The future of SME lending

The role of digital platforms and opportunities for the future

creditshelf

Roland Berger

Management summary

Small and medium-sized enterprises (SMEs) are the mainstay of the German economy. They represent 99.95 percent of all companies and generate roughly 60 percent of revenues.[1] In terms of loans, they represent some 36 percent of all unsecured corporate loans go to SMEs, a volume of EUR 279 billion.[2]

The coronavirus crisis caused 58 percent of SMEs to lose on average 50 percent of revenues year on year in the month of April 2020. This was even more critical as one in every two firms had just two months of cash reserves.[3] Faced with this situation, many SMEs reinvented themselves: more than 40 percent of firms adapted their sales channels, products, services or entire business model.[4] On the question of financing, even before COVID-19, more and more SMEs were opting out of traditional bank loans, while lending platforms were simultaneously gaining market share. In addition, more and more companies are financing themselves with costly equity. One reason they give is the banks' often slow and opaque processes and the fact that not enough offers are tailored to SMEs' individual needs.

Small and medium-sized enterprises are attractive to lenders, so it is no surprise that the number of new players in the market is rising steadily. No longer is it just banks that are offering to lend – lending is increasingly coming from manufacturers (OEMs), suppliers and digital platforms too. The COVID-19 crisis is accelerating the recalibration of competition in the market. For banks, but especially for FinTechs, business models built around actual customer needs will prove to be a winning formula. And providers that make use of the latest data and smart analytics to compute the most accurate credit scores can also be expected to enjoy a competitive edge in the medium term.

Such players are acquiring SME customers through fast credit scoring and by offering loans directly via digital platforms. These often cover the entire value chain – from customer acquisition to contract signing, from servicing to monitoring ongoing loan projects. A modular structure enables additional services to be made available to other banking partners or sourced from them through interfaces. As such, this offers an attractive opportunity for banks to dramatically accelerate innovations, reduce costs and align themselves for the future of business.

In order to equip themselves with a new, SME-focused business model, banks should learn from the most innovative in the market and follow three key principles: customer centricity, straight-through processing and an open system architecture. These principles can be implemented in two stages: first through extensive digitalization and automation of the lending process, and then by building a fully integrated offering that goes beyond traditional banking services. Roland Berger continuously supports clients in reorganizing and sustainably aligning their SME business. Acting as navigators, the consultant team offers an Innovation Check tool, enabling banks to analyze their processes and challenges and to develop solutions. Roland Berger also steers all service providers to support turnkey delivery.

In chapter 1, this publication describes the importance and the evolution of SME lending in Germany, alongside current problems and challenges being faced. In chapter 2, the product spectrum of various market participants and the changes in the competitive situation are presented in detail, implications for banking incumbents are outlined and a digital platform model is described that can serve as an opportunity for incumbents. Chapter 3 contains specific recommendations for how to approach a future-proof business model.

[1] Federal Statistical Office, 2018
[2] Bundesbank, destatis, 2018
[3] OECD, 2020
[4] KfW

Contents

1

The market for SME lending in Germany

Importance, evolution and current issues from the customer's perspective

Small and medium-sized enterprises (SMEs) are the engine of Germany's economy and are thus of considerable importance for our stability and prosperity. The SME segment encompasses companies with annual revenues of up to EUR 500 million – that's 99.95 percent of German companies and 60 percent of all revenues. The market potential for banks and other lenders here is therefore immense, the loan portfolio of German SMEs equating to over EUR 279 billion, or around 36 percent of all unsecured corporate loans.[5] → A

LATEST DEVELOPMENTS IN THE SME LENDING MARKET

Currently, SME demand for financing is influenced by three main factors, which partly counteract each other:

Changing business models: Driven by digitalization, SME business models are currently evolving at an accelerated pace. In particular, the trend towards asset-light business models is altering the traditional value chain: companies are focusing on less capital-intensive activities – instead of owning many assets, they are restricting their business model to successful products and services and are adding in cooperation via platforms. This significantly reduces the demand for asset financing.

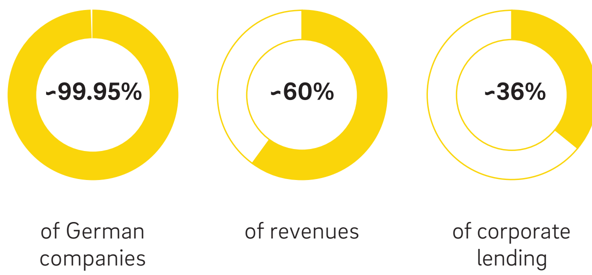
Growing internal financing: The financing mix among German SMEs has changed recently: equity financing is becoming increasingly important, resulting in less demand for debt financing. → B

Impact of COVID-19: The SME segment is particularly affected by the consequences of the crisis. For example, 58 percent of firms reported a sales decline in April 2020, with revenues down 50 percent on average. At the same time, half of SMEs had sufficient cash reserves for only two months.[6] Many companies reinvented themselves as a result – an additional driver of business model transformation: nearly half of SMEs adjusted their sales channels, more than 30 percent adapted their service spectrum, and more than 15 percent planned or launched new products. → C

Furthermore, governments around the world introduced support packages to bolster the SME segment, including in Germany, where the state development bank KfW, among others, is offering fast-track loans for SMEs.[7] The overall level of uncertainty makes it difficult to predict how many SMEs, and which ones, will survive. As in previous crises, however, the ones that do make it out the other side will be crucial for the country's future economic growth.

A The German SME market

The German SME segment offers great potential [in %]



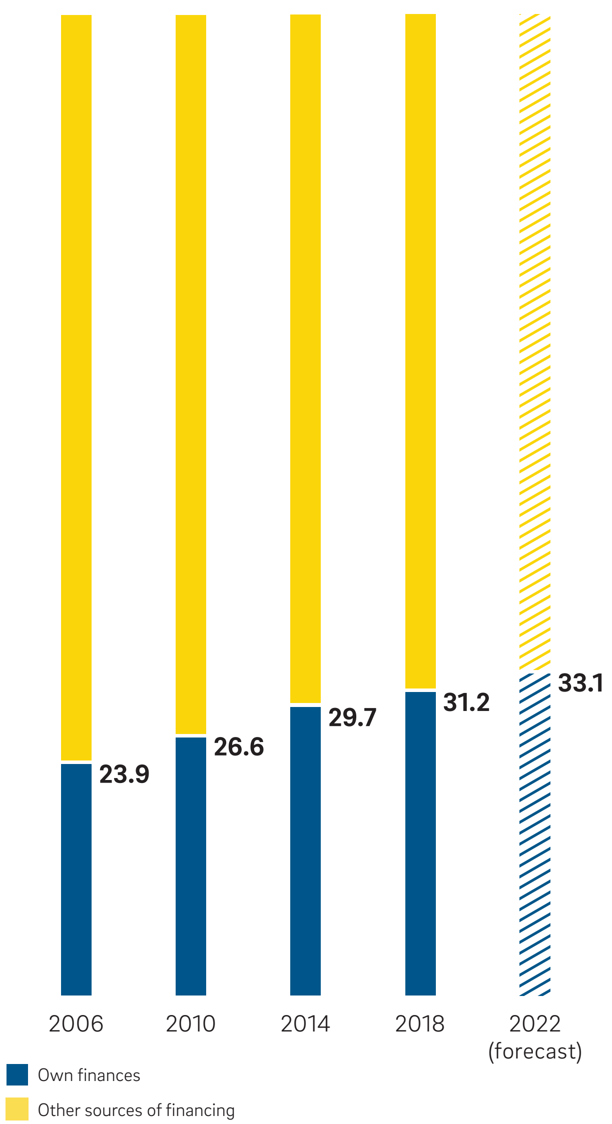
Source: Deutsche Bundesbank, Eurostat, Solarisbank, KfW, Roland Berger

