

Reaching SME's and developing them to be bankable

16th February 2012

Presentation Outline

A

Characteristic of SME market and customers

B

Challenging logistics, given their geographic spread

C

What problems/challenges does SMEs face to raise finance / capital

D

What products/services SMEs require/expect from banks

E

How can Banks position themselves to serve this segment

Characteristic SME market and customers

SME market knowledge is difficult to acquire

- “A Corporate” market composed of large well-known companies ,
vs.
- A diverse market consisting of hundreds of thousands of SMEs spread across industry sector and geographic areas

SME Risk is difficult to manage for traditional banks

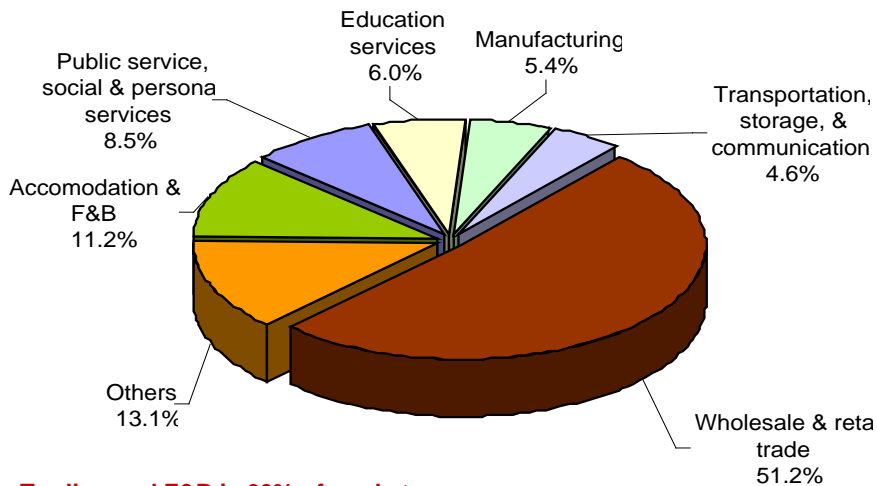
- Financial information on the business is limited and often non reliable
- SMEs are often under-capitalized
- SMEs are often unable to provide adequate collaterals

SME banking has high cost to serve

- One Corporate transaction can generate the same Net Banking Income as 50-100 SME transactions
- Large distribution channel and infrastructure can push up cost to income ratios.

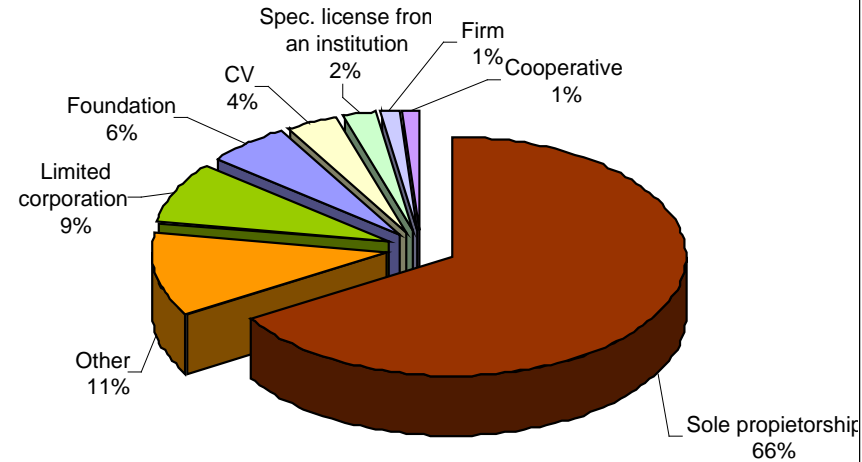
Basic information about SME firms in Indonesia

