and medium-sized enterprises, but the volume and variability of these businesses has made it difficult to create banking services that meet all their needs.

Much of this comes down to a lack of insight. Banks need to offer personalisation at scale, balancing the specific needs of their customers with the internal costs of measuring, monitoring and the risk of servicing them. To that end, banks have traditionally

provided a wide range of services to meet the needs of particular segments.

The advent of inexpensive cloud hosting, APIs and digital experiences provide new market entrants with the ability to enhance the SME banking experience. A key reason behind the explosion in the use of challenger banks and Fintechs among SMEs is that they have specifically targeted the challenge of customisation and focused on using data and technology to streamline their processes and customer experience.

In a time where it has never been easier to change banks, it's imperative for incumbents to prioritise process optimisation and CX if they want to succeed. As risk within the SME market grows, providers need a better understanding of the businesses they're building products for. One key to this is embracing a new way of approaching KYC (Know Your Customer) - one rooted in fast, comprehensive, and real-time customer lifecycle intelligence strategy.

In this report, we'll examine where current services are falling short, which businesses are excelling, and how banks can leverage Customer Lifecycle Intelligence (CLI) technology to win this valuable prize.

State of the SME Market

SMEs account for 99.9% of the business population, and around half of turnover in the UK private sector, with an estimated combined turnover of 2.3 trillion, according to the Federation of [Small Businesses \(FSB\)](#). However, the SME population is currently declining at a rate of 6.5%.

Despite this SMEs will play an essential role in driving economic recovery – particularly as they account for three-fifths of employment. Whilst supporting SMEs to survive and thrive presents a significant opportunity for financial service providers, technical and legislative limitations have so far prevented any one provider from creating a single standout offering.

The origins of traditional SME banking

While SMEs have much in common, their specific banking needs vary greatly according to industry, capitalisation, lifecycle stage and business model. It is this complexity that has led most banks to take a pragmatic approach to service offering based on grouped needs.

SMEs also present greater risk than larger businesses due to limited capital and security. To mitigate this, banks must follow rigid credit scoring models and processes which make it slower to open accounts or lend, particularly when it comes to new entrepreneurs.

Banks are also limited by the technology available, which impacts their speed and efficiency and raises the cost to serve small businesses. The chief reason for this is a lack of investment in new tools. As a Forrester executive once correctly put it:

“Small and mid-sized business clients account for more than half of the revenue we see compared to retail customers, yet we only budget about 10% of our digital spend for anything having to do with digital services for our business customers.”

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Estimated combined turnover according to the Federation of Small Businesses (FSB).

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The SME population is currently declining at a rate of 6.5%

Market Trends in SME Banking

Historically, large banks were the only institutions able to offer the core services for SMEs at scale. However, technology has allowed new challengers to take individual service from banks and scale them digitally.

Generalisation or specialisation

A core example is external finance – a key need for cash-strapped businesses. A bank would once have been the default choice for SMEs thanks to a combination of brand equity, strong balance book and domain expertise. But in recent years, more specific services have sprung up to offer a range of ways for businesses to raise finance, including fast-growing Fintechs.

still falls short of where they should be for today's small businesses. Challengers, like Tide, are agile and have built a digital-first proposition, meaning we can quickly iterate, innovate, and adapt to our members' needs, continually moving our product offering forward. The bigger, traditional, banks don't have the infrastructure to allow them to be this nimble and therefore it will take them much longer to offer the same level of user experience."

Challenger banks are now explicitly targeting SME customers from incumbents. Laurence Krieger, Tide UK CEO explains:

"UK SMEs have been underserved by the traditional banks for decades, with the services offered being a combination of consumer and corporate products that are not fit for the unique and diverse needs of SMEs. While in recent years the bigger banks have worked to bring in services that look and feel like those offered by the challengers, competition

The Global FinTech Adoption Index cited that the **FinTech adoption rate now exceeds two-thirds (64%)**. Expansion logged in Q1. Growth was unchanged at 2.3%.

The new face of banking

Banks are now realising they need to change their approach, especially when it comes to [controlling the end-to-end Customer Lifecycle Intelligence journey](#).

Whereas earlier decentralised service models might lead to customers working with separate community, commercial, personal or wealth divisions for personal and business, these new approaches prioritise sharing of insights and holistic service delivered through technology.