[5] Bundesbank, destatis, 2018
[6] OECD, 2020
[7] KFW, 2020

B Average financing mix of SMEs over time

The proportion of equity financing will continue to rise

[in %]



Source: KfW SME Panel (2019), forecast: Roland Berger

CHALLENGES FOR SMES AROUND FINANCING OPTIONS

In addition to the factors mentioned above, there's another issue influencing the demand for lending in the SME segment: many companies are dissatisfied with conventional lenders' current processes for granting loans. The criticism essentially rests on three aspects:

Slow and opaque process: From the customer's point of view, the process from applying for a loan to signing a credit agreement is often too long, bureaucratic and complex. This is mainly due to the fact that the individual steps within the bank are not transparent enough and they are therefore taken in a highly sequential manner. Moreover, there's always a time lag in communicating bank decisions to customers. Frequently, there is also a lack of clarity as to which documents and information the customer still has to provide in order to speed up the process. Overall, customers can thus expect traditional lenders to take far longer than the processing times promised by alternative financing platforms such as Lendico or creditshelf – three months versus two days. What this indicates is that, surprisingly, it is not the price but the process that determines how long it takes.

Considerable red tape: Banks often require documents to be submitted in different tranches and on paper – which entails additional effort for the customer. Few banking institutions offer the convenience of a data room or the option to transfer data directly via interfaces. Added to that, there is often a lack of transparency when the bank does not accept a given document, and it takes repeated queries to clarify the reasons why.

Lack of customer centricity: What banks offer frequently does not meet the needs of SMEs. In many cases,

Corporate segments		Revenue threshold (EUR)	Number of companies	Share in total number of German companies	Revenues (EUR m)	Share in total revenues in Germany
Commercial	**Commercial customers**	< 5 m	3,173,773	96.8%	1,153,537	17.4%
SMEs	**Small SMEs**	5 to 25 m	80,486	2.5%	827,142	12.5%
	Medium-sized SMEs	25 to 500 m	23,599	0.7%	1,992,870	30.1%
Key accounts/ multinationals	**Key accounts**	500 m to 5 bn	1,191	< 0.1%	1,412,206	21.3%
	Multinationals	> 5 bn	87	< 0.1%	1,237,021	18.7%

products are not attractive enough, either for the customers due to the processing time or for the bank due to the internal operating costs involved. The necessary negotiation and alignment further slows the process and leads companies to look for alternatives.

MARKET OUTLOOK

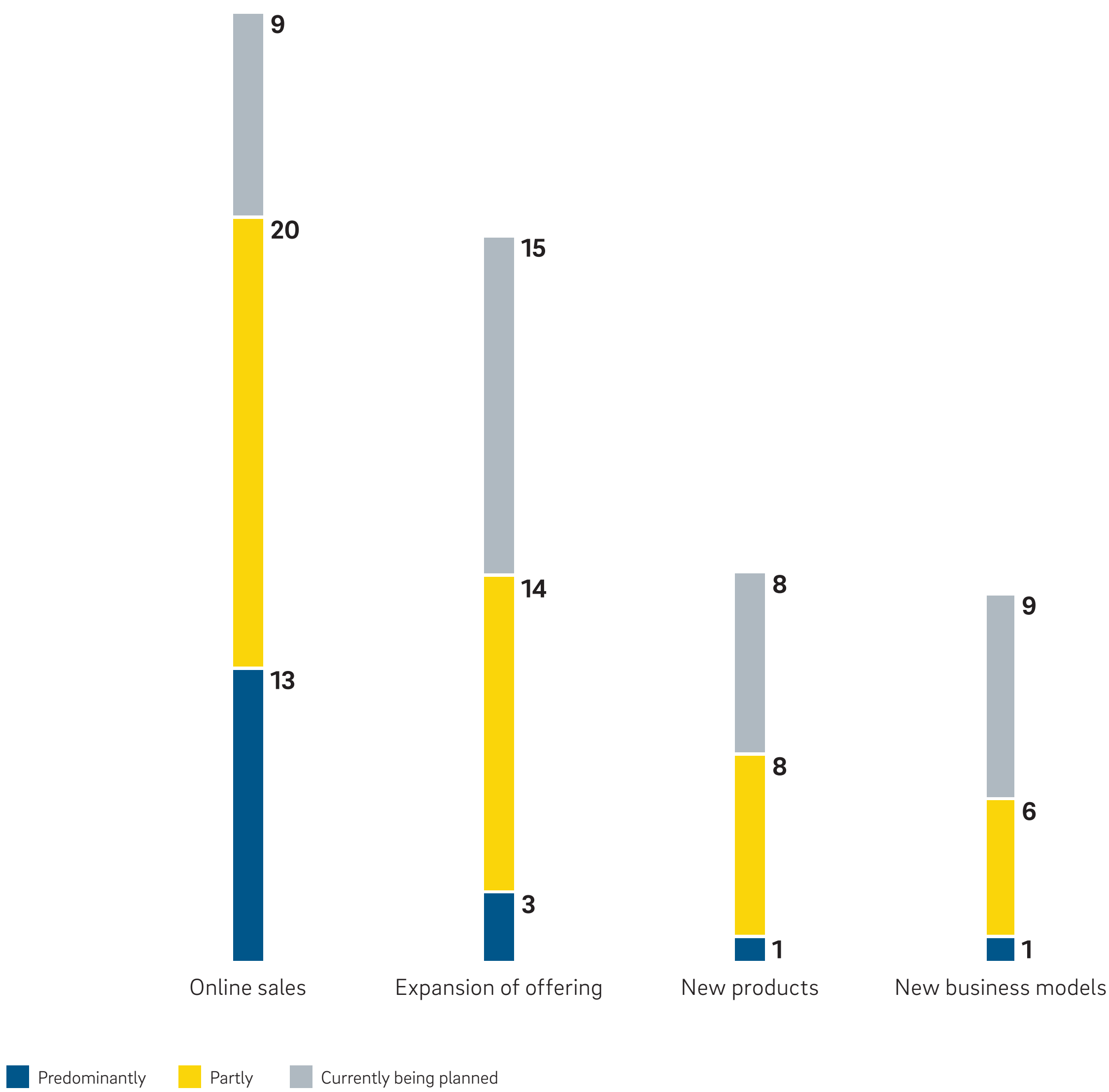
The SME segment is a very lucrative one for banks given the large number of companies operating in it, its importance for the German economy and a lending volume of around EUR 279 billion. Being active in this market also opens up the possibility of supporting small companies in their early stages and accompanying them through their potential growth phases. This cuts down the expense of acquiring new customers. The demand for financing is changing, though, owing to the combination of a trend towards asset-light business models and the uncertainties around the economic impact of the COVID-19 pandemic. Special attention will be needed from the banks in order to continue to keep this customer segment healthy. Furthermore, all the market indications point to SMEs being increasingly dissatisfied with the lending processes they encounter.

