Allow me to shortly introduce myself ...

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@ Deloitte we annually produce a number of Global “flagship Eminence Publications” geared at our clients to help them better understand the implications of Digital Transformation...

Global Technology Trends

Digital DNA/MIT Sloan

Global CIO Survey

Outsourcing Survey

Deloitte Insights

Tech Trends 2019

Beyond the digital frontier

2017 Digital DNA/Digital Disruption

Digital DNA, Digital Disruption & Digital DNA

Deloitte Insights

Accelerating Digital Innovation Inside and Out

Deloitte Insights

Manifesting legacy: Looking beyond the digital era

Deloitte Insights

Digital Technology Operating Models

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True to our Corporate Beliefs and Mission, we want to make an *Impact that Matters* ...
Today I shall be presenting a summary of our recent global research on the Future of Micro & Small Enterprise Banking and on Digital DNA.
The Global Importance of Micro & small Enterprise Banking is huge ...

- Constitute the **vast majority of businesses** (by count) in most jurisdictions

- Are a leading source of **employment** across geographies

- Are vital contributors to **value-added growth** (i.e., gross value added) in many leading economies
The Global Importance of Micro & small Enterprise Banking is huge ...

98.5% of businesses globally

49.6% of global employment

38.8% of contribution to the global economy (GVA)

Note: Depicted segments are denoted as Micro & Small: 1-49 employees, Medium: 50-249 employees, Large: 250+ employees. Definition of Micro & Small Enterprise by employee size may differ by geography.
Source: OECD Data (most recent available year, typically 2015-2016), Deloitte analysis
Rewire your DNA

Why some Incumbent Banks have found it challenging to service SME Customers ...
Rewire your DNA
Current State of Micro & Small Enterprise Banking

Micro & Small Enterprises have traditionally been underserved ...

Limited Adoption of Offerings
Unclear Customer Ownership
Slower Pace of Technology Investment
Antiquated Technology Platforms

... Leading to several Critical Implications for Incumbent Banks

Micro @ Small Enterprise Customers are increasingly served by New (Real Sector) Entrants

Micro @ Small Enterprise Customers are often redirected to different units within the Bank

Incumbent Banks are modernising their Technology Core

Banks are Looking to build distinct Product Platforms
Digital Bank versus Financial Platform-as-a-Service (FPAAS)
## Sophistication of Micro & Small Enterprise Banking by market

<table>
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<th>Low Sophistication Markets</th>
<th>Medium Sophistication Markets</th>
<th>High Sophistication Markets</th>
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<td>Growth of Innovators</td>
<td>substantial Growth of Innovators</td>
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<td>Limited set of Customers</td>
<td>including incumbent Edge Plays</td>
<td>including incumbent Edge Plays</td>
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<td>Rapid Modernisation of Payments</td>
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<td>Antiquated Data Sharing methods</td>
<td>Infrastructure Increasing Trend towards</td>
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<td>(such as screen scraping)</td>
<td>Increasing Open Data</td>
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<td>widely used</td>
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Identifying Moments that really Matter ...

**Growth**
- Starting a business
- Registering a business
- Finding a banking provider
- Hiring people
- Figuring out how to make and receive payments
- Making a large purchase
- Seeking advice to grow a business

**Stability**
- Understanding the business' finances
- Managing payroll and cash flow
- Saving capital
- Giving credit to suppliers
- Troubleshooting issues

**Hardship**
- Operating during a slow sales period
- Managing against high expenses
- Taking out a loan for survival
- Looking for support from friends and family
Our report identified 6 FORCES that are changing the SME Banking Landscape, leading to a fundamental Shifts in Composition, Competitiveness and Opportunities.

