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Partners for Financial Stability
2010 – 2013

Getting SME Banking Right

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A Quick Review

Selective SME Banking Best Practices

- A **Business Proposition** First and Foremost (versus Social Responsibility)
- Business Philosophy:
A **Focus on the Enterprise** as Client to Maximize Revenues, Minimize Risk
- **Commitment** at the Very Highest Levels:
SME Banking a Top Strategic Priority



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SME Banking Best Practices

- Specialized SME Units
- SME Culture
- SME Client Relationship Management
- SME Credit Risk Management
- SME Products and Services
- Automated Processing/IT Based MIS



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Plus Don't Forget

- Leading Banks Reported ROA of 3% to 6% for SME Operations (versus bank wide ROA of 1% to 3%)
- 60% of SME Revenue from Non-lending Products
- SME Portfolio Quality has held up Better than Other Customer Segments (even through Economic Crises)

Source: IFC Global Study on SME Banking, 2010



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Example of Successful Implementation in one Commercial Bank in Croatia

- New innovative lending methodologies included the following:
 - a) Undertaking loan analysis that focuses on prospective clients ability to pay (cash flow), with less emphasis on collateral
 - b) Giving loan officers incentives for maintaining high-quality portfolios



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Commercial Bank in Croatia...

- c) Introducing advanced decision-making and control mechanisms supported by MIS and IT to help manage and administer the loan portfolio
- d) Providing larger loan amounts and longer terms for well-performing borrowers

The Bank Substantially Improved a Formerly Sub-Optimal SME Lending Department



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Some DCA and Credit Facility Constraints

- a) New client requirements
- b) Complex reporting requirements
- c) Sector focus



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Conclusion

SME Banking is an “Industry in Transition”

It Used to Be Considered a Market too Difficult to Serve

It is Now a *Strategic Imperative* for Banks Worldwide

Local and Multinational Banks Both