Reaching SME's and developing them to be bankable

16th February 2012



- Characteristic of SME market and customers
- Challenging logistics, given their geographic spread
- What problems/challenges does SMEs face to raise finance / capital
- What products/services SMEs require/expect from banks
- 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

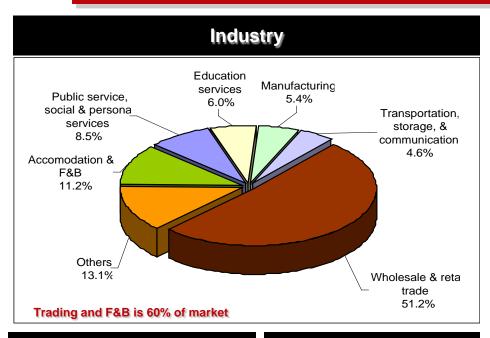
- Financial information on the business is limited and often non reliable
- SMEs are often under-capitalized
- SMEs are often unable to provide adequate collaterals

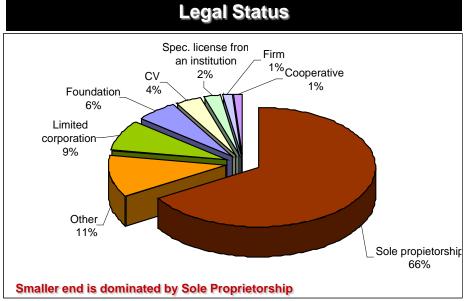
SME banking has high cost to serve

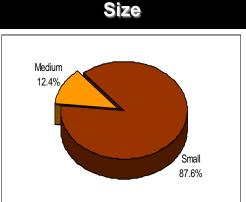
- One Corporate transaction can generate the same Net Banking Income as 50-100 SME transactions
- Large distribution channel and infrastructure can push up cost to income ratios.



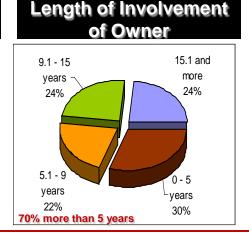
Basic information about SME firms in Indonesia

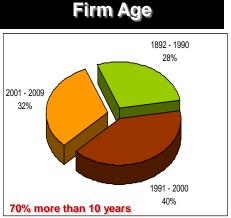












Source: IFC Indonesia Report Feb 17,2010



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SME market in Indonesia

Segment

Large Segment

Large Segment

Estimated 5,000 entities

Bank Penetration of Lending (IDR 2,150 trillion)

• IDR 1,000 trillion

Medium Segment`

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Estimated 50,000 entities • IDR 350 trillion

timated 30,000 entitles

Small Segment

Estimated 500,000 entities

Micro Segment

Estimated 50 million entities

Limit - IDR 10 to IDR 60/70 billion
Sales Turn Over - IDR 100 to IDR 500/600 billion