- Evolving Needs of Micro and Small Businesses
- Emerging Payment Platforms
- Democratization of Data Access
- Increased Pressures from New Entrants
- Displacement of Banks in the Value Chain
- Changing Scope and Role of Regulators
Force 1: Evolving Needs of Micro and Small Businesses

Digital transformation is further reducing barriers to scale
The development of e-commerce has led to born-global Micro & Small Enterprises:
• Data from 22 countries shows that 97% of eBay-enabled small firms export outside of their home nation

Global reach demands more complex banking products. However, barriers still exist:
• According to the World Trade Organization, more than 50% of requests made by Micro & Small Enterprises for trade finance needs are rejected, compared to only 7% for multinational corporations
Force 2: Emerging Payment Platforms

Digital payment solutions are revolutionising Micro & Small Enterprises:

- Deloitte’s India ACCEPT Program has resulted in onboarding 24 K Micro & Small merchants onto a digital payments solution, leading to a 30% uplift in ticket size.

Global payment solutions are displacing traditional payments and aim for ubiquity:

- Swish, a retail payment service in Sweden, added a merchant payment option in 2017 and reached 14 million transactions in its first year.
- TransferWise offers a low-cost FX alternative to cross-border payments and moves over £2 billion per month globally.
Force 4: Increased Pressures from New Entrants

Emergence of Third Party Financial Interfaces
Shifts towards Platform-led and B2B2C Business Models
Entrance of Retail Innovators in the Micro & Small Enterprise Banking space

Platform business models
Several innovative players are creating or enabling platform models, putting pressure on the ownership of Micro & Small Enterprise customer relationships:

- **Xero** is a small business accounting platform that integrates third party applications (e.g., CRM, e-commerce) to offer a greater breadth of services to users
- **Bud** is a technology platform that allows banks to **integrate a marketplace capability** into their existing channels and propositions
Rewire your DNA

Non-traditional players are already diverting revenue from banks:

Monoline Disruptors & Non Traditional Players are capsizing Financial Services

The Emergence of closed-loop Digital Ecosystems is displacing Banks

Increased Integration of non-financial Offerings

- **Amazon Lending** and **Square Capital** have together originated nearly US $7B in trade finance loans to merchants
- **PayPal** provided over US $1B in funding in Q3 of 2018, at an approval rate of almost double the big banks
- **WeChat** and **Alibaba** processed an estimated US $10T in payments in China
- Other ecosystem players continue to expand their offerings (e.g., **Yu’e’bao’ wealth products**, **Swapsy** digital wallet forex)
- **Standard Chartered** is providing its customers with supply chain insights through a partnership with Linklogis
Here’s a typical Example of a Real Sector New Entrant: a South African Telco Operator

- **Ambition**: Platform business connecting Producers with Consumers. Virtual marketplace underpinned by a Loyalty Programme & including provisioning Financial Services.

- **Solution**: 8 weeks project providing SME assistance. Deloitte’s best practices, frameworks, accelerators and methodologies helped solidify the platform business concept, plan, scope and delivery through a series of “shark tanks”

- **Delivered** (within 8 weeks):
  - The platform business strategy
  - High-level digital customer needs research
  - Digital operating model
  - Investment case
  - Technology architecture
  - Implementation roadmap
Digital Disruption is all over the place. What Responses does our Research unveil?
Table Stakes for Micro & Small Enterprise Banking

**Straight-Through Lending**
a Fully Digital Credit Application Process

**Intelligent Segmentation**
Deep SME client understanding that drives Unique Customer Propositions

**Frictionless Payments**
delivering robust Payment Functions that makes Money Movement Intuitive

**Intuitive Access & Navigation**
an intuitive Self-Service Platform designed with Customer Usability in mind

**Quick & Seamless Onboarding**
a fully Digital Onboarding Experience

**Integrated Management Tools**
Integration of ancillary services with current banking products to address additional budgeting / accounting needs
Typical Archetype of a Segment-Focused Challenger

Digitally-enabled challenger bank launched by an incumbent that serves a specific segment of the market with targeted products.

Designed around the customer, it provides tailored interactions based on needs, along with an option to engage a dedicated RM for service.
Typical Archetype of a LifeCycle Platform Bank

Greenfield Real Sector Banking Operator that takes an ecosystem and digital-first approach to serving customers based on their lifecycle stage.

