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**fiserv.**

# SMEs FRONT AND CENTRE - HOW BUSINESS NEEDS ARE DRIVING (INSTANT) PAYMENTS INNOVATION

**Finextra**

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# 01

## INTRODUCTION

According to the World Bank, Small and Medium Enterprises (SMEs) and businesses account for the majority of commercial companies worldwide and are important contributors to job creation and global economic development. Contributing up to 40% of national income in emerging economies, they represent about 90% of businesses and more than 50% of employment worldwide.

SMEs will play a particularly important role in the post-pandemic future as human ingenuity and the need to secure a living income will drive new enterprises forward. Technology will be a vital part of that process, with entrepreneurs looking for new ways to meet customer needs for products and services.

The opportunity for financial institutions will be to harness the potential created by the growth in SMEs with modern payment rails, and providing value-added services that reflect the needs of the evolving SME segment. Rather than the current product-centric approach, financial institutions need to find ways to establish themselves at the centre of how a business operates, not just enable it to pay or be paid.

As payments capabilities are commoditised, FIs' income from providing such services is eroded over time, making it even more compelling to understand and serve their business clients' needs.

The key is to understand how very different SMEs operate, and what they expect from their FIs. SMEs increasingly are disposed to rely on software-as-a-service (SaaS) models to run their businesses, whether that's cloud-based finance or outsourced HR and payroll services. They don't have the large data centres, in-house experts or technology infrastructures that large corporates invest in, but they do have the same technology needs to support their business and to use data analytics to take the uncertainty out of their financial futures.

This paper from Finextra, in association with Fiserv, will focus on the problems and challenges SMEs grapple with, and how they can operate more effectively when armed with the right toolkit. Such use cases will demonstrate the products and solutions FIs can create with the power of instant payment rails and overlay services.



## 02

# WHAT SMEs NEED FROM THEIR BANKS AND FIs

SMEs large and small demand certainty, especially in turbulent times. In particular, they need an end-to-end view of their cash and liquidity position at any given moment, whatever time of day they are making business decisions. SMEs need information and control to optimise their business processes, whether this is more intelligence about the sector in which they operate, local conditions and requirements in the countries to which they may wish to export goods or services, or simply a transparent view of when payments are likely to be made and received.

### Case Study 1

## VISIBILITY - PARCEL MONKEY

Parcel Monkey was founded in 2006 by Navin Ramiah to bring better priced parcel delivery to its customer base. They needed comprehensive visibility of transactions encompassing an international user base. Only then could the organisation begin to analyse patterns in service use and payment trends to build clearer pictures of its customers' needs and payment proclivity. This in turn leads to refinement of service offering and payment capabilities, the building of loyalty, and ultimately business growth.

FIs need to be wise to these business needs and pre-empt such use cases to offer businesses the kind of bespoke payments and analytical platforms they need to thrive and grow. Otherwise, business small and large, new and longstanding, become overwhelmed trying to carve out the toolkits themselves to gain key business and operational insights.

Parcel Monkey switched from the offering of their traditional banking partner to NetPay, which includes a reporting platform called Revolution, to give it better visibility of customer behaviour and payment proficiency to support better its international growth plans. Ramiah describes the new portal as a "giant leap" from their previous one:

"It gives us complete visibility of all of our transactions across our international business. The reporting and analytics that [it] provides means that we do not have to invest in expensive web analytics software or employ a business analyst, as everything we need is provided in the portal. We can see that 31% of our customers are repeat, but it is also good to see the number of new customers is increasing," he says.



### Case Study 2

## CERTAINTY AND SPEED- CUCKOO BROADBAND

Founded in 2020, Cuckoo Broadband aims to disrupt the internet service provision sector. The UK company is working to build an efficient and flexible system for onboarding customers and collecting monthly recurring payments. A bank-to-bank payment feature powered by open banking has dramatically improved the time it takes for Cuckoo to collect failed payments and, as a result, Cuckoo has been able to increase payment success rates and reduce the risk of service disruption to customers.

Oliver Nelson, Cuckoo Broadband's Head of Service says: "Before Instant Pay, the process of chasing and collecting a failed payment could take 21 days; by using this feature we have the capability to reduce this to seven to 14 days. This is great for Cuckoo Broadband as it reduces risk when it comes to costs outstanding, but even better for customers as it completely removes the threat of losing access to our services."

### Case Study 3

## AUTOMATION, FLEXIBILITY AND CUSTOMER CONVENIENCE - BELLA BRIDESMAIDS

Bella Bridesmaids is a national U.S. chain that focuses on providing bridesmaids' outfits for weddings. Convenience and flexibility with making different payments was something that cropped up time and again, as bridal groups communicated remotely, over the phone and with multiple parties. The business needed to move away from taking manual payments over the phone and needed the technology to 'work smarter' on a daily basis. Automatic payments that can be made in instalments for finance deals and from multiple parties were core to pleasing their customers and maintaining a strong word-of-mouth and social reputation.

Co-owner Erin Casey Wolf says: "Now our franchisees are able to focus more on what they're most passionate about, and able to grow their business rather than keying in credit cards and taking payment information over the phone. We used to be backlogged for weeks, charging credit cards. Now all of those pain points have utterly gone away."



