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ASIAN BANKING & FINANCE

BRIDGING THE GAP:

A SURVEY ON ALTERNATIVE FINANCING

In partnership with:



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Executive Summary

Fintech solutions have become increasingly popular amongst SMEs as a viable alternative for obtaining external financing and improving business performance. Both banks and SMEs recognise the immense opportunities that fintech solutions bring to the table.

For SMEs, adopting fintech solutions is vital for their success, as these technologies not only offer streamlined processes for accessing financing but also revolutionize various aspects of the financial industry. Fintech platforms leverage innovative technologies such as AI and big data analytics to swiftly assess creditworthiness and meet a diverse range of financial needs, enabling SMEs to obtain financing quickly and efficiently while supporting their growth and adaptability in ever-changing market conditions.

This study, based on the survey of banks and SMEs on alternative financing options, finds that:

Banks' sentiments on fintech solutions:

- The banking industry is witnessing a growing acknowledgement of the importance of fintech solutions, with nearly half of the banks entering partnerships with fintech providers.
- Only a small percentage (13%) have sought fintech solutions specifically for treasury management, primarily focusing on digitalising the banks' processes and services. Banks have also expressed interest in exploring collaborations in financial planning, remittance services, and foreign exchange management.
- These partnerships reflect the industry's recognition of the potential benefits of technology-driven innovations whilst highlighting the ongoing shift towards digital transformation and the quest for enhanced efficiency, customer experience, and cost savings in the banking sector.

SMEs on alternative financing options:

- SMEs have demonstrated a notable inclination towards partnering with fintech solutions, as evidenced by a strong interest rate at 54%.
- These small and medium-sized enterprises seek collaborations with banks primarily for global payment solutions, remittance services, and account openings whilst expressing interest in fintech solutions for credit lines, account management, mobile banking/wallet services, business loans, and global payment solutions.
- Partnerships with banks have yielded positive outcomes for SMEs, enhancing customer experience, operational efficiency, account management, and foreign exchange management. Fintech partnerships also benefit SMEs; however, there is room for further improvement to fully meet the diverse needs of these businesses.
- SMEs stated their reasons for looking into alternative financing was due to banks' traditional approach, slow processes including strict regulations and compliance, and expensive partnership.

Fintech solutions have become a vital alternative for SMEs to obtain financing and enhance their business performance. Banks and fintech solutions must overcome the challenges and barriers that hinder their adoption and collaboration and foster a mutually beneficial ecosystem to support the sustainable growth of SMEs in Asia.

Introduction

Small and Medium Enterprises (SMEs) are crucial for the Asian economy, yet they often face difficulties in obtaining external financing due to challenges in accessing credit from traditional banks. In response, SMEs are exploring alternative options. Fintech encompasses a wide range of technological innovations that revolutionize various aspects of the financial industry, offering efficient solutions across payments, lending, investment, regulatory compliance, and more. Fintech solutions emerged as a popular choice for SMEs during the COVID-19 pandemic, addressing the challenges of disrupted operations, financial instability, and reduced access to traditional banking services. These fintech solutions provided innovative technologies, streamlining and digitizing the financing processes, thereby eliminating the complexities associated with traditional bank loans. This facilitated quick and efficient access to funds for SMEs, enabling them to sustain their operations, adapt to changing market conditions, and seize new business opportunities

Banks must take note of this trend and explore different partnerships and technologies to regain their market share of SMEs. This can include collaborations with infrastructure providers or investing in their technology to offer SMEs better banking and finance solutions. By embracing fintech solutions, banks can bridge the gap in accessing external financing for SMEs, providing them with the necessary support and resources to navigate the challenges brought about by the pandemic. These partnerships enable banks to leverage the innovative technologies offered by fintech firms, empowering SMEs with streamlined processes, improved access to funding, and enhanced financial services. Through these collaborations, banks can regain their competitive edge and play a vital role in supporting the growth and resilience of SMEs in the Asian economy.

This report intends to identify the sentiments of both banks and SMEs on alternative rails. It also explores the partnerships and collaborations banks and SMEs have pursued in the past five years and understands the gaps and challenges SMEs face in getting external financing.

From April to June 2023, *Asian Banking & Finance* surveyed banks and SME executives to understand their organisation's partnerships. Amongst the 28 respondents, 54 % were from banks, and 46% were from SMEs (Figure 1). Most of the respondents were from the Philippines (44%), followed by Australia, India and Pakistan, which contributed 11% of each of the respondents (Figure 2).

