Bank Involvement with SMEs: Beyond Relationship Lending

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Presentation

1. Motivation
2. Data
3. SMEs as Bank Clients
4. Business Model and Risk Management Systems
5. SME Side
6. The Effects of the Crisis
7. Conclusions
Presentation

1. Motivation
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Motivation: Conventional Wisdom

- SMEs receive inadequate financing

“Conventional wisdom”

- Lack of financing rooted in “supply-side” factors
- Leading banks and other financial institutions uninterested in serving SMEs
Several reasons explain supply-side view

1. SMEs are opaque (most stressed reason)
   - Unknown capacity and willingness to pay
   - Difficult for banks that rely on arms-length financing and hard, objective, and transparent information

2. SMEs are more likely to be informal
   - Banks cannot lend
   - Contingent senior liabilities to government and employees

3. Capital markets do not compensate
Motivation: Conventional Wisdom

“Relationship lending” – a way to cope with opaqueness

- Relationship lending
  - Relies on “soft” information gathered by the loan officer
  - Continuous, personalized, direct contacts with SMEs, their owners and managers, and the local community
  - Direct contacts mitigate opacity problems
  - Berger and Udell (2006)
Motivation: Conventional Wisdom

Implications of relationship lending

1. Banks lend less to SMEs than otherwise
   - Require higher returns for SME loans, given costs
2. Relationship lending difficult for large and foreign banks
   - Less capable of processing “soft” information
   - SMEs served by small or niche small banks
3. Better institutions lead to less relationship lending
   - Less reliance on soft information
   - Well-functioning contract enforcement

Evidence: banks (mainly small and niche) engage with SMEs through relationship lending
Motivation: This Work

- Whether and how much conventional wisdom holds
- What about alternative views?
- Has the crisis transformed this view?

New data
- Bank surveys
  - 48 banks (plus 1 leasing company)
  - 12 countries
- Hard evidence collected via bank questionnaires
- Anecdotal evidence obtained in interviews
- Data from SME surveys
1. Motivation
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7. Conclusions
1. Survey data across banks (2006-07) in 4 countries
   - Argentina, Chile, Colombia, Serbia
   - Large share (70%) of banking sector assets, 37 banks
   - World Bank

2. Survey data across banks (2009) on the effects of the crisis in 3 countries
   - Argentina, Chile, Colombia
   - 24 banks
   - World Bank
Data

   - Australia, Brazil, India, the Netherlands, Poland, Thailand, the UK, the US
   - IFC

   - Argentina, Chile, Colombia, Mexico, Peru, Puerto Rico, Venezuela
   - FRS (Inmark Group)
## Data

<table>
<thead>
<tr>
<th>Source</th>
<th>Year</th>
<th>Countries</th>
<th>Surveyed Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank survey</td>
<td>2006-2007</td>
<td>Argentina</td>
<td>14 banks</td>
</tr>
<tr>
<td></td>
<td>2006-2007</td>
<td>Chile</td>
<td>8 banks</td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>Colombia</td>
<td>7 banks and 1 leasing company</td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>Serbia</td>
<td>8 banks</td>
</tr>
<tr>
<td>World Bank survey on the crisis</td>
<td>2009</td>
<td>Argentina</td>
<td>10 banks</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>Chile</td>
<td>6 banks</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>Colombia</td>
<td>8 banks</td>
</tr>
<tr>
<td>IFC survey</td>
<td>2006</td>
<td>Brazil</td>
<td>6 banks in total operating in Brazil, India, Poland, and Thailand</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>India</td>
<td>6 banks in total operating in Brazil, India, Poland, and Thailand</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>Poland</td>
<td>Poland, and Thailand</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>Thailand</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>Australia</td>
<td>5 banks in total operating in Australia, the Netherlands, the United Kingdom, and the United States</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>Netherlands</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>United Kingdom</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>United States</td>
<td></td>
</tr>
<tr>
<td>FRS (Inmark Group) survey</td>
<td>2002, 2004-2006</td>
<td>Argentina</td>
<td>918-928 SMEs, depending on the year</td>
</tr>
<tr>
<td></td>
<td>2002-2003, 2005-2006</td>
<td>Chile</td>
<td>920-963 SMEs, depending on the year</td>
</tr>
<tr>
<td></td>
<td>2002-2003, 2004, 2006</td>
<td>Colombia</td>
<td>920 SMEs</td>
</tr>
<tr>
<td></td>
<td>2002-2006</td>
<td>Mexico</td>
<td>604-1,015 SMEs, depending on the year</td>
</tr>
<tr>
<td></td>
<td>2003-2006</td>
<td>Peru</td>
<td>920 SMEs</td>
</tr>
<tr>
<td></td>
<td>2002, 2004-2006</td>
<td>Puerto Rico</td>
<td>617-627 SMEs, depending on the year</td>
</tr>
<tr>
<td></td>
<td>2002, 2004-2005</td>
<td>Venezuela</td>
<td>908-923 SMEs, depending on the year</td>
</tr>
</tbody>
</table>
Presentation