"The SME segment is too important to not cover it adequately in the long term. New product providers are specifically addressing customers' pain points and pose an increasingly serious threat to incumbent banks."

Dr. Pascal Lehnen

C Type and extent of adjustments to SMEs' strategic business direction as a result of the COVID-19 crisis

[in %]



Source: KfW SME Panel (2019), forecast: Roland Berger

2

Challenges for banks in SME lending

Overview of the market, trends and implications

The banking landscape and the services offered within it are becoming increasingly nuanced. The same is true of the SME lending market, where there is a growing number of specialized (new) players purposefully breaking into the lending market and focusing on certain links in the value chain. Providers of SME lending can be subdivided into seven main groups: → D

1) Traditional banks and savings banks offer a very broad range of traditional financing products for SMEs. Some also offer (simple) financing through online and digital channels. Nevertheless, the competitive pressure is rising, especially around offering alternative financing.

2) SME neo-banks (e.g. FYRST, Penta and Kontist) offer specialized and online or app-based solutions for the segment. Besides traditional banking products such as business bank accounts, these also cover things like invoicing and invoice tracking, bookkeeping and tax calculations.

3) Leasing companies are a source of alternative financing for SMEs, especially for movable assets such as machinery, equipment or vehicles. The manufacturer of the asset enters into a purchase agreement with the leasing company, which in turn concludes a leasing agreement with the SME customer.

4) Factoring companies increase their customers' liquidity by purchasing outstanding receivables from them. They often specialize in individual market segments or verticals, which gives them an advantage when assessing the creditworthiness of borrowers. What they offer thus complements the service offering of banks, especially in the SME segment.

[8] Roland Berger publication on captive finance, 2019

D Product provider overview

Broad spectrum of players in the SME market

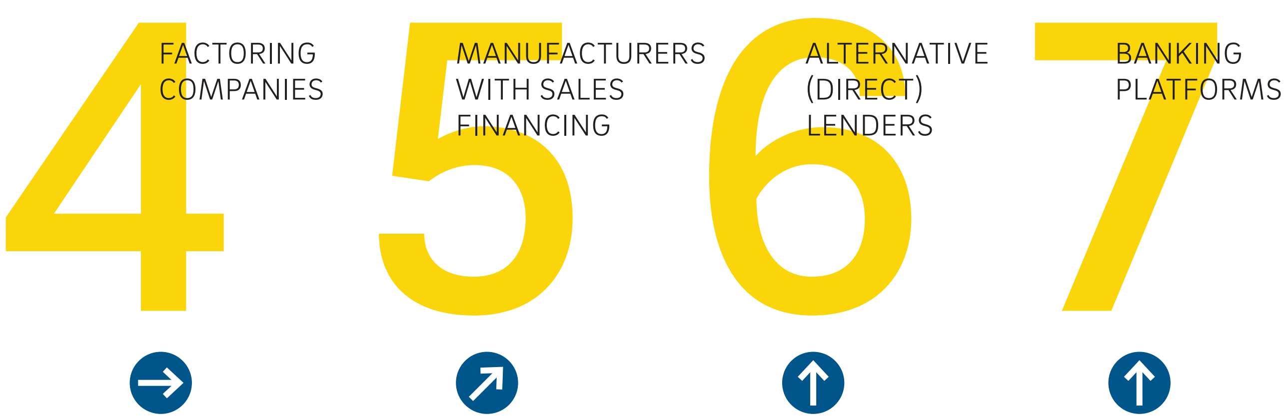
Source: Roland Berger

5) Manufacturers with sales financing (captives)[8]: OEMs (original equipment manufacturers) are increasingly offering their own financing solutions for their products. They benefit from having profound expertise on the product for their risk assessments, e.g. they know how the residual value will develop. This form of lending is another one that is particularly suitable for SMEs seeking to finance movable assets.

6) Alternative (direct) lenders offer loans on their own account and have direct contracts with SME customers. These lenders collect funds from private and institutional investors to finance the loans they issue. It is often the investor that bears the risk of default, as they purchase the loan receivable directly.

7) Banking platforms act as financial intermediaries, offering a wide array of SME lending solutions (loans, leasing agreements, etc.) for companies with differing needs and diverse financial circumstances. The platforms allow companies to compare different financing offers, which they can then apply for directly online. They are pure intermediaries and rely on the product providers (banks, leasing firms, etc.). Such marketplaces bear none of the risk and generate their income from brokerage commissions.

There are frequently overlaps and interrelationships between the various groups. For example, many traditional providers also offer white-label products via banking platforms (e.g. Solarisbank, Fidor, etc.). In addition, alternative lenders or even platforms often make their infrastructure available to traditional product providers or execute digital processes for them in the background, such as those required for online lending.