Industry



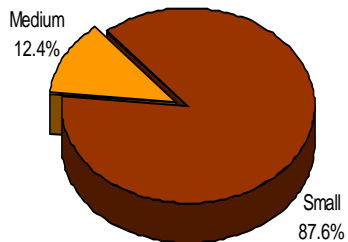
Trading and F&B is 60% of market

Legal Status

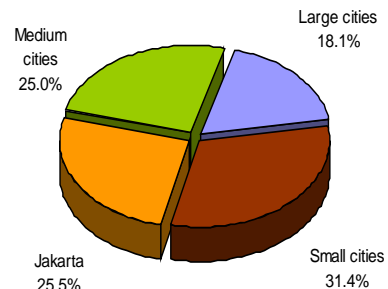


Smaller end is dominated by Sole Proprietorship

Size

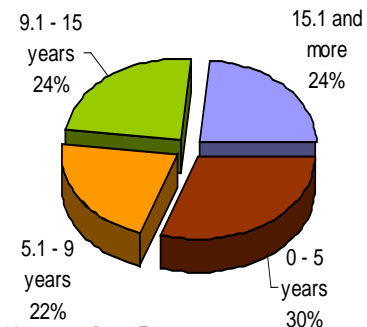


Location



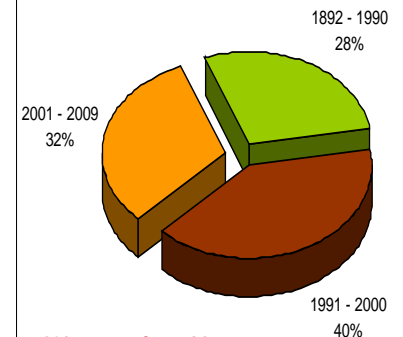
45% in Jakarta & Large Cities

Length of Involvement of Owner



70% more than 5 years

Firm Age



70% more than 10 years

Source: IFC Indonesia Report Feb 17, 2010

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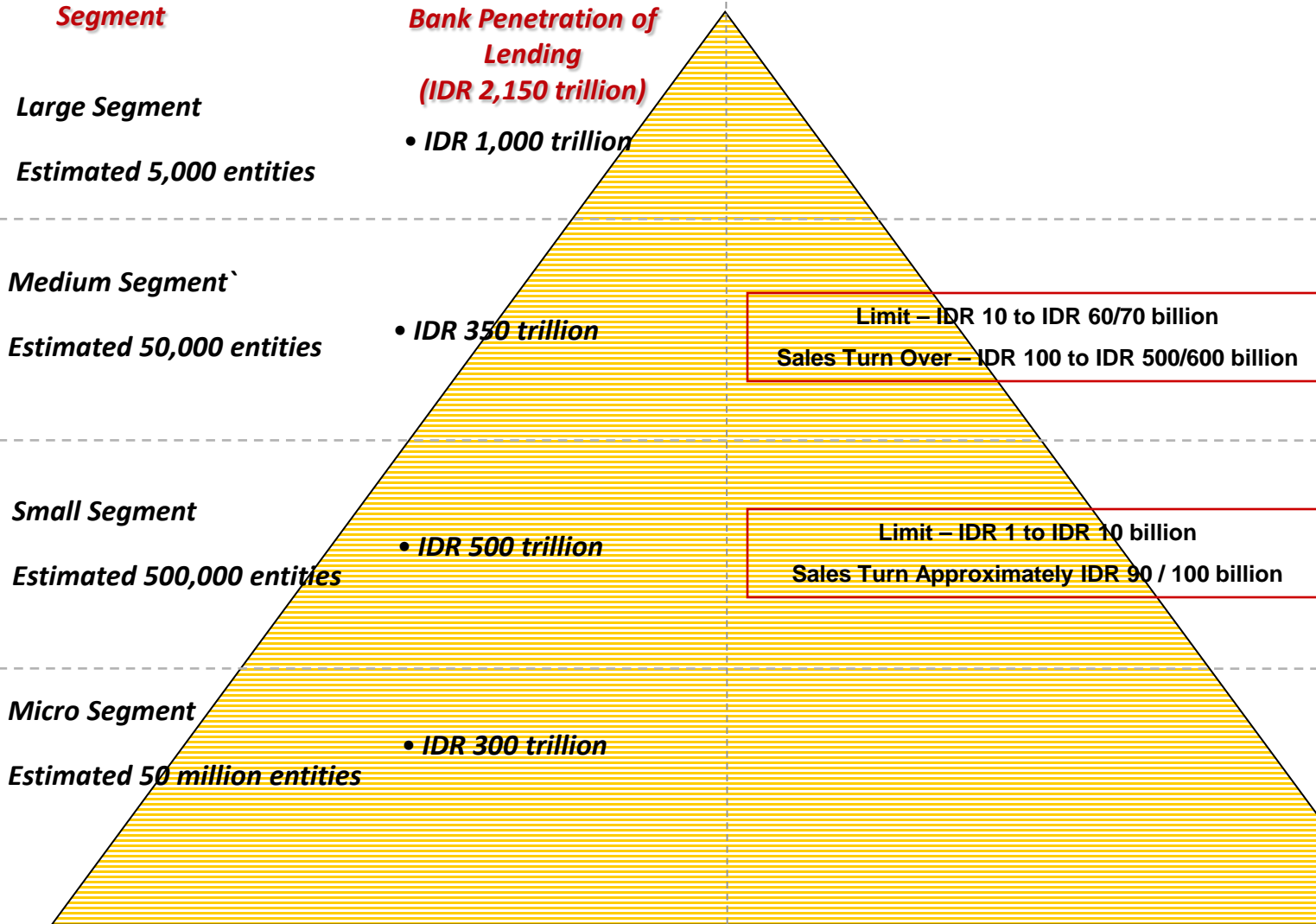
D