[Digital onboarding](#), for example, is no longer a box-ticking exercise. Developments in KYC mean we must now see it as a living, breathing part of an all-digital approach. Where it was once one part of a wider KYC strategy, it now stands out on its own as something that needs to be maintained throughout onboarding and beyond.



Adapting in practice

94% Faster Onboarding

Find out how the likes of [Santander](#) and [Metro Bank](#) have achieved up to 94% faster onboarding and reduced onboarding times from two to three weeks days down to just 5 days.



What do SMEs want from financial services?

The chief challenge of SME banking is that needs can vary greatly by lifecycle stage, industry, and size. Most incumbent banks make decisions about SME services at the portfolio level, grouping similar customers to balance risk and efficiency. This means that decisions are based on broad criteria and not personalised to the business.

The power of customer intelligence

The core limitation behind this approach is lack of customer insight. Risk is a complex calculation for banks, based on a wide range of data points, many of which are either acquired from the customer themselves, or from research by internal analysts. A balance must be found between what the bank needs to know and what they can practically ask from a customer or afford to discover themselves.

Because of this approach, it's expensive to personalise offers for small businesses because the necessary information is gathered manually. Incumbents end up focusing on providing a range of services to fit a range of SMEs, rather than using data to offer the precise services a business needs.

The SME onboarding journey

Intelligence gathering is traditionally front-loaded into the onboarding process, a key time for winning or losing a customer. Recent research shows that 76% of businesses have abandoned an onboarding process because the process "is too complicated".

In an interview with FullCirc, an nCino Company, a senior financial crime expert explained that the traditional onboarding process for banks would usually involve answering between 80 and 120 questions. While many of these questions are essential for compliance, 85% of businesses have had a bad experience of KYC processes.



The biggest challenges for us are getting quite a lot of information from customers in the most efficient and user-friendly way. It's a long onboarding journey, we need to comply with a lot of regulations.

Joseph Connolly,
Product Manager, Mettle

Customer knowledge creates lifetime value

Small business owners need their bank to provide targeted solutions based on their business needs, but their needs change over their lifetime. While business needs start relatively simple, greater scale creates needs beyond the expertise of the entrepreneur.

With increasing complexity in their needs, more businesses look for external advice to support their growth. However, rather than looking to their bank for support, larger businesses are more likely to choose an external financial specialist.

This points to revenue that could be accrued by banks but is lost due to a lack of the right customer intelligence and up-to-date knowledge.

The top barriers include:

- › **Money and time wasted on false positives**
- › **Undetected risks due to poor data**
- › **Lack of detail of alerts leads to inefficiencies**
- › **Poor record keeping**
- › **Lack of configurability**

Source: FinExtra



The modern banking ecosystem: data & technology

In the modern financial services market, a bank's brand is now less important than the insight and experiences they leverage. We see three key areas of focus areas for future success:

- Responding to customers expecting more
- Competition from challengers
- Spiralling regulation & cost to serve

In the age of customer experience, CLI is now the chief currency for delivering a standout service. The stark truth is most banks are not currently equipped to deliver a service of this kind, in fact, many still have a lot of legacy technology (often outdated upwards of 25-50 years old).

According to a recent [article from Deloitte](#) many banks are still reluctant to upgrade their core platforms and apps. One reason is the central position those systems occupy in the overall banking architecture, which makes it likely that any changes to a bank's core platforms and apps will have a widespread impact throughout the bank's channels and operations.

The modular financial services market

Fintechs entering the financial services market have developed innovative service models that reduce operating costs, increase revenue and margins.

The offerings of these challengers include traditional banking products as well as other business services, such as invoice management, payroll support, tax preparation, and inventory management.

[McKinsey & Co](#) have reported that business owners see ecosystems as a way for them to save time on administration tasks so they can devote more time to their core business activities.

Some challenger banks have made ecosystem integration a key feature. Following the example of API-enabled cloud accounting software such as Xero, banks like Tide provide and connect financial data to 3rd-party apps across financing, HR, payroll, and business reporting.

In this scenario, the bank becomes the common factor in the financial ecosystem, rather than an ecosystem in its own right.



Banks typically think of how they can manage the value chain front to back themselves. In the new world banks will need to allow partners to operate within their value chains. This is a fundamental change for banks....I see partnership and partnership agreements as fundamental to the future of banking.