Figure 1. Breakdown of respondents

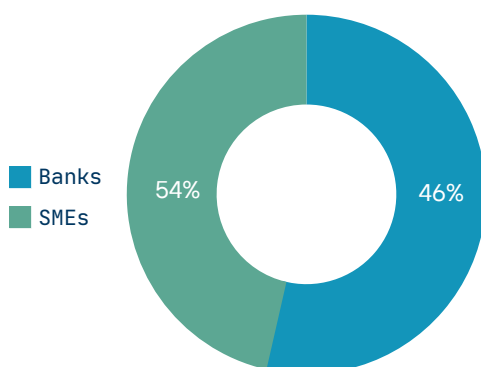
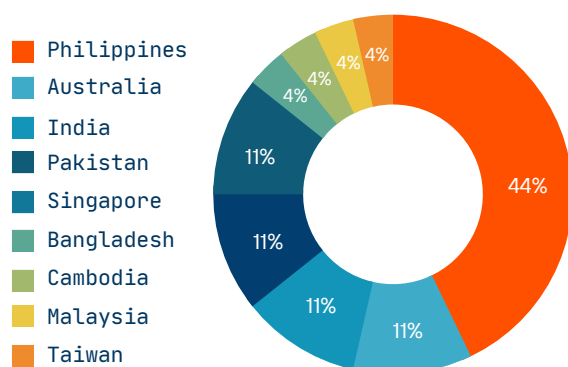
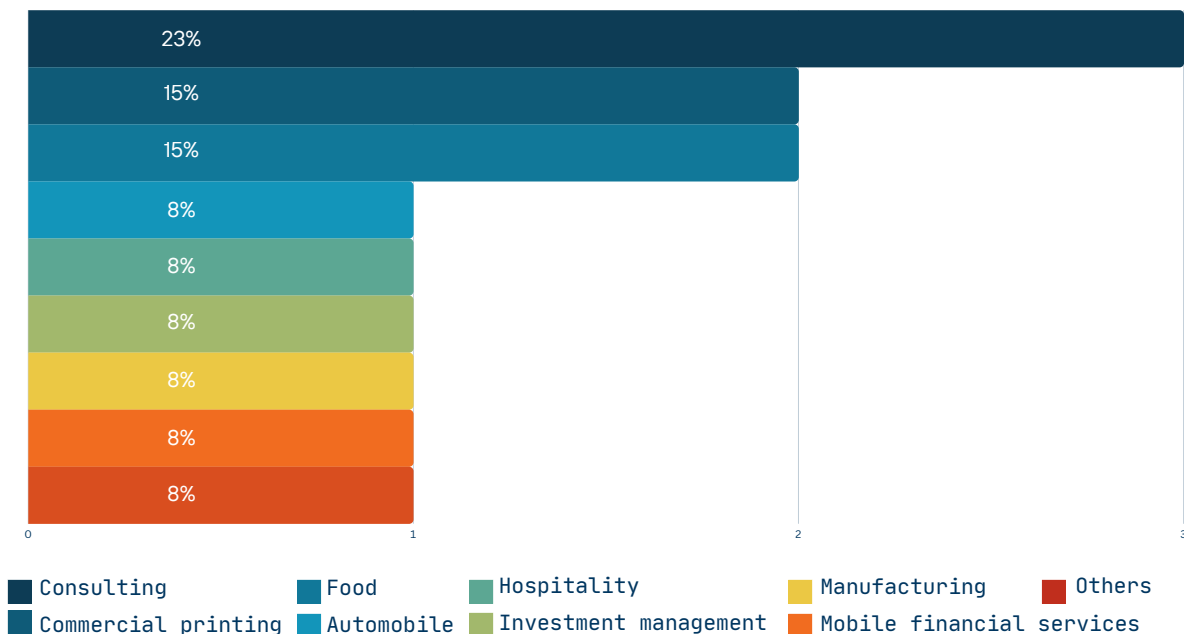


Figure 2. Breakdown of respondents



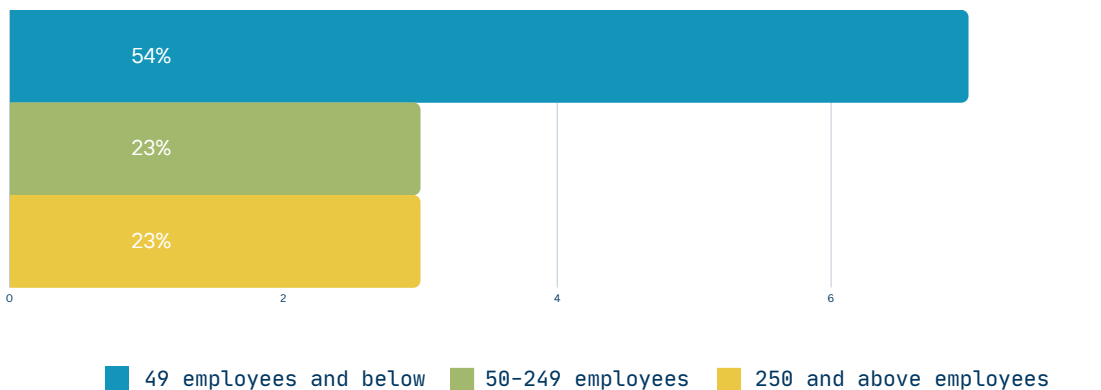
The survey included participants from diverse industries, reflecting the broad spectrum of small and medium enterprises (SMEs) involved. These industries encompassed various sectors, including consulting (23%), commercial printing (15%), food industry (15%), automobile (8%), hospitality (8%), investment management (8%), manufacturing (8%), mobile financial services (8%), and solutions (8%) (Figure 3). The participation of SMEs from these industries provides valuable insights into the challenges and opportunities they face in accessing external financing and the potential benefits that can be derived from fintech collaborations.

Figure 3. Breakdown of SMEs industry



In addition to the industries, the survey also captured the size of SMEs participating (Figure 4). The majority of the SME respondents (54%) were micro or small enterprises, with 49 employees or fewer. The remaining respondents were evenly split between medium-sized enterprises (23%), with 50 to 249 employees, and large enterprises (23%), with 250 or more employees. This indicates the significant presence and impact of small and micro-enterprises in the business landscape. It also emphasises the relevance of alternative financing options for both small and medium-sized enterprises, regardless of their workforce size.

Figure 4. Company Size of SMEs

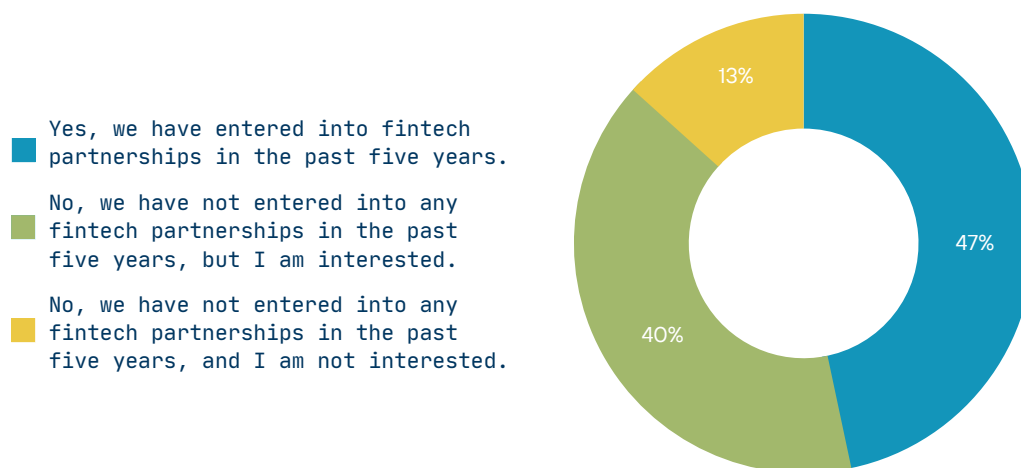


Banks' sentiments on fintech solutions

The research revealed that a significant portion of the banks surveyed have already embraced fintech solutions or formed partnerships with a fintech companies. Specifically, 47% of the banks stated that they have engaged or entered into a partnership with fintech (Figure 5). This demonstrates a growing recognition and adoption of fintech solutions within the banking industry.