PRODUCT TRENDS

In the SME lending market, there are three groundbreaking current trends on which product providers need to focus their attention in order to operate successfully in the increasingly dynamic marketplace:

Enhanced analytics in credit evaluation

- Continued unbundling of the information-gathering process and improved credit data through FinTech innovations (such as Big Data analytics models for risk calculation)
- The impending paradigm shift from PSD2, with the digital availability of credit-related data enabling improved analytics and leveling the playing field between banks and FinTechs
- Increased relevance thanks to data-driven analytics that enables different scenarios to be forecast and evaluated

Personalized and easy customer experience

- Focus on technology for a more convenient and user-friendly approach
- Simplified loan processing through increased standardization, especially for small loan volumes
- Improved feedback quality based on data-driven credit analysis via digital lending platforms

Government regulation and support

- Simplified regulatory framework to open up the market and support alternative offerings
- Growing acceptance of platform models for issuing government-backed loans

PRODUCT PROVIDERS' PROBLEMS AND CHANGES IN MARKET COMPETITION

While traditional product providers (including banks, leasing firms and factoring companies) have long been operating in the SME business, more and more new providers have recently been fighting for a share of the market. Even though the incumbents have begun modernizing and digitalizing their offerings, SME demand for traditional debt financing is likely to decline for three main reasons:

1) Lack of competitiveness: SMEs feel that traditional product providers with their sometimes complicated and cumbersome processes are no longer up to date, and also that their products are not suitably tailored to their needs and simply require too much effort. New players are winning customers over with speed, simplicity and innovations.

2) Exclusion of whole groups: Businesses in certain industries, such as hotels and restaurants, or companies in certain phases of the growth cycle, such as scale-ups, represent a heightened risk of default from the traditional provider's perspective. As a result, these businesses find it difficult to obtain traditional loans, which is why they are increasingly turning to other providers.

3) Falling demand: The trend towards different business models, especially asset-light set-ups, is leading SMEs to focus on less capital-intensive products and services and to have lower financing needs overall.

Even before the COVID-19 pandemic hit the economy, it was evident that SMEs were increasingly seeking alternatives to their banks as a way to meet their borrowing needs. This trend is continuing: a recent edition of the Finanzierungsmonitor study found that only around 14 percent of German SMEs would rule out taking alternative financing. → E

While manufacturers are expanding their sales financing,[9] platform-based providers in particular (alternative lenders and banking platforms) are gaining increased market share.

China and the United States in particular are further ahead on financing via lending platforms than Europe (apart from the United Kingdom). But this development is eventually expected to reach Europe and will bring an increasing shift from traditional banks to lending platforms. Assuming that the SME segment's demand for credit continues to grow, our analysis indicates a volume of up to EUR 250 billion that could be transacted via lending platforms by 2025.[10]

We will thus see a recalibration of competition in the medium term. A look at what SMEs expect from their alternative banking options reflects the challenges and problems inherent in the current process as outlined above. Non-banks can and must convince their customers across the following dimensions:

- **Terms and conditions** More flexible T&Cs
- **Product range** More attractive and flexible offering
- **Processes** Faster processing
- **Transparency** More transparent requirements
- **Value added services** Higher level of servicing and more add-on services

FinTechs that have achieved this have been able to grow their business strongly in the past. Some well-known successes are illustrated in Fig. F. → F

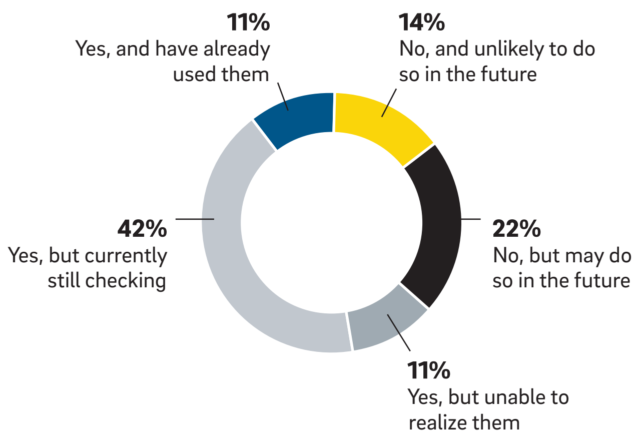
OPPORTUNITIES FOR BANKS

Traditional lenders, and banks in particular, must act now and adapt to the needs of SMEs. Competition is increasing, a fact that is reflected in the low margins on SME loans: lately, margins have been only just above 2 percent, with a downward trend.[11] That being the case, the lending process is in need of radical digitalization and simplification. The key levers that can be applied here are automation (e.g. automated workflow solutions, electronic data extraction and processing), standardization (e.g. product modularization built around risk clusters), clear specialization in the organization (e.g. new roles specializing in SMEs), and steering and controlling (e.g. focus on operational resource management).

E Alternatives to the traditional bank loan

Alternative lending is gaining in importance [in %]

In the wake of the COVID-19 crisis, have you looked into alternatives to traditional bank loans or already incorporated such alternatives into your financing mix?