What products/services SMEs require/expect from banks

E

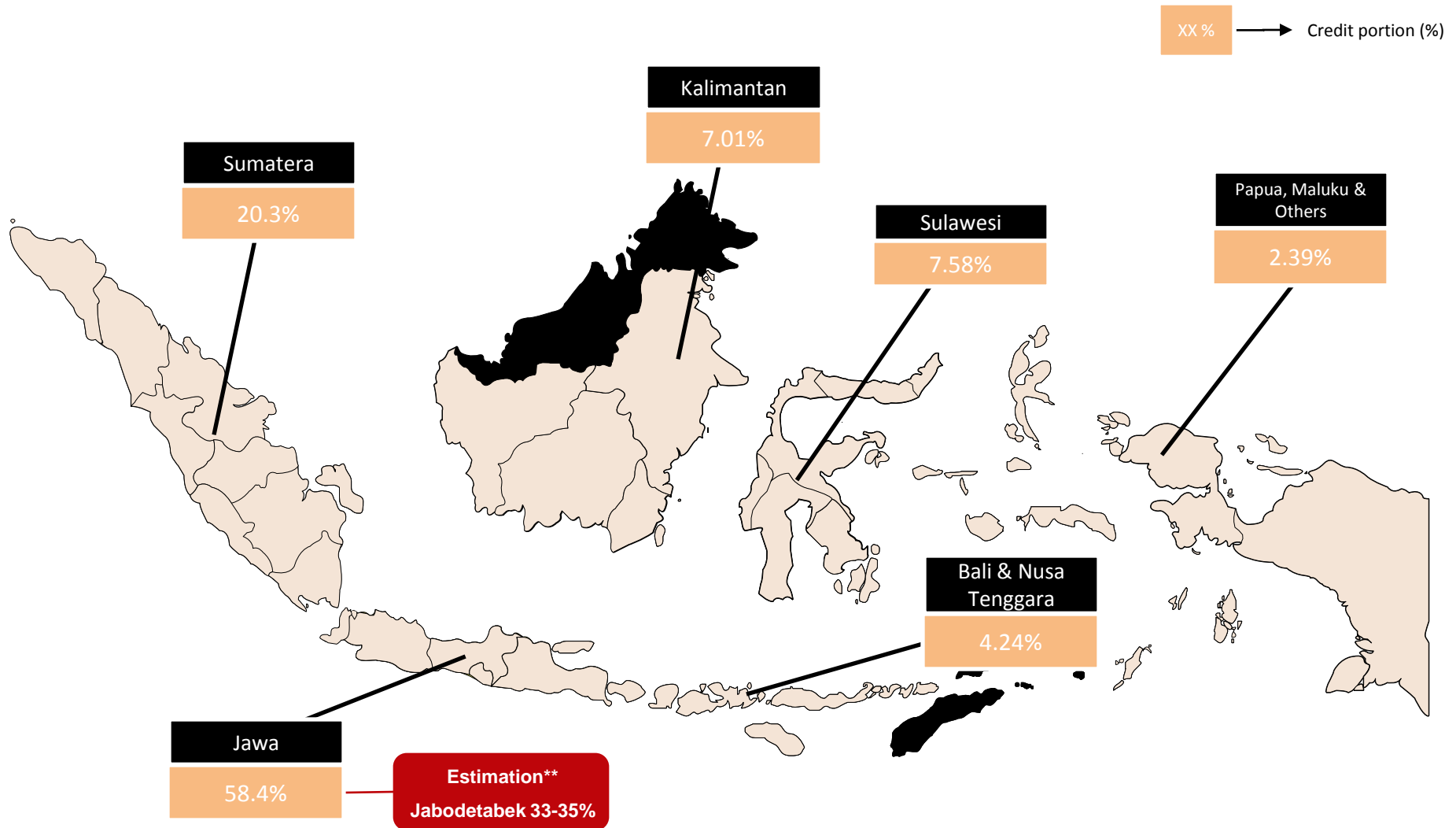
How can Banks position themselves to serve this segment

SME market in Indonesia



* All figures are estimations only

SMEs Credit in Indonesia



Source : Bank Indonesia November 2011 UMKM fair values (temp figures) exclude Micro