Figure 5. Bank partnerships with fintech solutions

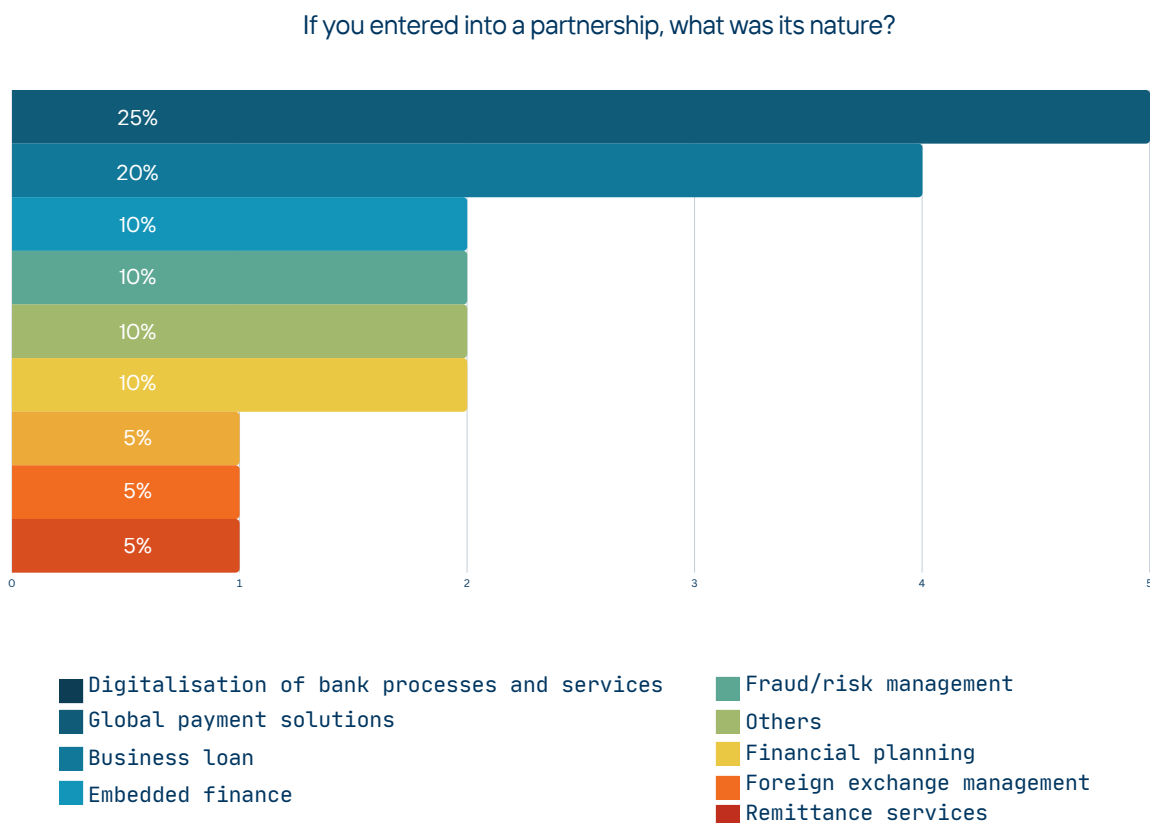
Has your company sought partnerships with banks in the past five years?



Furthermore, it also indicates that there is considerable interest among banks that have not yet partnered with fintech solutions. 75% of the banks that have not entered into such partnerships expressed their interest in doing so in the future. This finding highlights the evolving mindset within the banking sector, with a majority of banks acknowledging the potential benefits and value that fintech solutions can bring to their operations and services.

Banks have diverse motivations for partnering with fintech solutions (Figure 6). The most commonly cited reason is to digitalise their bank processes and services (25%). This reflects the industry's recognition of the need to embrace technological advancements and streamline their operations to improve efficiency and customer experience. This is followed by global payment solutions (20%), business loans (10%), embedded finance (10%), and fraud risk management (10%). A few answered that they partnered with fintech solutions for financial planning (5%), foreign exchange management (5%), and remittance services (5%), reflecting the industry's recognition of the potential benefits that fintech collaborations can bring in enhancing their services and addressing the evolving needs of their customers.

Figure 6. Nature of partnerships of Banks with fintech solutions



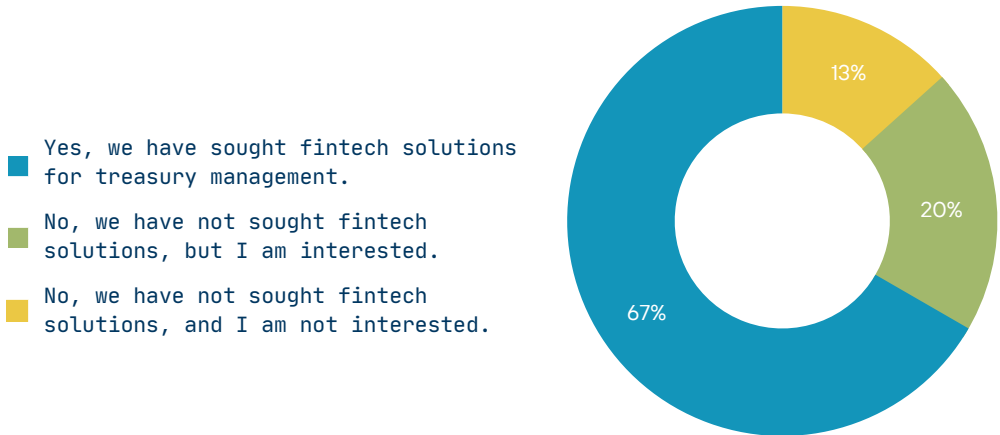
The findings indicate that a significant proportion of banks expressed reasons for not entering into partnerships with fintech solutions. The most commonly cited reasons are the following:

- They perceived it as not needed because their existing systems are already up to date and functioning effectively.
- The concern regarding security risks associated with partnering with fintech solutions specifically pertains to fintech companies lacking physical branches, which may raise concerns about data security, fraud prevention, and customer trust.

