



DIAGNOSTIC CHECKLIST FOR SME BENCHMARKING

> INTRODUCTION

KEY QUESTIONS – UNDERTAKING AN INITIAL BENCHMARKING REVIEW OF SME BANKING PRACTICE

This iterative list of questions is designed to form an initial diagnostic questionnaire to assess a bank's current performance in SME banking and, also, the strength of its strategic orientation and commitment to developing a stronger SME banking offer. The responses to the questions will identify key areas of strategic and operational need, and inform an agenda for preparing a SMART (Specific, Measurable, Achievable, Realistic, and Time bound) SME banking strategy and implementation plan.

This checklist was used in a workshop with one of our action research partners (ARPs) to identify gaps within each of the areas below. The answers to the questions worked well to inform the need for developing a specific strategy for the SME banking department, with SMART goals being identified for each of the key areas.

It is paramount that the use of this tool involves all the senior stakeholders from each of the key areas in the bank, e.g. Head of Credit, Head of HR, etc. The benefit of involving all the senior stakeholders is that they take ownership of the strategy formulation; the gaps are identified and senior staff contribute in developing solutions for addressing them.

Discussions arising from the checklist of questions were taken and developed into an initial work plan, where work streams were identified for a number of key areas.

About GrowthCap

Over the past few years FSDK has been at the forefront of SME banking development through conducting market assessments and studies in areas such as trade finance and SME equity funds, as well as supporting development of the credit reference bureau. Through its partnerships with its Action Research Partners (ARPs), FSDK's GrowthCap initiative is supporting adoption of SME best practices by individual financial service providers.

This paper is part of a series of Technical Notes and Resource kits that are being developed out of work with the ARPs. These provide detailed information about the best practices and are intended for use by financial service providers and those supporting such institutions which are entering the SME market.

Abstract

This tool provides a list of questions designed to be used in undertaking an initial benchmarking review of a bank's current SME banking performance, its strategic orientation and commitment to developing a stronger SME banking offer.



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During the workshop, participants were instructed to select the area they were most interested in. Work groups were formed as follows: overall strategy and SME orientation, organisational structure and HR, credit risk management, and operations and systems. Based on discussions, new work streams were recognised, such as product development and IT. Senior stakeholders within the broader team were identified as those responsible for leading, managing and generally ensuring the completion of tasks under their respective work streams.

There is some degree of overlap in the questions. This is intentional and designed to expand upon issues of strategic importance. Furthermore, this is not an exhaustive list of all the questions that can be asked. During discussions, other matters may arise and will need to be incorporated into any action plans.

In addition to developing practical work streams from the discussions around these questions, the checklist can be used to help a bank pull together an SME banking strategic plan document per se.

GROWTH CAP EXPERIENCE

There are a number of lessons that we have learned from working with our ARPs that should be taken into consideration when helping banks to develop their SME banking strategy:



Discussions around this checklist will help a bank pull together an SME Banking Strategic plan document

- It is essential to have a key person, a champion who is passionate about implementation of SME banking, to drive the process.
- It is critical that senior staff be involved from the initial discussions to final implementation and take ownership of this process.
- It is very important to have the key stakeholders in all the aspects of work streams (people, processes, products, policy, technology etc.) involved from the beginning when first discussions about this starts.
- Developing a strategy that is embedded in the organisation takes time. Highlight up front that this process will take time, with obstacles faced on the way. A realistic timeframe for strategy development and implementation needs to be acknowledged and agreed for this process to succeed.
- Appointment a project manager within the bank who knows how to manage projects to ensure that activities take place and deadlines are met.
- Consultants should not write the strategy for the bank. Bank staff and senior personnel need to be actively involved in doing this if the strategy is to shift into practice and not merely sit on a shelf.
- The strategy should be a written document, with SMART goals, tasks, and persons responsible. It will necessarily be flexible, but should be viewed as a working roadmap, and progress tracked.