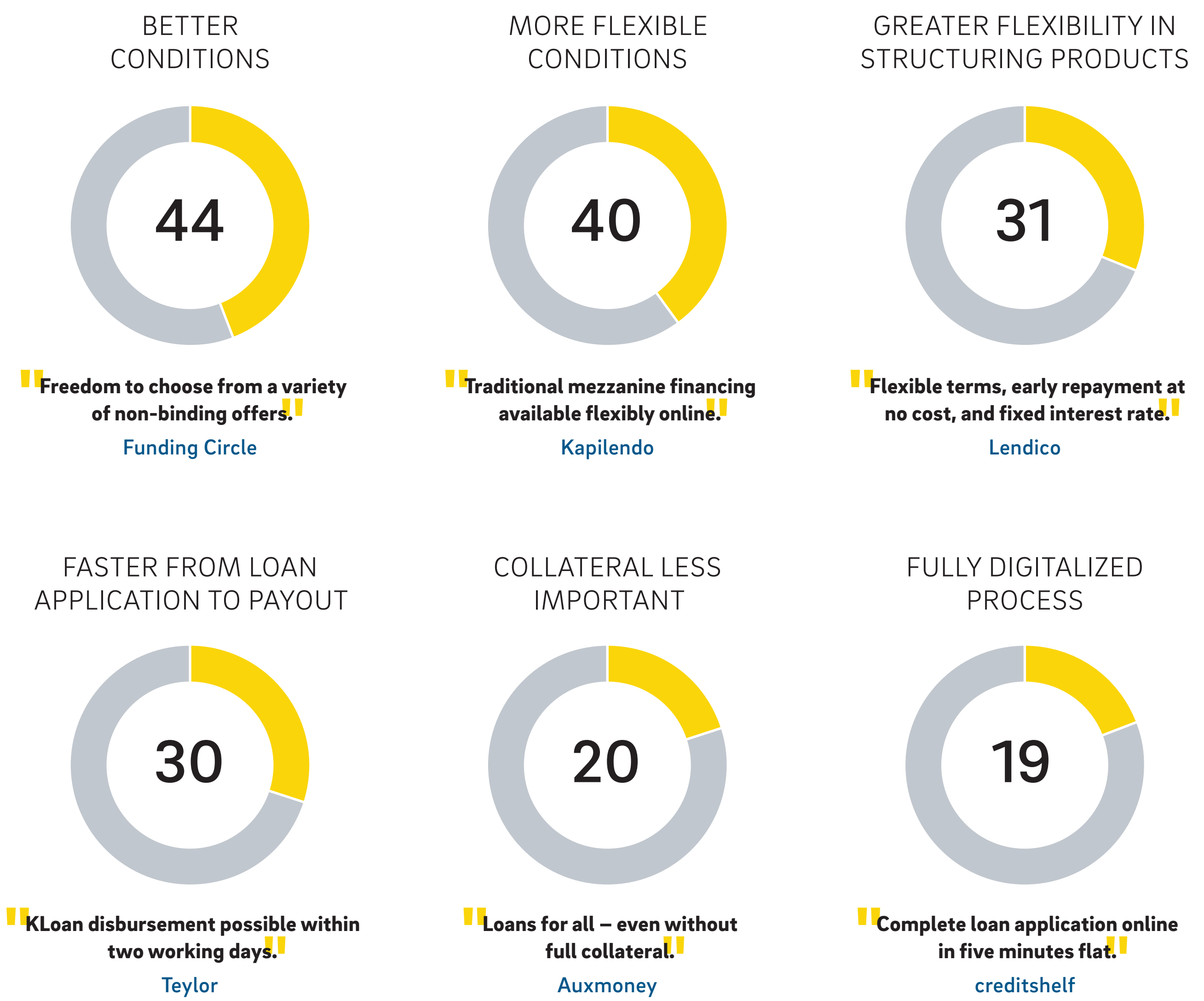


Source: creditshelf Finanzierungsmonitor July 2020, Roland Berger

[9] Roland Berger publication on captive finance, 2019
[10] Roland Berger analysis
[11] Roland Berger benchmark, 2019

F Customer survey: SMEs in the COVID-19 crisis

What do you expect from alternatives to the traditional bank loan? [in %]



Source: creditshelf Finanzierungsmonitor July 2020, Roland Berger

Banks are currently engaged in numerous digitalization activities. However, not all of them meet the needs of customers. Ask a bank's employees about the status of digitalization and you'll often get a response such as, "For us, digitalization means printing out the PDF and then having the back office scan it in." Many banks' digital customer solutions are still very immature, especially in the SME sector. The effects of the COVID-19 crisis serve to underline the amount of catching up that needs to be done here.

But there are also positive developments: some banks have already spotted the opportunities of the SME market and have begun to develop it for themselves based around digital initiatives. Actions range from setting up their own digital SME banks to acquiring existing lenders or FinTechs. Others have successfully established white-label platforms where they offer products at low prices or cooperate with direct lending platforms.

The massive influx of applications for government grants or loans triggered by the COVID-19 pandemic demonstrates the importance of efficient and fast loan processing. Some banks, faced with outdated and cumbersome processes, opted to issue the funding without sufficient checks. This is understandable, as a delayed loan approval can quickly spell the end for a business – but it is only justifiable in such extreme circumstances.

What the way in which COVID-19 support has been managed in Germany does show is that traditional house banks are a key driver of SME lending despite their distinct flaws and recent exodus of customers. Nevertheless, the pressure to digitalize remains – and will only continue to build.

Lending platforms in particular are increasingly evolving from B2B to B2B2B providers. The US accelerator Plug and Play, for example, has created a platform specifically to connect FinTechs and their B2B2B solutions with banks. FinTechs are increasingly offering open banking platforms that banks can connect to their core banking system and thereby gain access to multiple FinTech applications. All in all, the current dynamics open up exciting opportunities for banks.

"The future of loan processing is live, seamless and transparent. Banks need to live this reality."

Dr. Daniel B. Hildebrand

creditshelf case study

Digital platform model: A challenge and an opportunity for banks

FinTech creditshelf has been innovative and successful in attracting SME customers in recent years. Its business model is twofold: on the one hand, the company offers its own loans directly via its digital platform, and on the other, the creditshelf platform acts as the linking pin for a network of borrowers, institutional investors and cooperation partners. All of the processes in the platform are digital and were designed from scratch. With a completely digital lending process, creditshelf arranges unsecured loans of up to EUR 5 million with a term of up to eight years. The lenders vary and include institutional investors who invest in the loans selected and priced by creditshelf via the platform, either directly or through a fund.

For SME business owners in particular, this represents a supplement to the traditional bank loan. The platform's offering focuses on unsecured, fast financing for companies with a rating class of B-BBB. The risk-adjusted interest rate is usually higher than that of a secured bank loan but lower than that of alternatives such as supplier credit or factoring.
creditshelf's business model is based on a platform covering the entire value chain, from acquisition to completion of a loan project. This includes monitoring and servicing the arranged loans until the point of repayment. So, not only does the FinTech use its technology for its own product, but it is also able to provide and source a range of services thanks to the platform's modular design and digital interfaces. The basic principle is that services are integrated within an ecosystem that spans the whole of the banking and FinTech sector. This vertical integration works on different levels of value creation (see table). With integration on their product side, banks can sell or broker creditshelf's offerings as part of their own portfolio. Commerzbank for instance offers its customers unsecured loans from the FinTech if it is unable to (fully) service an application itself for regulatory or business reasons. In that case, the entire process runs via the creditshelf platform. The loans are then off-balance sheet for Commerzbank, which earns commission income only.

Moreover, banks can use the platform as an additional sales channel for their own lending products. BNPP Asset Management offers a loan with a term of five to eight years exclusively through creditshelf, with the FinTech managing parts of the portfolio selection on behalf of BNPP.

Examples of integration at different levels of the value chain

Service flow (from the bank perspective)

• Use of products/services	• Provision of products/ services

Deep integration

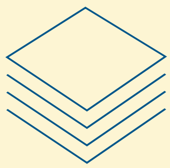
• creditshelf as product partner, incl./excl. risk analytics and monitoring as a service	• creditshelf as a sales partner for banking products

Shallow integration

• Document processing as a service • Risk analytics as a service • Monitoring as a service	• KYC as a service • Account information

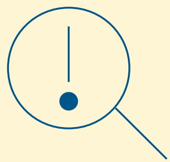
Source: creditshelf

Like other FinTechs are starting to do, creditshelf offers additional services for banks, enabling them to minimize the costs of their processes. These include:



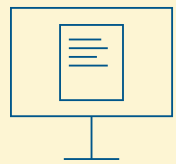
Document processing

Collecting, extracting and analyzing SME-typical information from financial and accounting documents. The focus is on extracts from DATEV, the accounting software most commonly used by German SMEs. creditshelf also offers other forms of reading and processing machine-readable financial documents.