A relatively small percentage of banks have actively sought fintech solutions for their treasury management needs (13%). This indicates that a majority of banks have not yet explored or adopted fintech solutions in this particular area of their operations. However, it is noteworthy that 20% of banks that have not sought fintech solutions expressed their interest in doing so in the future, indicating a potential shift in their approach (Figure 7).

Figure 7. Banks seeking fintech solutions for their treasury management

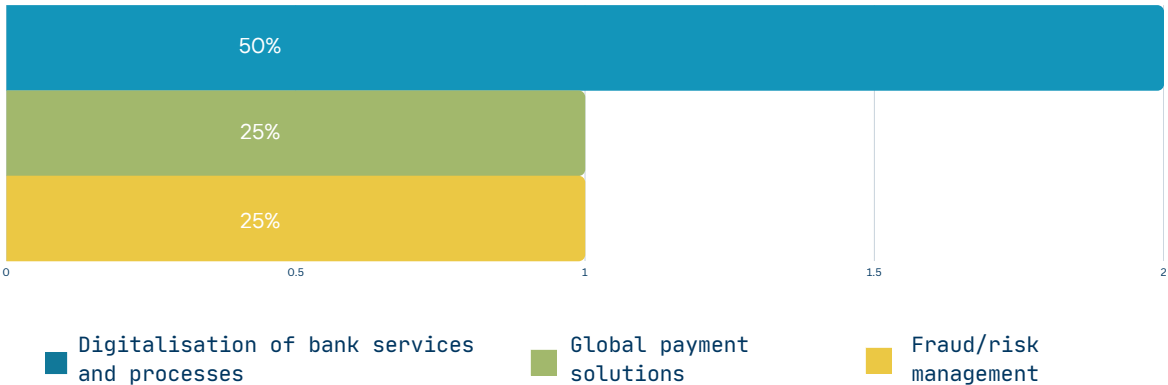
Has your company sought fintech solutions for treasury management in the past five years and would you be interested in seeking in the future?



Amongst the banks that have sought fintech solutions for treasury management, their primary motivations were to digitalise their bank's processes and services (50%). Additionally, 25% of banks cited global payment solutions and fraud/risk management as the key areas where they sought fintech solutions, suggesting a recognition of the benefits that fintech can bring in terms of automating and streamlining treasury management operations, which can lead to increased efficiency and improved customer experience (Figure 8).

Figure 8. Reasons for banks to seek fintech solutions for treasury management

What was the reason for seeking fintech solutions for treasury management?



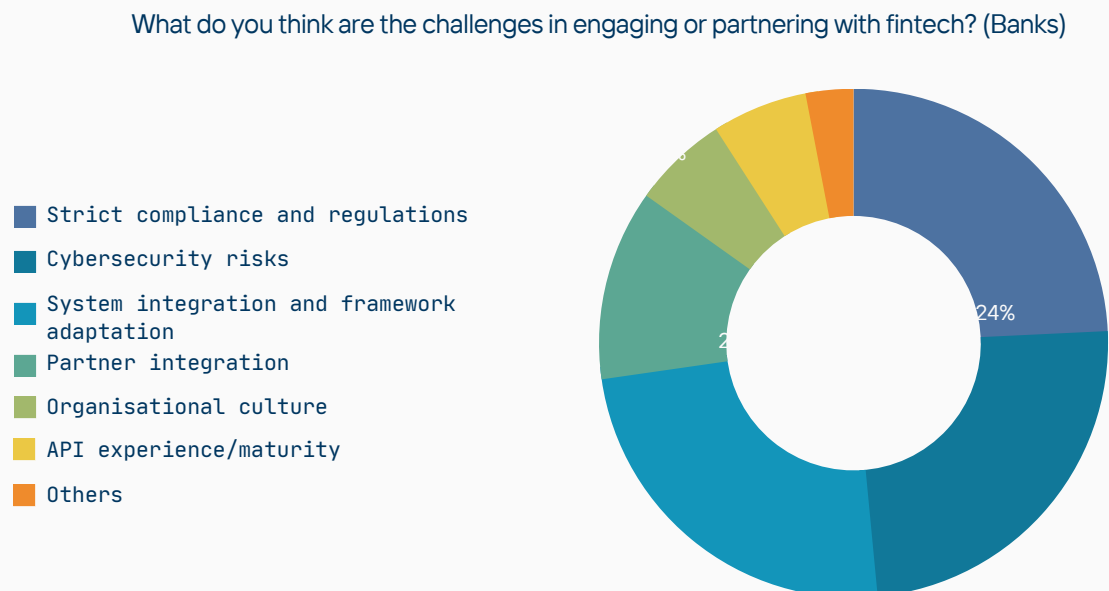
When asked about their potential partnership preferences, banks mentioned several areas of interest, including embedded finance, financial planning, business loans, remittance services, foreign exchange management, and fraud/risk management.

In the treasury management context, banks express a keen interest in partnering with fintech solutions to digitalise bank processes and services. Additionally, banks are looking for fintech solutions for services, such as embedded finance, remittance services, and fraud/risk management in the treasury management domain. These areas highlight the potential for fintech partnerships to enhance the effectiveness of banks' treasury operations and strengthen their risk management capabilities.

This, in turn, can indirectly benefit SMEs in several ways such as increased efficiency, access to new financial products, cost savings, and improved services tailored to their specific needs. The banks' abilities to provide better financial services and insights can significantly support the growth and success of SMEs in the market.

However, it is important to acknowledge the challenges banks face when engaging with fintech solutions, as these factors can influence their decision to form partnerships. Findings reveal (Figure 9) that strict compliance and regulations are perceived as a significant challenge by 24% of banks. Additionally, cybersecurity risks and system integration and framework adaptation (24%) are identified as major challenges, highlighting the importance of robust security measures and seamless integration of fintech solutions into existing banking systems.

Figure 9. Challenges in engaging with fintech solutions of banks



Overall, the findings indicate that whilst banks are actively considering partnerships with fintech solutions in various areas, they need to carefully navigate challenges related to compliance, cybersecurity, system integration, and collaboration to realise the full potential of these partnerships and leverage fintech innovations effectively.