> THE KEY QUESTIONS

A. BACKGROUND, CONTEXT & STRATEGY DEVELOPMENT

1. How does the bank define an SME (small and medium enterprise)? How is it distinguished, if at all, from an MSE (micro and small enterprise)?
2. Why is the bank attracted to the SME sector as a priority target market?
3. Describe the bank's current SME activity base i.e.:
 - product portfolio;
 - total number of SME customers, both borrowing and non-borrowing;
 - number of SME non-borrowing accounts split into deposit, transaction, savings and 'other';
 - number of SME loan accounts; outstanding amount of SME loan accounts; and
 - best estimate of the SME portfolio at risk.
 - Is the bank able to supply this information? Can it describe its current SME customer base, or has it not aggregated/been able to aggregate this information?
4. What percentage of value and number of customers of the bank's total portfolio are SME?
5. How does the bank segmented/sub-segmented its SME book for reporting and marketing purposes?
6. Does the bank have access to accurate market information and quality base-line data that provides insight into and understanding of the broad SME market, and the individual segments and niches that may offer commercial opportunities?
7. Does the bank have a current, articulated 'SME vision' and associated 'SME strategy'? If so, please summarise? When was this strategy developed, and by whom; and how much progress has been achieved to date? Are these board-approved?
8. Has the bank attempted to build its SME client portfolio in the past? If so, how successful was the attempt; and what did the bank learn from the experience?
9. What are the main strategic 'drivers & levers' that will deliver success in the SME banking area?
10. Does the existing bank SME strategy satisfy the SMART principles i.e. Is the strategy **S**pecific – **M**easurable – **A**chievable – **R**ealistic – **T**ime-bound?
11. What are the highest priority goals within the SME strategy?
12. Is the bank's SME strategy fully understood and endorsed by the board and senior management team?
13. Does the SME strategy include a realistic gap analysis that identifies future resource needs?
14. What additional resources or core competencies does the bank require to implement its SME strategy effectively?
15. Has the board and/or senior management team committed to provide adequate resources to implement the SME strategy, including mobilising or raising additional capital or lendable funds if the situation requires? (Is funding an issue, or realistically likely to become an issue?)
16. How does the bank's SME strategy fit into (and complement) broader corporate strategy? How important is the SME market perceived to be in consideration of the bank's broader corporate goals and ambitions?
17. How is the bank currently perceived by the SME sector? Does the bank have an existing brand profile or reputation in the SME market? If so, what characteristics and promises does this brand represent?
18. Does the bank's SME strategy contain a clear market segmentation methodology; and does the bank's current or future product and service offer reflect the articulated 'needs & wants' of defined market segments?
19. What distinct competencies or 'advantages' does the bank possess in respect of the SME market? How does the bank wish to position itself in the future (continue targeting the same segments or pursue new segments – which segments or approach)?
20. What is the basis of the bank's existing or aspirational competitive advantage in the SME market?

21. What are the critical success factors that attach to implementing and achieving the bank's SME strategy, i.e., what 'has to happen' for the bank to be successful?
22. What are the potential 'barriers & blockages' that are likely to frustrate the bank's strategic ambitions in the SME market? What is the biggest problem (or problems) that the bank needs to address?
23. Does the Bank have access to sufficient funds to support the portfolio growth articulated in its SME strategy?

B. STRUCTURE

24. Describe the bank's business model, organisational structure and distribution network for servicing the SME market?
25. Where does SME banking fit within the bank's overall organisational structure? Is SME banking established as an autonomous or semi-autonomous strategic business unit i.e. Does SME banking have a distinct profile and identity within the bank; or is it subsumed within retail or corporate banking operations?
26. What distribution channels or agency relationships relevant to the SME market does the bank have; and does the bank have any plans to extend or develop new or extended distribution channels in respect of the SME market?