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**SMEs as Bank Clients**

Bank Involvement with SMEs

<table>
<thead>
<tr>
<th>Country</th>
<th>With SME clients</th>
<th>Without SME clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>93%</td>
<td>7%</td>
</tr>
<tr>
<td>Chile</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Colombia</td>
<td>88%</td>
<td>12%</td>
</tr>
<tr>
<td>Serbia</td>
<td>100%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Percentage of banks
SMEs as Bank Clients

Main Players in SME Financing

- Large banks: 100% (Argentina), 100% (Chile), 92% (Colombia), 100% (Serbia)
- Public banks: 88% (Argentina), 50% (Chile), 62% (Colombia), 0% (Serbia)
- Niche banks: 75% (Argentina), 0% (Chile), 0% (Colombia), 13% (Serbia)
- Other financial intermediaries: 13% (Argentina), 38% (Chile), 54% (Colombia), 0% (Serbia)
- Small banks: 0% (Argentina), 0% (Chile), 0% (Colombia), 0% (Serbia)

Percentage of banks
SMEs as Bank Clients

Extent of Competition in SME Market

- Argentina
- Chile
- Colombia
- Serbia

Not competitive / High entry costs: 0% 0% 0% 0%
Not competitive / Low entry costs: 0% 0% 0% 0%
Competitive / Saturated: 23% 13% 0% 63%
Competitive/ Not saturated: 0% 0% 77% 75% 100% 38%
SMEs as Bank Clients

Size and Prospects of the SME Lending Market

- Argentina
- Chile
- Colombia
- Serbia

Percentage of banks

<table>
<thead>
<tr>
<th>Market</th>
<th>Argentina</th>
<th>Chile</th>
<th>Colombia</th>
<th>Serbia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small market/Bleak prospects</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Big market/Bleak prospects</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Small market/Good prospects</td>
<td>31%</td>
<td>25%</td>
<td>0%</td>
<td>63%</td>
</tr>
<tr>
<td>Big market/Good prospects</td>
<td>69%</td>
<td>50%</td>
<td>38%</td>
<td>100%</td>
</tr>
</tbody>
</table>
SMEs as Bank Clients

Bank Focus in Serving SMEs: Sector-Specific Focus?

Percentage of banks

<table>
<thead>
<tr>
<th>Country</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>23%</td>
<td>77%</td>
</tr>
<tr>
<td>Chile</td>
<td>0%</td>
<td>88%</td>
</tr>
<tr>
<td>Colombia</td>
<td>13%</td>
<td>88%</td>
</tr>
</tbody>
</table>
| Serbia        | 13% | 88%

Argentina: 23% Yes, 77% No
Chile: 0% Yes, 88% No
Colombia: 13% Yes, 88% No
Serbia: 13% Yes, 88% No
Bank Focus in Serving SMEs: A Specific Geographic Focus?