Banks serving SMEs

SMEs, although small in number, are a vital segment for banks, as they offer various opportunities and benefits. Banks acknowledge the following aspects of SMEs:

1. **Financial/Economic contribution:** Banks recognise the financial impact of SMEs on their organisation, and their role in the economy as job creators.
2. **Perspective clients:** SMEs are regarded as valued customers, either existing or potential. Some banks indicate that SMEs are part of their target market and a prospective source of loan demand.
3. **Growth potential:** Banks recognise the possibilities for SMEs to expand and develop their businesses by accessing different products and services. Banks aim to support SMEs in their long-term growth.

To better serve SMEs, banks employ various strategies to engage them. Currently, banks assist SMEs in their business development and expansion by offering products and financing solutions. Banks also provide customised financing solutions to SMEs, tailored to their specific needs. This can include smart cross-border cash management platforms. Moreover, banks partner with technology providers to help SMEs streamline their processes and reduce costs.

Fintech solutions can further enhance the services that banks provide to SMEs. Banks highlight the following benefits of partnering with fintech:

1. **Mobile banking:** Fintech enables banks to offer mobile banking solutions, making banking more accessible and convenient. These include transfer facilities, real-time access to account statements, and other features.
2. **Financial inclusion for SMEs:** Banks acknowledge the role of fintech in promoting financial inclusion and enhancing the capabilities of SMEs. Fintech can help SMEs overcome barriers to accessing finance and other services.
3. **Cost reduction and efficiency:** Fintech can help SMEs improve their operational efficiency and reduce costs by automating and simplifying their processes. For example, providing necessary documents and verifying information can now be done online.
4. **Customer-centric approach:** Fintech solutions enable banks to adopt a customer-centric approach and enhance service delivery. Fintech can help banks understand the needs and preferences of SMEs better and offer more personalised and relevant solutions.

These findings collectively emphasise the importance of SMEs to banks, the strategies employed to engage with them, and the potential benefits of partnering with fintech solutions. By focusing on supporting SMEs, leveraging technology, and customising offerings, banks can effectively serve the needs of SMEs, foster growth, and contribute to the overall development of the economy.

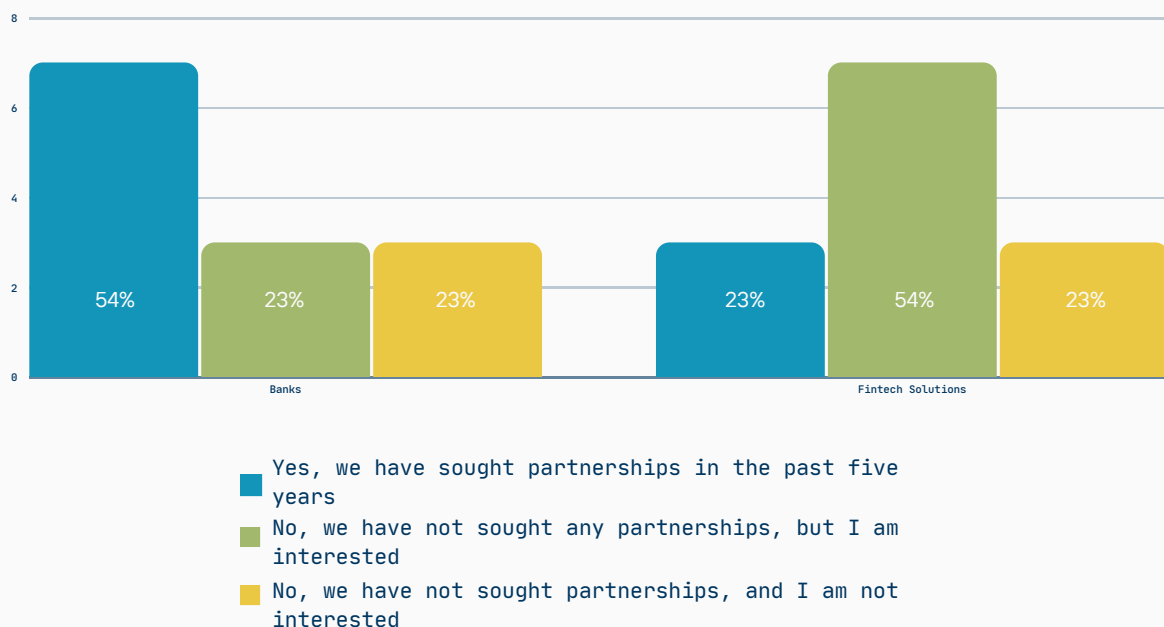
SMEs' sentiments on alternative financing

The research explored the alternative financing options that SMEs have pursued or considered for their businesses (Figure 10). Findings reveal that the majority of the respondents (54%) have established a partnership with banks. This indicates that banks are still the dominant source of finance for SMEs. However, only 23% of the respondents expressed their interest in partnering with banks in the future, suggesting a decline in the attractiveness of bank partnerships.

On the other hand, fintech solutions have emerged as a potential alternative for SMEs, as 54% of the respondents indicated their interest in exploring fintech solutions in the future. However, only 23% of the respondents have partnered with fintech solutions so far, implying a gap between interest and adoption. These findings suggest that SMEs are looking for more diverse and innovative financing options and that fintech solutions have the potential to meet their needs and preferences.

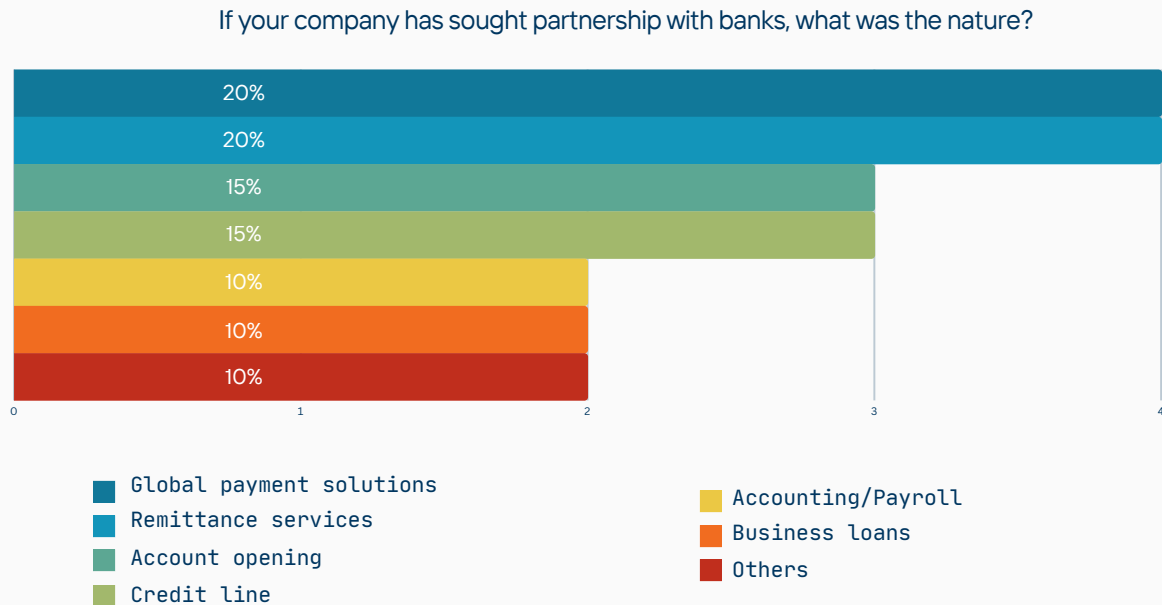
Figure 10. SMEs' partnerships with banks and fintech solutions

