

IBM Study: Divergent Views Among Small to Medium Sized Business Leaders and the Banks that Serve Them Uncover a White Space for Nimble Financial Institutions to Compete in this Varied Market Segment



ARMONK, N.Y., Sept. 18, 2024 /PRNewswire/ -- New findings from IBM's (NYSE:IBM) Institute for Business Value and the Banking Industry Architecture Network (BIAN), with contributions from the SME Finance Forum managed by the International Finance Corporation (IFC), revealed that despite the significant role small to medium-sized enterprise (SME) plays in the global economy, banks may be missing an opportunity to foster growth in this market due to their focus on reducing risks, meeting regulatory requirements, and the substantial costs of serving this highly diverse client segment.

The [Banking for Small and Medium Enterprises: Serving the World Economy with Data and AI](#) report shares insights and analysis resulting from a global survey of SME business owners and managers with 50 or more employees, senior banking executives and fintech leaders.

Small to medium sized enterprises represent 90% of all businesses, 70% of the workforce, and 50% of gross domestic product (GDP) worldwide¹. Given this market segment's role in the global economy, the opportunity for banks and other financial institutions to have a positive impact is significant. Yet banks and SME business leaders diverge in their views on prioritization of services signaling a largely untapped opportunity for nimble financial institutions to exploit.

"The disconnect between what small and midsized business leaders say they need in order to grow and the services most banks currently offer to this customer segment is profound," said Shanker Ramamurthy, Global Managing Partner Banking & Financial Markets, IBM Consulting. "The good news is that emerging technologies such as [generative AI](#), in combination with automation and a robust data strategy, puts the potential for financial institutions to play a much more impactful role in the growth of this important client segment well within reach."

The ability to build, integrate and scale a technology environment flexible enough to meet the needs of a dynamic marketplace is paramount.

"While banks around the world increasingly rely on the cost effectiveness of cloud for their high-volume transactions, they retain their core functions and most sensitive data on premises," said John Duigenan, General Manager Global Financial Services Industry, IBM Technology. "A robust [hybrid cloud](#) strategy allows institutions to fully leverage the power of generative AI for

informed insights into the behaviors of customers and their anticipated needs while ensuring the highest levels of privacy, security and resilience."

To better meet the needs of clients in all business domains, it is critical for financial services organizations to adopt a technology development methodology that enables organization-wide acceleration.

"As financial institutions grapple with how to best serve their various client segments, it's clear that a rational, standardized approach to technology architecture lays the groundwork for substantial efficiencies and future innovation," said Steve Van Wyk, Chairman, Banking Industry Architecture Network. "By adopting proven industry standards, banks lay the essential groundwork to improve their competitiveness."

Key Findings

- Less than 6% of bank executives surveyed graded the quality of their institutions SME banking services with an "A". Nearly half (47%) gave themselves a "C".
- SMEs expected an understanding of their unique business needs, tailored solutions and networking opportunities while banks prioritized apps, dedicated relationship managers and branch proximity.
- SMEs cited help with compliance and legal requirements and sustainability decisions and reporting as their two top needs while banks are prioritizing assistance with fraud monitoring in transactions and insurance for unforeseen events.
- Bank executives surveyed largely recognized the value of technology architecture standards with 64% citing the ability to build faster, 64% noting a reduction in development and maintenance costs, and 60% prizing the ability to integrate faster.

Recommendations

- Financial institutions should explore investments in ecosystem platforms and partners that will allow them to play a valuable role in creating opportunities for their SME clients to grow through digital innovation.
- An enterprise-wide approach to scaling emerging technologies, versus tactical applications, is the best practice strategy for optimizing the benefits of generative AI, automation and data and ensures that the advantages extend to all business lines and customer segments.
- Banks should embrace emerging technologies, such as generative AI and automation, to achieve greater efficiencies in compliance, risk and operations and redirect resources to enhance their SME client offerings.

For the full report, visit www.ibm.com/thought-leadership/institute-business-value/en-us/report/small-medium-enterprises-banking.

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Methodology

The IBM Institute for Business Value surveyed more than 1,000 SME owners and managers with 50 or more employees equally distributed across nine countries to explore their banking needs and how they are adapting to the progressive availability of digital services. Nearly 700 banking executives across 25 countries were surveyed to understand how their institutions are competing in SME banking. Additionally, one-on-one interviews were conducted with executives from financial institutions and fintechs to gain further insights. Data collection for the study occurred June through August 2024.

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¹Financial Institutions Group (FIG) MSMEs. International Finance Corporation (IFC).

<https://www.ifc.org/content/dam/ifc/doc/2024/msme-s-factsheet-ifc-financial-institutions-group.pdf>

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