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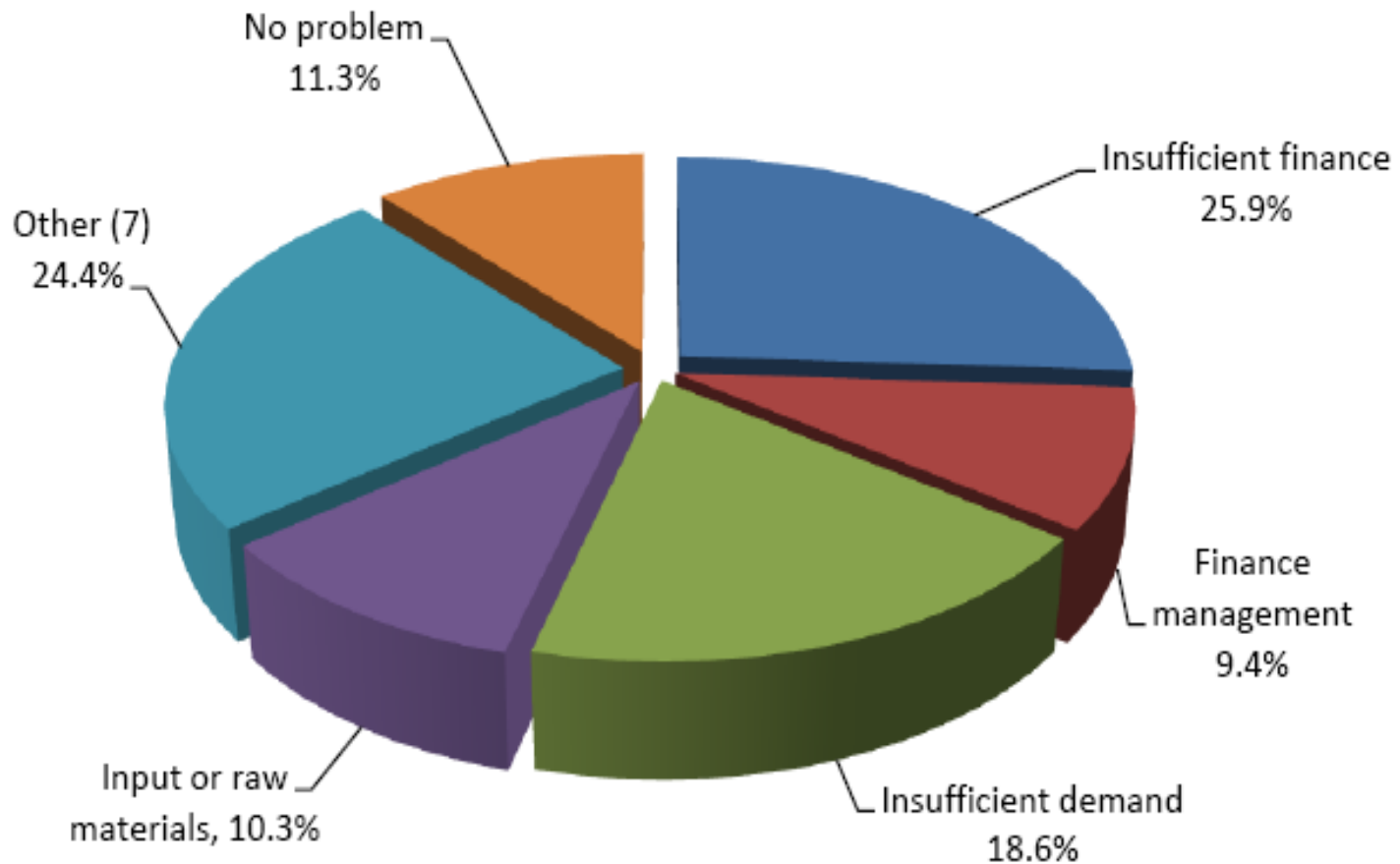
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Obstacle faced by SME Customers



SME Constraints to Access Finance

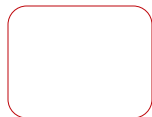
3 Major Constraints Identified



SMEs are regarded by creditors and investors as high-risk borrowers due to insufficient assets and low capitalization, vulnerability to market fluctuations and high mortality rates



Information asymmetry arising from SMEs' lack of accounting records, inadequate financial statements or business plans makes it difficult for creditors and investors to assess the creditworthiness of potential SME proposals.



High administrative/transaction costs of lending or investing small amounts do not make SME financing a profitable business.