Has your company sought partnerships with banks/fintech solutions in the past five years?



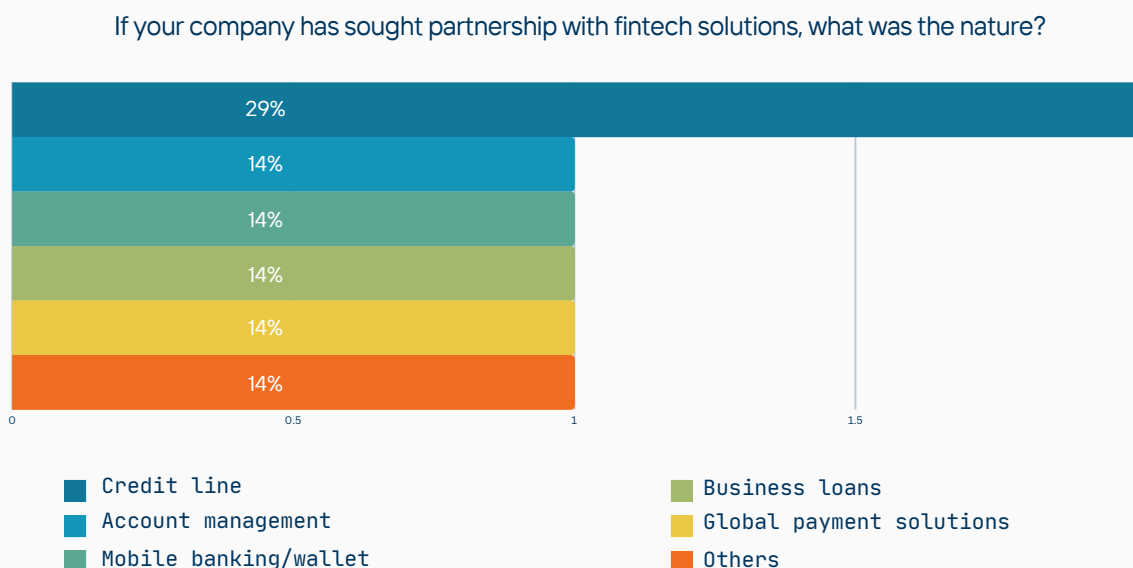
The research also examined the reasons for SMEs to engage with banks and fintech solutions, as shown in Figure 11 and Figure 12. It found that SMEs seek different services and products from banks and fintech solutions, depending on their needs and objectives. The most common reasons for SMEs to partner with banks were to access global payment solutions (20%) and remittance services (20%). Other reasons included account opening (15%) and credit line (15%). These reasons reflect the need for SMEs to facilitate cross-border transactions and manage their cash flow.

Figure 11. Nature of partnerships of SMEs with banks



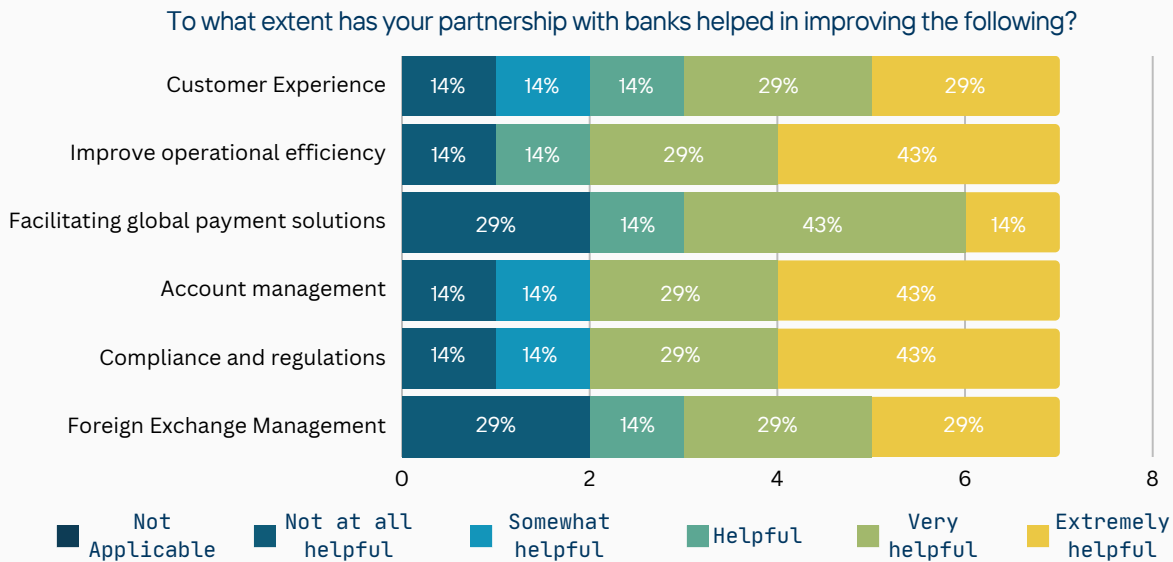
Meanwhile, the most common reason for SMEs to partner with fintech solutions was to obtain credit lines (29%). Other reasons included account management, mobile banking/wallet, business loans, and global payment solutions. These reasons indicate the demand for SMEs to access convenient and affordable financing options and digital banking solutions. One of the respondents mentioned that they engaged with banks to provide more services to their customers, whilst another respondent mentioned that they engaged with fintech solutions for their point-of-sales system. These examples illustrate the diversity and specificity of the needs and preferences of SMEs.