## 03

# HOW SMEs ARE SUCCEEDING WITH TECHNOLOGY

According to the Organisation for Economic Co-operation and Development (OECD), SMEs fared far worse than large corporates during the pandemic. They tend to have lower proportionate cash reserves, inferior access to sources of finance, and serve the most affected industry sectors (travel, leisure, hospitality etc.). They are also less likely to have invested in digital technologies to help them manage their businesses, although there is evidence that take-up has accelerated during the pandemic as SMEs have had to adapt to new working conditions.

The OECD cites more than 180 surveys among SMEs in 32 countries that it has monitored since February 2020, finding that the majority (70% - 80%) of SMEs have experienced a serious drop in revenues and sales. As markets recover supported by government schemes, SMEs will play a vital role in rebuilding economies. The OECD points out: “An increasing number of governments are launching recovery packages to “build back better”, having also learned from the first phase how to deal with the fallout of the pandemic, to balance the need for continued short-term measures with more long-term and structural policies to move forward.”

Given the experiences that SMEs have had during the past year or so, the demand for support from their banks and FIs will only increase. The good news is that FIs are in an excellent position to help SMEs rebuild their businesses. Not only do they generally have the trust of SMEs, but also thanks to modern instant payment rails and business overlay services, they have the opportunity to offer new business focused capabilities to help SMEs succeed and build back momentum.



## 04

# UNDERSTANDING BUSINESS NEEDS AND GOALS IS CRITICAL

Consumers, SMEs, businesses, and even the FIs that serve those businesses, are not (and should not) be driven by the implementation and deadlines for new standards and regulation. The focus must be on embracing what has changed in the whole business interaction, from the end consumer, through the SME and supply chains to the producers and how this has driven industry change.

The revolutionary change to digital services and ecommerce have certainly been galvanised by the pandemic, and thereby transition of business services provided by their FIs and payment providers have become even more urgent. FIs have it in their power to innovate and roll out business overlay services to suit individual business process needs.

Additionally, the pandemic is likely to give rise to a raft of new SMEs, either grown from the ashes of casualties or enterprising entrepreneurs taking advantage of behavioural change and favourable loan rates issued to jumpstart the sector.

It is inescapable that the existing providers must get to know how they can better serve their SME community and start to ask questions about their business processes. How can payroll be automated to relieve monthly admin for business owners; would including information on tax and insurance deductions on the payment remove the need for a separate payslip; how could enhanced data and Request to Pay remove the laborious and manual invoice reconciliation processes and how could this optimise an SME's liquidity and credit usage?

Questions such as these should be used to shape the business services that the financial institution offers its SMEs, helping them to build a better service for their customers.

Another over-used, but often misunderstood term is open banking, a term that on its own is utterly meaningless to those who potentially benefit greatly from the opportunities it presents.

When open banking is discussed in ways that have palpable meaning the benefits to SMEs are clear. These include the potential through open banking to provide business insights around payments and cashflows,





enabling businesses to predict and, therefore, better manage the need for credit facilities; the ability to deliver richer insights to inform both SME and FI about business risk, and the ability to seek credit from non-traditional providers thanks to these providers being able to access the right information to make qualified credit decisions.

The year 2020 will prove to have been a catalyst year in the payments industry. In the three months from April to June 2020, for example, contactless transactions rose in Europe from 60% to 70% of all card-present transactions.

And while in the past, payments were divided between those that are card-based and those that were non-card with clearly defined use cases for both, the historical divide between card and non-card payments has broken down. SMEs and businesses know this only too well.

Instead of having to present a card for payment, consumers and businesses alike can take advantage of alternatives such as push credit at the checkout. As PwC writes in its report, 'Adoption of faster payments: SME and corporate perspectives', "With the unprecedented success of instant payments frameworks in various countries like India, the UK and Australia, small businesses and large corporates see a real value proposition to execute business payments via real-time payments systems. Instant payments frameworks also allow them to make a transition from legacy payments systems like ACH and wires to real-time alternatives."

It translates to convenience, repeat business, customer satisfaction.





## 05

# PAYMENTS HAVE BECOME A DIFFERENTIATOR

Once the preserve of FIs and automated clearing houses, payments have become a somewhat commoditised business provided by a range of fintechs, neobanks and payment service providers. Instant payments are replacing traditional methods and, along with overlay services, such as Request to Pay, are being tightly incorporated in business processes, such as invoicing, ensuring SMEs are more confident that they will be paid on time. PwC's report says that instant payments will benefit SMEs in particular, but that FIs need to address their own systems to take full advantage of the trend.

“Faster payments are no longer restricted to retail peer-to-peer (P2P) payments. We expect most initial B2B use cases to disproportionately benefit the small and medium sized businesses (SMB) segment. However, FIs need to overcome their legacy technology challenges, including outdated payment processing engines that have prevented banks to process newer and enhanced data payloads to pass on the benefits of real-time payments to their corporate customers,” the firm says.