<table>
<thead>
<tr>
<th>Country</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>38%</td>
<td>62%</td>
</tr>
<tr>
<td>Chile</td>
<td>13%</td>
<td>87%</td>
</tr>
<tr>
<td>Colombia</td>
<td>25%</td>
<td>75%</td>
</tr>
<tr>
<td>Serbia</td>
<td>25%</td>
<td>75%</td>
</tr>
</tbody>
</table>

Percentage of banks in Argentina, Chile, Colombia, and Serbia.
SMEs as Bank Clients

Drivers of Bank Involvement with SMEs

- Perceived profitability: 92% (Argentina), 63% (Chile), 75% (Serbia)
- Relations with large clients: 69% (Argentina), 25% (Chile), 50% (Serbia)
- Strategic sector: 54% (Argentina), 25% (Chile), 0% (Serbia)
- Competition in other segments: 31% (Argentina), 38% (Chile), 38% (Serbia)
- Exposure in other segments: 75% (Argentina), 38% (Chile), 38% (Serbia)
- Social objective: 15% (Argentina), 25% (Chile), 0% (Serbia)
SMEs as Bank Clients

Obstacles to Bank Involvement with SMEs
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Organizational Structure to Serve SMEs

<table>
<thead>
<tr>
<th>Country</th>
<th>With dedicated SME units</th>
<th>Without dedicated SME units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>77%</td>
<td>8%</td>
</tr>
<tr>
<td>Chile</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Colombia</td>
<td>88%</td>
<td>0%</td>
</tr>
<tr>
<td>Serbia</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Developed countries</td>
<td>83%</td>
<td>17%</td>
</tr>
<tr>
<td>Developing countries</td>
<td>8%</td>
<td>13%</td>
</tr>
</tbody>
</table>
Type of Products Banks Offer to SMEs

Both deposits and loan products: 85% (Argentina), 88% (Chile), 88% (Serbia)
Primarily loan products: 8% (Argentina), 0% (Chile), 0% (Serbia)
Primarily deposits and transactional products: 0% (Argentina), 0% (Chile), 13% (Serbia)
Business Model and Risk Management Systems

Average Number of Products Offered to SMEs

- Developed countries
- Developing countries

Deposit products: 5.3, 10.6
Credit products: 9.4, 18.7
Transactional products: 7.7, 16.9
Number of Products Used per SME Client

Developed countries

Developing countries

Deposit products

Credit products

Number of products used per client
## Bank Products Offered to SMEs

<table>
<thead>
<tr>
<th>Banking Products</th>
<th>Percentage of Banks</th>
<th>Argentina</th>
<th>Chile</th>
<th>Colombia</th>
<th>Serbia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deposit or savings products</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Checking or saving accounts</td>
<td></td>
<td>85%</td>
<td>67%</td>
<td>83%</td>
<td>75%</td>
</tr>
<tr>
<td>2. Investments</td>
<td></td>
<td>77%</td>
<td>89%</td>
<td>83%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Financing products</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Terms loans</td>
<td></td>
<td>85%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>4. Credit cards</td>
<td></td>
<td>85%</td>
<td>89%</td>
<td>83%</td>
<td>100%</td>
</tr>
<tr>
<td>5. Factoring</td>
<td></td>
<td>15%</td>
<td>56%</td>
<td>33%</td>
<td>0%</td>
</tr>
<tr>
<td>6. Leasing</td>
<td></td>
<td>77%</td>
<td>78%</td>
<td>17%</td>
<td>0%</td>
</tr>
<tr>
<td>7. International trade financing</td>
<td></td>
<td>77%</td>
<td>78%</td>
<td>17%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Services and other products</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Foreign exchange</td>
<td></td>
<td>15%</td>
<td>56%</td>
<td>0%</td>
<td>25%</td>
</tr>
<tr>
<td>9. International payments and collection</td>
<td></td>
<td>69%</td>
<td>78%</td>
<td>33%</td>
<td>75%</td>
</tr>
<tr>
<td>10. Payment to employees</td>
<td></td>
<td>85%</td>
<td>78%</td>
<td>83%</td>
<td>25%</td>
</tr>
<tr>
<td>11. Payment to suppliers</td>
<td></td>
<td>100%</td>
<td>78%</td>
<td>67%</td>
<td>25%</td>
</tr>
<tr>
<td>12. Tax payments</td>
<td></td>
<td>23%</td>
<td>67%</td>
<td>50%</td>
<td>0%</td>
</tr>
<tr>
<td>13. Collection of receivables</td>
<td></td>
<td>77%</td>
<td>78%</td>
<td>83%</td>
<td>25%</td>
</tr>
<tr>
<td>14. Insurance products</td>
<td></td>
<td>46%</td>
<td>33%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>
Breakdown of Revenue from SME Segment by Product Type