Provides subject matter expertise as needed to address customer service inquiries, and an agile internal structure to quickly offer new products.

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<th>Illustrative Choices</th>
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<td>Human-led</td>
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<td><strong>Offering Portfolio</strong></td>
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<td>Full-Service</td>
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<td><strong>Customer Relationship &amp; Service Design</strong></td>
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<td>Decentralised Ownership</td>
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<td>Closed Loop Mfg./Dist.</td>
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<td><strong>Organizational Design</strong></td>
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<td><strong>Capability &amp; Infrastructure Modernisation</strong></td>
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<td>Top-up Core Capabilities</td>
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<td><strong>Capability &amp; Infrastructure Development</strong></td>
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<td>Internal Capability Development</td>
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So tell me, what strikes you as odd about this video ...
Something I am sure most of you recognise from your Private Lives ...
It is not by accident that a lot of our clients are considering/entering the “Platform Play” ...
Here's what our Deloitte colleague William Ribaudo had to say about his Research ...
Let that sink in for a moment: “The Value that Wall Street is willing to pay ranges from 8 to 15 times your Revenue ...”
From wholesale to crowd sourced supply chain services

LI&FUNG – a mobilisation platform where all participants learn faster than they could ever do on their own based on a very strong platform governance.

- They operate a network/platform with over 20,000 suppliers that are dynamically configured into supply chains;
- All winning strategies during RFP stage have to be shared amongst competitors;
- Li&Fung guarantees minimum 30% wins and maximum 70% wins (no zero-sum game);
- During delivery all performances are rated by the participants using gamification as a measurement for best fit.
A recent Study of more than 250 Platforms reveals however Why Most Fail
Harvard Business Review May 29 2019

• Mis-pricing on one side of the market
• Failure to develop trust with users and partners
• Prematurely dismissing the competition
• Entering too late
It should therefore come as no surprise that the latest entrants have a vested interest to offer Platforms that are much faster at gaining Market Share than their Predecessors...
Meanwhile a lot of Incumbent Banks are not sitting around waiting for What's to come ...
Here’s how most move from Strategic Choices to MVP Launch ...
Whatever route you use, you need to build & preserve your own “Digital DNA” ...?
What Digital DNA Archetypes did we find based on 13 DNA characteristics?

- Strategy-led
- Talent-driven
- Long-term thinker
- Collaborative
- Innovative
- Investor
- Digital leader
- Digitally mature
- Empowered
- People development
- Leadership-driven
- Agile
- Experimentation and Risk taking
Characteristics of Laggards

- Long Term Thinker
- Digital leader
- Empowered
- Innovative
- Collaborative
- Talent Driven
- Agile
- Digitally Mature
- Strategy Led
- People Development
- Investor
- Experimentation + Risk Taking
- Leadership-Driven
Characteristics of Chasers

- Investor
- Strategy-led
- Empowered
- Innovative
- Long-term thinker
- Digital Leader
- Digitally mature
- Agile
- Leadership driven
- People development
- Talent-driven
- Experimentation and risk taking

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Characteristics of Fast Moving Experimenters

- Experimentation and risk taking: 28%
- Agile: 12%
- Leadership-driven: 11%
- Empowered: 10%
- Collaborative: 8%
- Innovative: 7%
- Strategy-led: 5%
- People Development: 4%
- Investor: 4%
- Digitally mature: 4%
- Digital leader: 4%
- Talent-driven: -4%
- Long-term thinker: -5%
Characteristics of Talent & Strategy Leaders

- Talent-driven: 36%
- People development: 32%
- Leadership-driven: 26%
- Digitally mature: 23%
- Collaborative: 22%
- Strategy-led: 21%
- Experimentation and risk taking: 21%
- Agile: 20%
- Long-term thinker: 14%
- Digital leader: 14%
- Innovative: 12%
- Investor: 9%
- Empowered: 8%
All this talk about “Digital” is just a waste if you cannot make your IT as Business Relevant that it \textit{delivers} to your SME Client at that one “Moment that really Matters” ...
Thank you for your attention and enjoy the rest of your conference

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