

Serious about SMEs

Banks offering SME services need a fundamental rethink about what they are offering clients. Rapid turnaround and product focus is key, but at what cost? In the first of a two part interview **Sanjiv Anand** dispels some SME myths

SMEs represent, by one estimate, 95 per cent of registered worldwide firms, and 60 per cent of global jobs, so it is no surprise that banks, which saw the bottom falling out of their bottom line, renewed their interest in the key economic players, which just happened to be outwardly uninteresting businesses located on street corners and out of the way industrial estates.

According to one report, SMEs in the UAE's trading sector typically have up to 75 employees and a maximum turnover of AED 250 million (\$68 million).

These days banks from across the MENA region are keen to highlight how much lending they are doing in relation to SMEs. In the first half of 2011 for example, National Bank of Abu Dhabi acquired about 3,000 new SME accounts and increased SME deposits by AED 1.15 billion (\$313 million), while loans rose by AED 400 million (\$108.8 million) and the bank launched several SME-oriented products and services that include Rent Finance and Visa Business Credit Card.

Banks from across the region, whether in Iraq, Egypt, Saudi Arabia, Qatar and so on, are (with plenty of governmental encouragement) chasing the SME dollar. However, with a double-dip recession looming, some

There was a time, not so very long ago, when the topic of commercial banking and small and medium enterprises (SMEs) barely registered in the high flying banking world. Back then, before the demise of Lehman Brothers, corporate banking, investment banking, private equity and private banking were all the rage.

Then the bottom fell out of any number of so-called 'developed economies' (the EU and US) and suddenly, commercial banking became popular again. The investment banking cheerleaders had a career change and became pompom-bearing proponents of the small-and-medium-enterprise-is-beautiful school of economic thought.



Let's bite the bullet for once and for all and look at the retail, corporate and commercial accounts that are SME and put them into a new separate business unit.

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If you build innovative liability products that are really targeted at SMEs, with some cash management around it, you can originate the relationship on a liability book basis

banks are understandably reluctant to lend to SMEs until they are sure that the economy is clearly rebounding.

One company with a clear view of what is going on in the SME sector is Cedar Management Consulting International, led by Managing Director Sanjiv Anand.

Cedar has a network of offices in 15 countries, 500 consultants and over 800 clients. Since 1985, its team has been assisting clients in the areas of strategy, process, strategic HR, and IT. As a general management consulting firm, it is able to assist clients across these areas in an integrated fashion – from formulation to execution. Its heritage includes being part of the former Renaissance Worldwide, whose leadership included the creators of the Balanced Scorecard. It has been advising banks in the GCC since 1999.

Given the current economic uncertainty, do you think that banks are going to cut back on lending and revert to chasing deposits?

In the last two or three months, the liquidity in the UAE banking system has become quite good. The focus has shifted back towards the asset side. From that standpoint, the concerns about liquidity are somewhat subdued.

From my perspective from meeting with most bank CEOs, within the UAE and the wider region, the question is, what are the two or three things to do in the light of the current context, what to look forward to in the next two or three years?

There are three fundamental areas. One is the whole SME space over which there has been so much talk in the last 15 years, about how it has been underleveraged. It is once again flavour of the year.

The second is about having a business model which is not dependent on a single geography and therefore the need to go international, or as CNN says, 'Go beyond borders'.

The third piece is the reality that retail banking is now a significant chunk of the UAE banking market and whatever risk there may have been in the recent past, (such as 'skips') is that retail banking is still critical to the profitability and the success of a bank and we need to make it work.

Isn't there some sort of cognitive dissonance amongst banks when it comes to SME lending?

The SME situation is interesting. In many countries, such as the US, India and the UAE, if you look at the SME contribution as a percentage of GDP, or if you look at the role of SMEs in labour force employment, it is a very high percentage. If I take the example of the UAE, there are about 310,000 SMEs in the UAE. It contributes 80 per cent of employment and it contributes 30 per cent of GDP. This is a serious number. This is not surprising and it has always been the case.

The issue has been that somehow, it has not been fully leveraged; and it hasn't been leveraged for the





Banks need to have a business model which goes 'beyond borders'

following reasons. Most banks have not been clear about how they want to handle it within the organisation. Either it is taken into retail banking, it is not really a retail business or it is seen as, it is quasi-corporate; its loan products are corporate in nature, almost quasi-corporate.

If you stick it in the corporate banking area, it is seen as small ticket and the 'well-dressed' corporate bankers will ignore it. None of the banks have had the real conviction to recognise that this is a large and significant part of the economy and will continue to be so; therefore it needs to be a separate business unit. Let's bite the bullet for once and for all and look at the retail, corporate and commercial accounts that are SME and put them into a new separate business unit. That is one reason it has lagged. There are

plenty of examples of banks around the world which have embraced this model (Wells Fargo is one example) and it works very well.

The second fundamental issue is that most banks have treated SMEs as asset-only relationships, in terms of originating a relationship. It is not bad to do that because SME relationships are higher risk, but they also provide higher margins. They are riskier to a certain extent, but in other countries, like India for example, they have turned the model on its head.

How so?

In two ways. The first is they have figured that because a lot of the SMEs operate with cash going in and out of the system every day, there are a lot of transactions, so many have pursued the relationships from a liability strategy standpoint. The

reality is that if you build interesting liability products for SMEs (which will never do term deposits), SMEs will be interested.

With some cash management around it, you can originate the relationship on a liability book basis.

Secondly, the most important thing that SMEs complain about is that they don't get the level of customer support that they need in a highly transactional situation. For example, if you take the UAE context, 73 per cent of UAE SMEs are traders. Now, for them, a 24 hour delay for opening a letter of credit (LC) is a long time. This also happens in India.

So if you say, 'I'm very serious about SMEs. I'm going to do asset relationships, but I am going to originate many SMEs on liability, and I am going to build a great turnaround time compared to the competition' (because time is of the essence), the SMEs will actually pay you a premium if you can turn things around faster. That slight premium more than pays for the speed at which the LC gets done from an SME standpoint. ■BME



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