- Credit: 32% Developed, 38% Developing
- Deposits: 42% Developed, 29% Developing
- Other: 24% Developed, 32% Developing
Standardization of SME Products

- **Mostly standardized products**
  - Argentina: 31%
  - Chile: 63%
  - Colombia: 93%
  - Serbia: 20%
  - Developed countries: 17%
  - Developing countries: 23%

- **Similar proportion of standardized and tailored products**
  - Argentina: 23%
  - Chile: 25%
  - Colombia: 21%
  - Serbia: 0%
  - Developed countries: 50%
  - Developing countries: 50%

- **Mostly tailored products**
  - Argentina: 8%
  - Chile: 7%
  - Colombia: 0%
  - Serbia: 29%
  - Developed countries: 0%
  - Developing countries: 33%
Business Model and Risk Management Systems

Risk Management Practices - Largely Automated?

Percentage of banks

- Argentina
- Chile
- Colombia
- Serbia
- Developed countries
- Developing countries

<table>
<thead>
<tr>
<th></th>
<th>Argentina</th>
<th>Chile</th>
<th>Colombia</th>
<th>Serbia</th>
<th>Developed countries</th>
<th>Developing countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>8%</td>
<td>13%</td>
<td>0%</td>
<td>13%</td>
<td>77%</td>
<td>100%</td>
</tr>
<tr>
<td>No</td>
<td>100%</td>
<td>88%</td>
<td>100%</td>
<td>88%</td>
<td>60%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Risk Management Practices - Done by a Credit Risk Analyst?

Percentage of banks

Yes

Argentina: 46%
Chile: 75%
Colombia: 75%
Serbia: 83%
Developed Countries: 63%
Developing Countries: 17%

No

Argentina: 31%
Chile: 25%
Colombia: 25%
Serbia: 60%
Developed Countries: 60%
Developing Countries: 17%
Risk Management Practices - Separate from Sales?

- **Yes**
  - Argentina: 77%
  - Chile: 75%
  - Colombia: 13%
  - Serbia: 80%
  - Developed Countries: 83%
  - Developing Countries: 63%

- **No**
  - Argentina: 15%
  - Chile: 25%
  - Colombia: 38%
  - Serbia: 20%
  - Developed Countries: 20%
  - Developing Countries: 17%
Risk Management Practices - Done Primarily at Headquarters?