Figure 12. Nature of partnerships of SMEs with fintech solutions



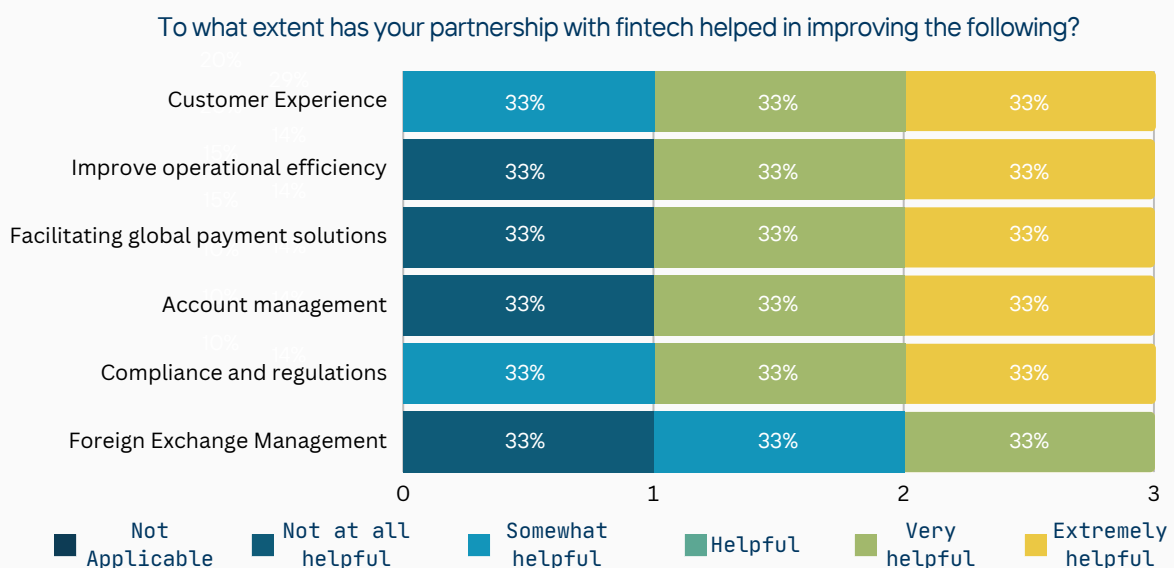
Furthermore, the findings revealed that SMEs appreciate the assistance of banks in improving various aspects of their businesses (Figure 13). The most frequently cited benefits of partnering with banks were improving operational efficiency, account management, and compliance and regulations, with 43% of the respondents finding them extremely helpful. Another benefit was enhancing customer experience, with 29% of the respondents finding it extremely helpful. A few respondents also found partnering with banks extremely helpful in facilitating global payment solutions, with 14% of the responses.

Figure 13. Bank Partnership’s Impact on SMEs who have partnered with Them



Fintech solutions may have a strong appeal to SMEs, as they offer more diverse and innovative benefits. 50% of the respondents found partnering with fintech solutions extremely helpful in improving customer experience, operational efficiency, facilitating global payment solutions, account management, and compliance regulations. 16.7% of the respondents found them very helpful in these aspects, as well as in foreign exchange management. These benefits match the reasons SMEs in engaging with fintech solutions discussed earlier. However, some respondents were less satisfied with fintech solutions, as they found them only somewhat helpful or not helpful at all in one or more of these aspects. These responses suggest that fintech solutions have room for improvement in terms of service quality and reliability.

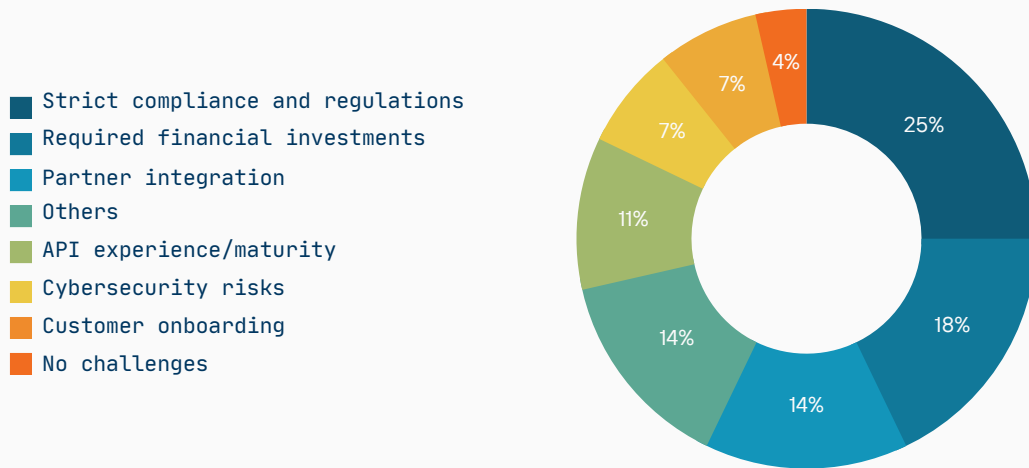
Figure 14. Fintech solutions partnerships impact SMEs who have partnered with them



SMEs see different challenges when entering a partnership with banks (Figure 15) or fintech solutions (Figure 16). For banks, the most frequently cited challenge was strict compliance and regulations, with 25% of the respondents finding it a major barrier. This challenge reflects the difficulty of meeting the legal and regulatory requirements that banks impose on their partners. Other challenges included required financial investments (18%), partner integration (14%), and system integration and framework adaptation (14%). These challenges indicate the cost and complexity of partnering with banks.