Risk analytics

The extracted information can also be used to create comprehensive risk analyses that include, say, financial and forensic factors and take bank-specific models into account. As the scoring model is continuously being improved by the addition of new factors, banks benefit from risk-relevant insights that go beyond typical bank models.



Portfolio monitoring

With transparency over the data, it becomes possible to monitor the risk and return of loan portfolios automatically. This enables significant cost savings for banks, particularly around portfolio management.

Conversely, creditshelf also makes use of services provided by banks. These include the Know Your Customer (KYC) checks that banks specialize in, as well as feeding in the latest bank data via APIs, which enables the FinTech to conduct risk analytics and monitoring in real time and partly without document transfer.

Overall, creditshelf's digital process allows partner banks to be integrated at various points and at different levels of the value chain. This is a way of significantly accelerating innovations and reducing costs. Banks developing a future-proof business model should consider such forms of cooperation and make use of suitable elements for themselves.

"Cooperation is an important building block of our business model: it enables us to gain new customers on the lending and service side, while the partner banks are able to expand their portfolios and optimize costs. And the customers get the liquidity they need faster and with greater certainty."

Dr. Daniel Bartsch, COO creditshelf

3

Recommendations

How to develop a future-proof business model

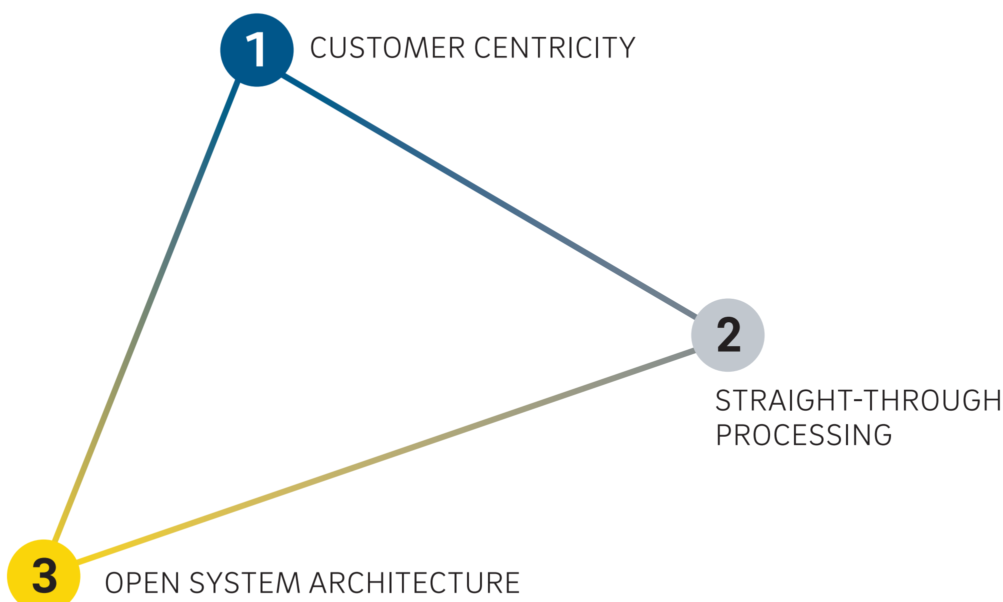
SME lending is changing fast, both on the demand and the supply side. What customers require above all is individualized solutions, but they also need to be simple and fast. And on top low margins necessitate more efficient processes. Banks will therefore have to fundamentally rethink their approach to SME lending if they want a future-proof business model that can dispel the dissatisfaction of many customers and cope with the tougher competition. There are three strategic principles to bear in mind: → G

Customer centricity: Customers need to know that their individual requirements are understood from the moment they first make contact. This requires a standardized data repository and an optimized customer front end. The necessary information can increasingly be generated automatically, such as by accessing and analyzing data from DATEV or bank account statements. This provides a way of giving valuable feedback to borrowers across the entire term of their loan, improves customer loyalty and creates new earnings potential.

Straight-through processing: Efficient and transparent processes are fundamental to being able to process applications quickly and to know at all times where you currently are in the value chain and why. To this end,

G Strategic principles

Principles for developing future-proof business models



Source: Roland Berger

there is a pressing need for systems to be harmonized, technologies standardized across the board and manual activity reduced.

Open system architecture: The required product range or the necessary process quality is often impossible to realize efficiently with internal solutions. Banks should therefore say goodbye to their previous monolithic operating model and build an open system architecture. This includes connecting to the core banking system through interfaces so as to be able to use third-party services, data and solutions, such as for assessing individual risks. That makes it possible to respond faster to customer requirements – providing crucial competitive edge. An open system architecture also means that banks can expand partnerships with FinTechs at will without major additional expense.

Based on these strategic principles, there are two main stages in the evolution of the bank business model: first, the extensive digitalization and automation of the SME lending process, and second, the development of a fully integrated offering beyond traditional banking services.

H The SME lending process

The SME lending process of the future is driven by content and not limited by tools. It is characterized by the following features:

Live

- Continuous availability and display of all relevant information in real time
- Live tracking of progress and largely automated decision making
- Maximum reduction of manual intervention and, where this is necessary, parallel processing whenever possible

Seamless

- Direct access to digital data sources
- Seamless integration of various tools and applications in an overarching workflow
- Standardized data structure model at the heart of the digital operating model

Transparent

- Automated structuring of information and central data storage (single point of truth)
- Classification of all inputs (calculations, assumptions, analyses) and maximum objectivity in decision making
- Complete archiving of data and use of data for portfolio monitoring

Source: Roland Berger

Stage 1

DIGITALIZATION AND AUTOMATION OF THE SME LENDING PROCESS

The lending process of the future is digital, largely automated and therefore efficient, fast and transparent. The key to this lies in modular process steps that take place in parallel. Banks occupy the customer interface – either via branches or online/direct. Depending on the capabilities available internally, banks can optimize the individual process steps by integrating various partners. The future lending process also envisages opening up to third-party investors, which will enable banks to offer products efficiently. The positive effects outweigh the frequently voiced objection that this would cannibalize the (core) business. → H

The following examples from Roland Berger projects illustrate the successful transformation of SME lending processes at two traditional banks. In both cases, fully digital and largely automated solutions were incorporated into the lending process. The seamless integration of the new modules was a key success factor.

PROJECT EXAMPLE 1: Integrating a plug-and-play tool for processing COVID-19 support packages

When the number of loan applications coming in rose sharply at the start of the COVID-19 crisis, Roland Berger worked with creditshelf to develop a plug-and-play solution for banks that allows customer applications for government-backed loans to be processed quickly without any great rise in internal complexity. Any missing data from an application, such as as-yet unpublished annual reports, are added as and when available. Access to various data sources (especially DATEV for management analysis data) makes this possible. The data is then aggregated, automatically checked against predefined criteria, and presented in an audit dashboard according to the needs of the processing officer. This provides banks with information on the financial health of applicants at the touch of a button, enabling them to make fast and well-founded decisions on whether to grant loans. For customers, this means they get prompt feedback on their application. The tool was developed based on the current needs of bank customers and is easy to integrate into the existing banking process. It can also be made available to others as a white-label solution.