Traditional banks and FIs also need to be aware of stronger competition for SMEs' business from fintechs and big tech companies. Not only have successful digital-first SME banks been set up across the world, big tech companies such as Amazon, Apple and Google have entered into partnerships with both global and 'Banking-as-a-Service' banks to increase the services and volume of credit available to SMEs.

“FinTechs and big tech companies have raised the bar for all providers. They have delivered innovative solutions and richer user experiences to SMEs for basic financial services, such as customer payments, foreign exchange hedging and cash flow management. Helped by open banking trends that encourage financial providers to use open application programming interfaces, fintechs have made customer onboarding and credit decisioning for SMEs fast and frictionless,” confirms EY in its report, 'How banks can use data and technology to help SME businesses grow'.

Faced with this rapidly evolving landscape and with fees for payments shrinking in a competitive marketplace, the time is right for FIs to refocus their strategies on how to replace lost income with a new set of products and services. The key to that will be understanding more about the individual needs of SMEs operating across a hugely diverse set of industry sectors.



## 06

# HOW FIs CAN SERVE SMEs BETTER, ARMED WITH THE RIGHT KNOWLEDGE

FIs are perceived as inherently secure and as such, SMEs are looking to their FIs to support and enhance their business processes, through:

**Richer, better structured, and more granular data for a holistic view:**

The richer information provided by payments that follow the ISO 20022 standard will enable FIs to provide more detail on each transaction, allowing streamlined collections, automated reconciliation, cash flow forecasting and better transaction tracking.

**Quality data means quality payments means certainty:**

More transparency and more remittance information for customers means better customer service and a better customer experience. Services such as Confirmation of Payee ensure that an SME making a payment has input the correct payment information for new or existing vendors. Apps for Know Your Customer (KYC), Anti-Money Laundering (AML) and onboarding can be provided to help reduce fraud, improve the customer experience and decrease time to profit.

**Improved analytics, less manual intervention:**

Further operational benefits include improved analytics, less manual intervention, more accurate compliance processes, higher resilience and improved fraud prevention measures. FIs will have the opportunity to apply sophisticated data analytics to an SME's business operations, enabling the SME to assess and predict transaction patterns to help understand and plug the trade finance gap that has traditionally existed for smaller businesses.

**Straight-through processing and end-to-end automation:**

This covers all business domains and end-to-end business processes, facilitating the creation of new services and enhanced straight-through processing. Overlay services, such as Request to Pay provide real time, cost-effective, automated and easier methods of presenting and collecting funds due from customers. Instant payments serve to reduce the manual processes involved in initiating payments, such as entering long transaction details, making payments less prone to manual errors, and any errors are reported in real time, allowing them to be corrected immediately.



**Easily integrated and upgraded technology stacks:**

This refers to modern, mainstream technology, which is well supported, and facilitates efficient integration. As well as connecting SMEs with an ecosystem of suppliers, distributors and other SMEs, FIs can use their expertise across industries, channels and regions, to offer growth opportunities and insights. By joining a financial ecosystem, they can offer access to Software-as-a-Service (SaaS) services or apps for managing cash flow, HR, talent, regulatory compliance and tax as part of their overall business service.

**Worldwide adoption:**

As SMEs become more integrated into global trade networks, the services that are provided by the financial institution must be seamless across domestic and international borders, providing the same level of information, transparency, certainty and security.



# 07

## CONCLUSION

Commercial imperatives will ensure that SMEs play a huge part in the global economic recovery over the next few years. Many showed a remarkable ability to pivot fast in lockdown, and the adoption of digital workarounds that enabled businesses to carry on trading was impressive.

The next chapter in their story will be around how they build on that success and grow by scale or through geographical expansion. Instant payments and business overlay services provided by FIs will give them the key apparatus to help their business thrive: certainty of payment, visibility of cashflows, flexibility- both for themselves and their customers and clients. They will be looking to their FIs and payment providers to offer the best tools with which to build their business, and a bespoke and elevated understanding of their needs and goals. Soon it will be a buyer's market for SMEs seeking enhanced payments services.

As McKinsey writes in its 2020 Global Payments Report, “The composition of [banks’] customer portfolio matters more than ever, as restructuring of consumer and commercial commerce reshapes where value is captured in payments. Growth is notably accelerating in the small and medium-size enterprise (SME) segment and B2B-to consumer (B2B2C) business models. The shift to digital makes it possible for providers to create far more tailored solutions, and customers have shown a willingness to pay for these if sellers demonstrate value.”

According to the same EY report, “to retain their dominance, banks need to be at the heart of the SME business, using technology to better understand the needs and context of the business”. The implication is that while banks and FIs have a great opportunity to help SMEs bounce back and grow, those that fail to pick up the challenge may see an erosion in loyalty as instant payments and value-added services play an increasingly important role.

Ultimately, it is all about helping SMEs achieve their objectives by completing their business processes as quickly, easily and accurately as possible. This cannot be achieved in any other way than through digital tools and platforms, data analytics, open application interfaces, open banking and artificial intelligence - presented in a way that reflects their business and not in financial institution parlance.



# 08 ABOUT

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