C. HUMAN RESOURCES

27. Who is the SME banking 'champion' within the bank and how was that person selected and appointed?
28. Does the head of SME banking have sufficient experience to implement the articulated SME Strategy? What is his or her background?
29. Does the head of SME banking have sufficient authority and gravitas within the senior management team to influence decision-making and secure necessary resources within a competitive internal environment?
30. How is the SME market regarded internally within the bank i.e. do staff generally perceive the SME market to be a major profit driver and an area where they personally can achieve career advancement?
31. Does the bank have a clear career path for staff employed within the SME banking division?
32. Does the bank provide front-line SME staff with any task-specific training or support? Please specify training is provided (classroom and on the job).
33. How financially literate are the Bank's SME-facing staff (whether by educational background or formal/informal training in the bank)? Finance is the language of business and effective communication with SMEs is only possible if there is a common understanding of financial terms and expectations.

D. CREDIT

34. Is the SME lending process different than the corporate or retail lending process?
35. Does the SME credit team primarily look to the value of collateral, or to the cash flow of the business, in making lending decisions?
36. Does the bank base lending decisions on a holistic assessment of SME business performance, or rely exclusively on supplied financial information?
37. Does the bank value the business as a going concern, or is it only looking at liquidation value of company assets?
38. Can the SME credit team explain the competitive advantages of individual SME clients?
39. Does the bank appreciate the critical importance of turnaround time (TAT) in SME banking; what TAT targets are considered to be acceptable and what mechanisms are in place to monitor and optimise performance in this regard?
40. Does the bank have effective linkages between the business unit and the decision makers to ensure that all necessary information is communicated to make the credit decision, and that feedback is delivered to the SME customer as a normal course of business?
41. How smooth is the SME credit approval process? What are the main challenges faced by the bank in SME credit approvals?

E. OPERATIONS

42. Is sustainable success in the SME market included within the CEO's key performance indicators?
43. How does the bank manage its SME portfolio and what level of resources are committed to the SME book? How does it determine the level of resources committed?
44. Does the bank have a clear understanding of the difference between SME portfolio management and SME relationship management and is this understanding reflected in the prevailing operational model?
45. Does the bank have accurate MIS that enables staff to target profitable SME opportunities, and respond accordingly? Is information available to relevant personnel such as relationship managers, or is it only the preserve of top management?
46. Do front-line SME banking staff spend too much time with marginal or unprofitable customers? Do standard operating procedures exist to manage turnaround time?
47. Does the bank have a clear commitment to building long-term relationships with selected SME customers; and what mechanisms are in place to build SME commitment and loyalty over time?
48. Does the bank exercise good data discipline; and access readily available information in support of decision-making?
49. What mechanisms are in place to monitor and manage risk in its SME banking operations?

F. SME ORIENTATION

50. How does the bank define its SME target clients?
51. What strategies has the bank put in place to reach these targeted SME clients?
52. How 'SME friendly' is the bank's current SME service offer? What evidence exists to support this perception?
53. What mechanisms (if any) are in place to monitor levels of SME satisfaction; and the relevance and effectiveness of the bank's SME service offer?
54. Does the bank demonstrate clarity and transparency in all its dealings with SME customers? How does the bank get feedback to determine this?
55. What evidence exists to support the view that the bank has an SME demand-led orientation as opposed to being entirely supply-driven i.e. that the SME banking operations are configured for the convenience of the SME customer?
56. Does the bank and its staff show sufficient respect to the SME customer? How is this demonstrated? Would the SME customers agree with this?
57. Does the bank and its staff appreciate the complexities of the SME life-world and the pressures and uncertainty that attach to running a business? Is training provided to build empathy and understanding in this regard?
58. Do SME banking staff have some degree of understanding of the dynamics of SME growth and the need to make allowances for businesses that are experiencing periods of accelerated growth

About the authors: This note was initially developed by Tim Atterton and has been tested with various financial institutions and further developed by Ulla Balle, partnership manager at GrowthCap and Esther Nyauncho and Duncan Oyaro, both associates with GrowthCap.