Limit – IDR 1 to IDR 10 billion

Sales Turn Approximately IDR 90 / 100 billion

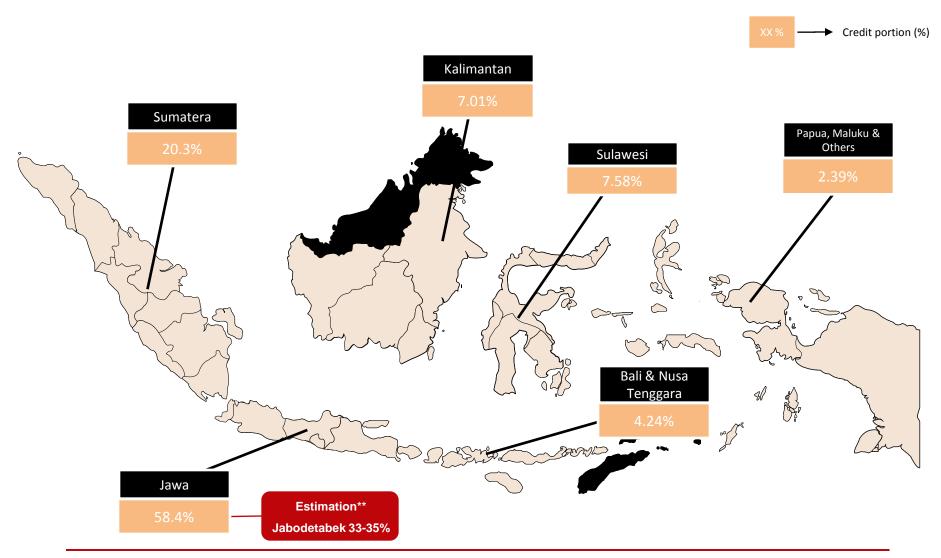
IDR 300 trillion

IDR 500 trillion



^{*} All figures are estimations only

SMEs Credit in Indonesia

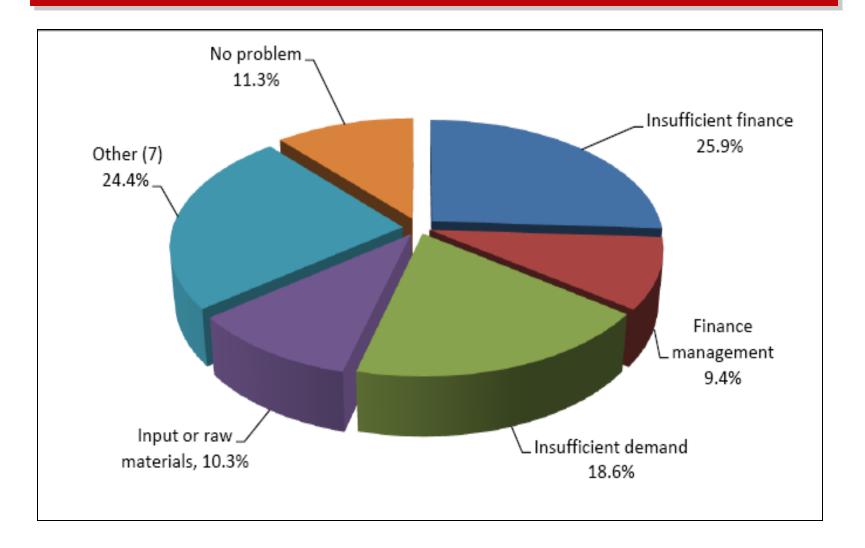




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Obstacle faced by SME Customers





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.

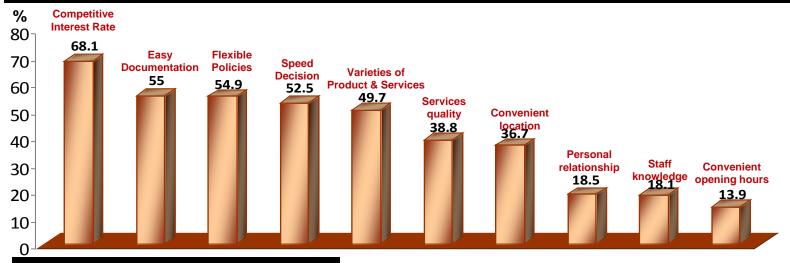
DBS

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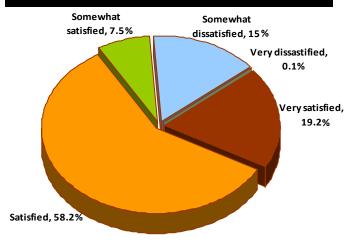
SME Customers expectation & satisfaction



* 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

Medium

Treasury

- **Daily Settlement** Limit
- PCE FX
- PCE Options, Swap

Small

As Personal

Owners

- **Trade**
 - **Account Payable** Financing
 - **Account Receivable** Financing
 - **Factoring**
 - **Pre Export Financing**

Loan

Overdraft

Term Loan

Equipment

Warehouse

Shop house

Financing

Financing

Financing

Revolving Loan

Shipping Financing

Factory Financing

- Trust Receipt
- **Letter Of Credit**
- **SKBDN**
- Clean / Discrepancy LC
- **Inventory Financing**
- **CMA**

Guarantee

- Bank Guarantee
- Performance Bond
- Warranty Bond
- **Advance Payment** Bond
- **SBLC**

Usage

- FX Needs
- Hedging
- Working Capital Needs
- Daily Operating **Expenses**
- Guarantee
- Expansion of premises
- Advance **Payment**
- Credit Protection
- Trading
- Fixed asset financing
- Machinery financing

Consumer

- Car Loan
- **Housing Loan**
- Personal Loan
- **Credit Card**
- **Unsecured Loan**

Mortgage

- Emergency Loan for medical / education
- Car Loan
- Credit Card



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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;

DBS

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