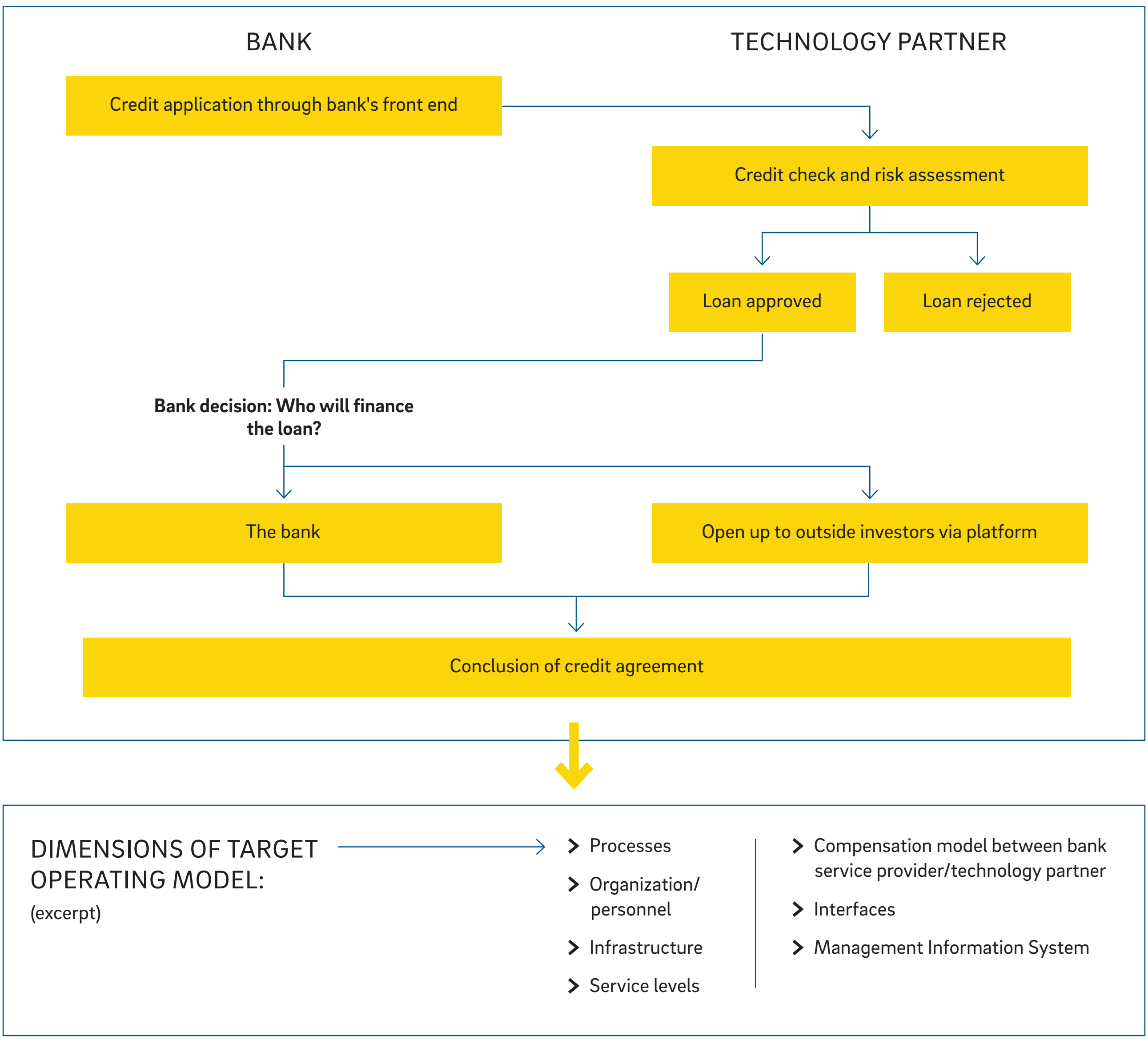
This solution can be expanded as required if the range of government support increases or to facilitate connection to any of the wide variety of regional development banks. Thus, banks can offer their customers a transparent platform and access to all forms of state support from all of the regional development banks. Roland Berger has developed an approach for the transformation of government-backed loan platforms that can be integrated into existing lending processes in a modular fashion. In the first step, SME customers can choose between the various government-backed programs via the front end. Then, in addition to the bank's internal risk assessment, a fully automated process of checks is initiated for which external data sources are again used. The check tool collates the results and makes them available at the push of a button. The results are then sent electronically to the development bank concerned.

PROJECT EXAMPLE 2: Connecting partners and operating a digital SME lending platform

Roland Berger has developed a digital SME lending platform that connects traditional banks' core banking systems with external service providers and investors via APIs. This enables banks to focus fully on the customer interface and offer customers transparent access to a range of financing options. At the same time, a bank will save significantly on costs because it does

SME lending platform

Schematic



Source: Roland Berger

not have to modernize its lending processes itself. The core process is outsourced and the bank acts as a broker, earning commission. When a loan application arrives at the bank's front end, it is automatically forwarded to a technology service provider with all relevant documents and information necessary for the risk assessment. The tech partner then analyzes the customer's credit score and makes an automatic decision on whether to offer a loan. In the next step, the customer receives the credit agreement documentation. The bank can now choose whether to finance the loan itself or open it up to other investors. Once payment has been approved, the agreement is concluded electronically, and the payment initiated. Opening up to outside investors enables the bank to profit, via commission, from asset classes it did not previously consider attractive. Instead of offering the full spectrum of all products itself, the bank can focus on "winning" products – true to the motto "shrink to fit" – and still offer customers the best possible service. → I

Stage 2

DEVELOPMENT OF A FULLY INTEGRATED OFFERING BEYOND TRADITIONAL BANKING PRODUCTS

The examples presented already make it clear that there will be numerous solution providers participating in the future process of digital lending. The logical next step is therefore to have various products and services fully integrated on platforms (for non-financial services as well). It's important for each bank to determine the optimal role for itself in advance. Options range from being pure product suppliers and offering their products via third-party platforms in order to increase their reach, to handling the partner search and management, i.e. brokering loans and doing the admin, to being platform owners who orchestrate all of the products and services along the SME customer journey – even beyond the banking business.