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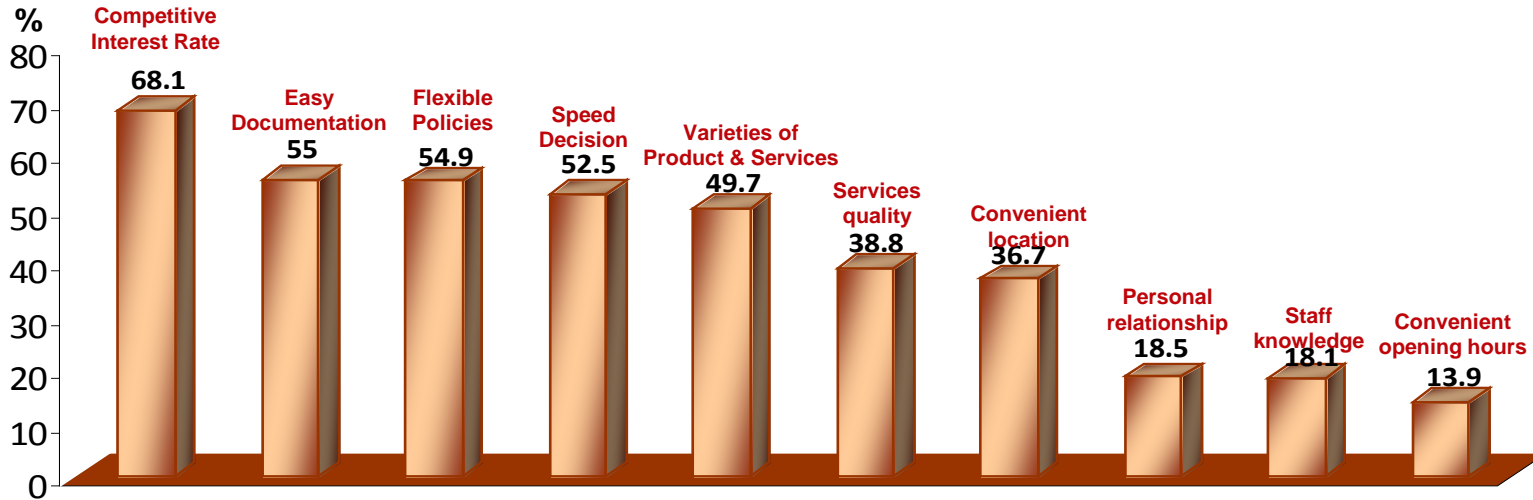
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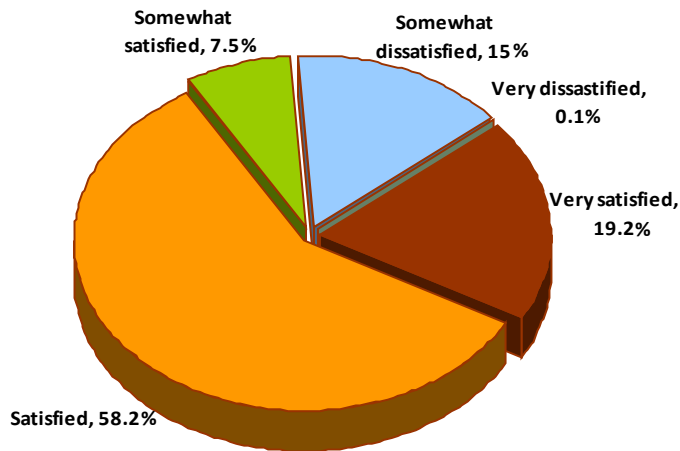
SME Customers expectation & satisfaction

SME Customer Expectation

* Multiple selection allowed



SME Customer Satisfaction



- Only 20% from SMEs customer are very satisfied with their existing banks
- Top 3 variables that driven customer satisfaction from existing banks is wide network, good exchange currency rate, and complete product

Source: IFC Indonesia Report Feb 17,2010

Financial product offered by banks for SME market



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Probable Bank Positioning.....

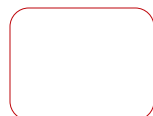
5 Response to Access Constraints



Reducing information asymmetry of SMEs and high perceived risks by using credit scoring systems, external information providers, risk self-assessment for the SME entrepreneurs, pricing to the level of risk; sharing risk with third parties (loan guarantees) using covenants as an alternative to loan guarantees, and setting up special support units for high risk customers such as start-ups,



Reducing costs of lending by applying latest information technologies; streamlining the organization and simplifying the lending process;



Developing products better adapted to SME needs;

Probable Bank Positioning.....

5 Response to Access Constraints



Improving financial services for SMEs through training of bank staff and the segmentation of SME customers



Cooperating with SME organizations and other business development providers in order to reduce risks and costs and combine financial with non-financial services

This is Asia's time, This is Our time

THANK YOU