Figure 15. Challenges of SMEs in Entering a Partnership with Banks

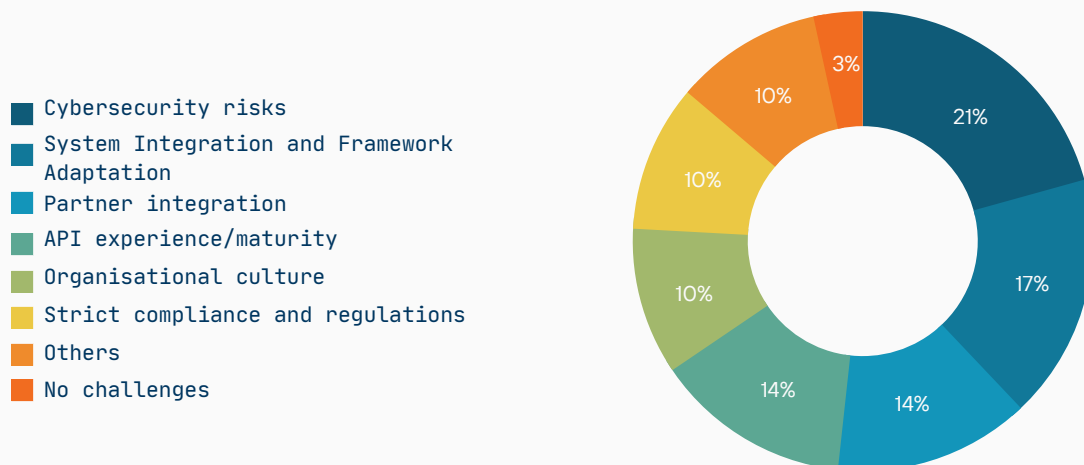
What are the challenges in entering into a partnership with banks?



The most frequently cited challenge with fintech solutions was cybersecurity risks, with 21% of the respondents finding it a major barrier. This challenge reflects the concern of SMEs about the security and privacy of their data and transactions when using digital platforms and solutions. Other challenges included system integration and framework adaptation (17%), partner integration (14%), and API experience/maturity (14%). These challenges indicate the technical and operational difficulties of partnering with fintech solutions.

Figure 16. Challenges of SMEs in Entering a Partnership with Fintech Solutions

What are the challenges in entering into a partnership with banks?



When discussing the reasons for not joining partnerships with banks and/or fintech solutions, it is important to consider the challenges faced by SMEs. Findings indicate that SMEs have distinct motivations and expectations when it comes to partnering with banks and fintech solutions.

For banks, there are several reasons why SMEs do not engage or partner with them:

1. Lack of offerings that cater to their specific needs.
2. Required financial investments that may be perceived as burdensome.
3. Concerns about cybersecurity risks associated with partnering with banks.

However, if given the opportunity, SMEs express interest in partnering with banks in the following areas:

- The digitalisation of services and processes
- Financing, liquidity, and investments
- Data analytics provider

These areas of collaboration highlight SMEs' desire for more innovative, affordable, and useful solutions from banks.

On the other hand, when it comes to fintech solutions, the most common reasons for not entering partnerships are:

1. SMEs are in the process of building their solutions.
2. They are currently exploring other options.
3. Concerns about cybersecurity risks associated with fintech solutions.

These reasons suggest that SMEs adopt a proactive, flexible, and cautious approach when considering fintech solutions. However, if given the chance, SMEs express interest in partnering with fintech solutions in the following areas:

- The digitalisation of processes and services
- Financing, liquidity, and investments
- Data analytics provider
- Account management
- Foreign exchange management
- Technology collaborations

These areas of collaboration indicate that SMEs are open to exploring diverse and advanced solutions offered by fintech companies.

SMEs on getting external financing

Respondents were asked what challenges they faced when getting external financing. It was revealed that is caused by the following:

1. **Compliance and requirements:** There is the burden of fulfilling requirements and complying with the regulations and documents.
2. **Lending criteria:** Seeking external financing presents a challenge, which encompasses criteria such as creditworthiness, business stability, and financial performance.
3. **Communication and understanding:** This refers to the communication barriers with other organisations. Specifically, there are difficulties in understanding the solutions provided or explaining them to non-domain experts.

However, SMEs still see the importance of seeking alternative rails. They see the significance of partnering with banks and/or fintech solutions for their business. It is also noted that this also applies to their customers. There is also potential growth in the partnerships where they can provide new things and solutions for customers and could be potentially crucial for prolonged business growth. One of the advantages of partnerships is improving the way to facilitate payments for customers and suppliers. "By leveraging their expertise and technologies, we can optimise our payment infrastructure" as mentioned by one respondent

In the future SMEs would like to see the following services from banks and/or fintech companies:

1. **Digital financial solutions:** They see the need for digital-savvy credit and trade-related financial solutions. They desire innovative digital products and services that offer convenience, efficiency, and improved accessibility for customers.
2. **Collaboration between banks and fintech:** Respondents highlight the importance of collaboration between traditional banks and fintech solutions. Traditional banks and fintech companies can collaborate to leverage their respective strengths. Banks can partner with fintech firms to access innovative technologies and solutions, while fintech companies can benefit from the banks' credibility and customer base.
3. **Regional and global solutions:** The desire to have services that are tailored for regional and global customers. This suggests a need for services that cater to specific local requirements, as well as those that facilitate international business and cross-border transactions.

Conclusion

Overall, the research provides insights into the preferences and expectations of SMEs in Asia regarding alternative financing options and partnerships between banks and fintech solutions. It reveals that SMEs are increasingly interested in exploring and accessing different products and services that can help them overcome their financing and operational challenges. This trend implies that banks need to adapt to the changing market dynamics by embracing collaborations with fintech firms. Such partnerships can offer various benefits for both parties, as they can leverage the strengths of both traditional banking and innovative fintech.

For banks, partnering with fintech solutions can help them serve the needs of SMEs better, enhance their customer experience and satisfaction, and improve their competitiveness in the market. For SMEs, partnering with banks and fintech solutions can help them access convenient and affordable financing options, digital banking solutions, and data analytics services. By fostering a mutually beneficial ecosystem, banks and fintech solutions can support the sustainable growth of SMEs in Asia.



The survey was administered by *Asian Banking & Finance*, the industry magazine serving Asia's dynamic financial services industry. Each issue carries a balanced mix of articles which appeal to the C-level executives of large banking and financial services institutions in Asia.

Asian Banking & Finance is under Charlton Media Group, a leading business information group with offices in Hong Kong, Singapore and the Philippines. The company publishes in print and online key business magazines for the region, both country-based and also regional trade publications. It also organises events associated with its key brands as well as research and bespoke conferences and roundtables for clients.

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