PROJECT EXAMPLE: CFO-as-a-Service

The CFO-as-a-Service solution developed by Roland Berger enables banks to identify the financial needs of a corporate client and offer it additional services beyond financial management. Within this model, the bank more or less operates the client's Finance and Treasury department and is thus deeply ingrained in the customer's business. This means that the bank can identify developments and future needs at an early stage based on real-time data – and offer appropriate solutions proactively. The bank acts as an impartial advisor and software provider, building a marketplace for "simple" financial products. Through the marketplace, the best solution is recommended to the customer, regardless of the provider. And non-financial services can also be offered on the basis of the data collected.

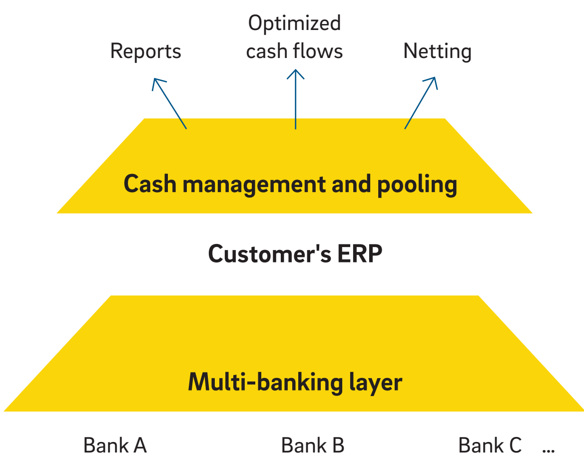
The concept enables the SME customer to focus on their core business. With the bank acting as an impartial service provider, the customer can always select the finance products they need at the best price from the right service provider. This gives SMEs access to the kind of conditions large corporates enjoy. The bank profits from both the fees and its positioning at the direct interface with the customer. Moreover, the bank has the opportunity to become more independent of its actual core business and to develop further sources of income for the long term. → J

J CFO-as-a-Service

The bank operates the client's Finance and Treasury department

1 Software solution

Finance/Treasury needs are met by the bank, which provides a software solution deeply ingrained in the client's organization and its systems



2 Curated marketplace

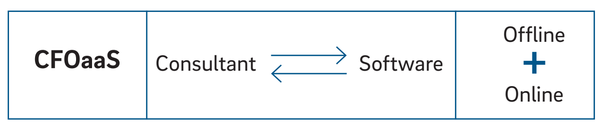
Providing the best financial products to the customer through a marketplace curated by the bank with incentives that are aligned with the customer's needs.

3 Differentiating services

The bank identifies the customer's actual financial needs and also provides all non-core aspects of its value chain.

4 Data-driven services

Data collected from the customer is used to create innovative services and products that are tailored to the customer's exact needs.



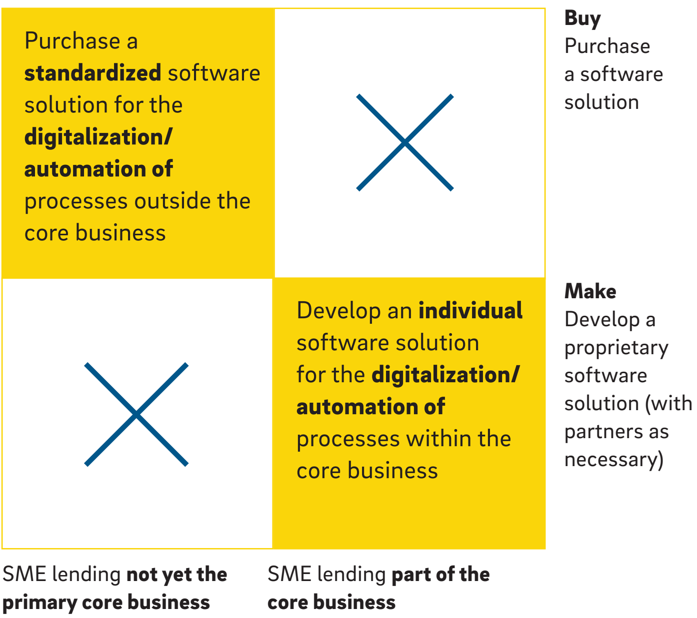
Source: Roland Berger

TAKE THE NEXT STEPS WITH ROLAND BERGER

Many banks are currently facing the need to comprehensively transform their business model in order to be able to serve the SME segment going forward. Roland Berger has supported German and international clients in numerous projects as they seek to manage this transformation, to reposition themselves in this segment and to align their business for the future. We will be happy to advise you on the requirements of tomorrow's SME lending process. In our projects, we act as a navigator guiding clients through the decision-making process, and our Innovation Check tool helps banks put all processes under the microscope and analyze any current difficulties. We create complete transparency over the status quo and highlight where there are any gaps to competing firms, such as FinTechs. We are experts in improving individual process elements, which we do by examining and weighing up the use of external, ready-made and proven solutions. Because besides bringing

K Digitalization options in SME lending

The make-or-buy decision depends on proximity to core business



Source: Roland Berger

Realize the SME lending process of the future with Roland Berger:

1) **Innovation Check**
2) **Technology assessment incl. business case**
3) **Make-or-buy decision**
4) **Integration/ implementation**

time and cost benefits, outsourcing parts of the lending process offers the advantage of scalable risk analytics.

Roland Berger is an experienced and reliable partner for digital transformation. We'll help you put the necessary prerequisites (including Open Banking) in place so that you can offer your SME customers an innovative lending experience. After conducting an as-is-analysis, we'll define a holistic business case with a focus on your long-term strategy. From this, we'll derive a customized recommendation for you on whether to develop technical solutions yourself or to bring exclusive partners on board. In doing so, we'll draw on our Terra Numerata network, through which we can quickly establish access to proven and certified partners for you. Because one thing is for sure: if you just implement standard solutions, you will end up irrelevant – what you need is bespoke solutions and an emphasis on your bank's specific USPs. When it comes to developing and implementing these solutions, we'll be by your side, steering all service providers to ensure turnkey delivery. → K

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WE WELCOME YOUR QUESTIONS, COMMENTS AND SUGGESTIONS

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About us

Roland Berger, founded in 1967, is the only leading global consultancy of German heritage and European origin. With 2,400 employees working from 34 countries, we have successful operations in all major international markets. Our 50 offices are located in the key global business hubs. The consultancy is an independent partnership owned exclusively by 250 Partners.

creditshelf, founded in 2014 and headquartered in Frankfurt, is the leading lending platform for digital SME lending in Germany. We arrange flexible financing solutions from a wide array of banks through a constantly growing network. At the core of the creditshelf business model lies unique, data-driven risk analytics, alongside lean, fast and digital processes. The experts in the creditshelf team possess years of experience in SME lending and are trusted partners and visionaries for the entrepreneurs of tomorrow.

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