Mike Kennell,

Open Banking & Digital
Transformation at PwC



What does ecosystem success look like?

There is strong evidence that ecosystems will be an enduring part of the financial landscape. The technology industry has already embraced them with leaders such as Microsoft AppSource, AWS Marketplace and Salesforce App Exchange generating huge value.

Large financial services companies are joining forces with technology companies to combine the information the latter holds on businesses and individuals with their own financial expertise.

This points to a new route forward for banks: leveraging their size, scale, and profitability to augment the technology and data of their digital competitors.

McKinsey suggests three approaches:

Participate: Banks can provide financial services to at-scale competitors that are building ecosystems from bases in other industries.

Orchestrate: Banks can also become the primary integrators of partnerships and thus reduce the scale of investment and complexity of execution.

Build: Banks can build new businesses within and across ecosystems. While the routes chosen will depend on the available capital, technology and partnerships, there remains a core need for a hub for SMEs that can unite their financial experiences, building materials, online purchases and especially automobiles.

The path forward

The future success of incumbent banks will depend on their ability to make better use of data and technology to improve the customer experience. The current model suggests three main challenges for banks going forwards:

- Customers expecting more
- Competition from challengers
- Spiralling regulation & cost to serve

A wave of Fintech ecosystems is making it possible for SMEs to access a wider range of financial products that are cheaper and more tailored to their requirements. This unbundling of financial services means smaller businesses can now turn to a growing number of providers that can offer them the same seamless digital experience we expect as consumers. And they are doing so more and more.

From the customer's perspective, there will be an expectation that financial services providers are available whenever they need them and in the way that they need them. This will require greater investment in automation and easy-to-use digital platforms.

Legislation like Open Banking will force banks to be more open and transparent with their customer data. SMEs are increasingly willing to share their data in return for a better range of offers, with 89 per cent of small businesses happy to share their banking data. Banks will need to find a way to turn this to their advantage.

This leads to the evolution of the banking business model. While challenger banks have made connectivity a feature of their model from the beginning, incumbents will need to catch up. As ecosystem partners continue to focus on developing best-in-class solutions in an ecosystem, banks can choose to compete directly across multiple service lines or give customers more convenience by connecting the services they need.

Whatever route banks take, their key asset will always be CLI. Whether connecting apps or running their own ecosystem, banks need to be able to bring key information sources together to understand the complete financial health of their customers.

- Investment in Open APIs to guarantee the efficient flow of data between platforms and customers.
- Widespread implementation of automated straight-through processing to improve speed and accuracy across KYC checks and onboarding, enabling customers to engage with a bank instantly while balancing risk.
- Reliable data partnerships to expedite data gathering for decisions and track customer lifecycles across ecosystems.
- In all scenarios, the customer must remain at the heart of the value-delivery process. By leveraging the right insights and technology, banks can be the focal point for new financial service providers.

With **89 per cent of small businesses** happy to share their banking data. Banks will need to find a way to turn this to their advantage.

About FullCircel an nCino Company

FullCircel an nCino company is a Customer Lifecycle Intelligence (CLI) platform that helps B2B companies in financially regulated industries do better business, faster. Its solutions allow front and middle office teams to win the right customers, accelerate onboarding and keep them for life. Best-in-class data enrichment provides a comprehensive customer view and a powerful, low-code rules engine reduces the regulatory burden and drives greater automation. Through its web application and API, FullCircel drastically reduces the cost to acquire and serve the right business customers.

In November 2024, FullCircel was acquired by nCino, enhancing its ability to streamline client onboarding and lifecycle management for financial institutions. The acquisition expands FullCircel's presence in Europe, enabling the combined company to deliver even more innovative solutions in client acquisition, data automation, and compliance for financial institutions globally"

Today, it serves more than 600 customers and 15,000 users.

nCino (NASDAQ: NCNO) is redefining banking excellence through an intelligent platform. The Company was founded to help financial institutions digitize and reengineer business processes to boost efficiencies and create better banking experiences. With over 1,800 customers worldwide - including community banks, credit unions, independent mortgage banks, and the largest financial entities globally - nCino has developed a trusted platform of best-in-class solutions. By integrating artificial intelligence and actionable insights into the platform, nCino helps consolidate legacy systems to enhance strategic decision-making, improve risk management, and elevate customer satisfaction by cohesively bringing together people and data.