- **Argentina**: 69% Yes, 31% No
- **Chile**: 75% Yes, 25% No
- **Colombia**: 88% Yes, 12% No
- **Serbia**: 67% Yes, 33% No
- **Developed countries**: 75% Yes, 25% No
- **Developing countries**: 75% Yes, 25% No

Percentage of banks.
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SME Side

Average Number of Banking Products Used by SMEs

Argentina: 8.5
Chile: 8.0
Colombia: 6.9
Mexico: 5.3
Peru: 7.7
Puerto Rico: 7.0
Venezuela: 4.5
Average Number of Deposit and Savings Products Used by SMEs

- Argentina
- Chile
- Colombia
- Mexico
- Peru
- Puerto Rico
- Venezuela
Average Number of Financing Products Used by SMEs

- Argentina: 2
- Chile: 3
- Colombia: 1.5
- Mexico: 1.5
- Peru: 2
- Puerto Rico: 3.5
- Venezuela: 1.5

SME Side
Average Number of Services and Other Products Used by SMEs

- Argentina
- Chile
- Colombia
- Mexico
- Peru
- Puerto Rico
- Venezuela
## Deposit and Savings Products Used by SMEs (% of SMEs)

<table>
<thead>
<tr>
<th>Deposit/savings products</th>
<th>Argentina</th>
<th>Colombia</th>
<th>Chile</th>
<th>Mexico</th>
<th>Peru</th>
<th>Puerto Rico</th>
<th>Venezuela</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current account</td>
<td>100.0</td>
<td>86.9</td>
<td>100.0</td>
<td>95.8</td>
<td>89.7</td>
<td>98.0</td>
<td>84.6</td>
</tr>
<tr>
<td>Savings account</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>71.1</td>
<td></td>
<td>52.5</td>
<td>62.9</td>
<td></td>
<td></td>
<td>34.3</td>
</tr>
<tr>
<td>Term deposits</td>
<td>12.5</td>
<td>11.0</td>
<td>22.8</td>
<td>11.9</td>
<td>6.0</td>
<td>19.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>2.0</td>
<td>4.1</td>
<td>27.9</td>
<td>6.7</td>
<td>0.9</td>
<td>2.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Other investment products</td>
<td>1.4</td>
<td>2.9</td>
<td>4.4</td>
<td>5.4</td>
<td>0.4</td>
<td>11.0</td>
<td>0.5</td>
</tr>
<tr>
<td>None</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>
### Financing Products Used by SMEs (% of SMEs)

<table>
<thead>
<tr>
<th>Financing products</th>
<th>Argentina</th>
<th>Colombia</th>
<th>Chile</th>
<th>Mexico</th>
<th>Peru</th>
<th>Puerto Rico</th>
<th>Venezuela</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term loans</td>
<td>40.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term loans</td>
<td></td>
<td>38.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.8</td>
</tr>
<tr>
<td>Working capital loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>40.0</td>
</tr>
<tr>
<td>Medium-long term loans</td>
<td></td>
<td></td>
<td>23.4</td>
<td></td>
<td>6.5</td>
<td></td>
<td>7.5</td>
</tr>
<tr>
<td>Investment loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Term loans with fixed asset guarantees</td>
<td>4.4</td>
<td>18.8</td>
<td>2.7</td>
<td></td>
<td></td>
<td></td>
<td>0.3</td>
</tr>
<tr>
<td>Loans supported by public programs or guarantees</td>
<td>2.7</td>
<td>8.1</td>
<td></td>
<td></td>
<td>3.1</td>
<td></td>
<td>0.3</td>
</tr>
<tr>
<td>Lines of credit</td>
<td>25.7</td>
<td>29.4</td>
<td>75.1</td>
<td>29.8</td>
<td>18.0</td>
<td>43.3</td>
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<tr>
<td>Overdrafts</td>
<td>28.8</td>
<td></td>
<td></td>
<td></td>
<td>4.3</td>
<td>20.6</td>
<td>40.0</td>
</tr>
<tr>
<td>Check/document discounting</td>
<td>35.4</td>
<td>2.7</td>
<td>5.1</td>
<td>1.4</td>
<td>10.1</td>
<td>19.7</td>
<td>3.4</td>
</tr>
<tr>
<td>Leasing</td>
<td>4.3</td>
<td>8.9</td>
<td>12.6</td>
<td>1.2</td>
<td>5.9</td>
<td>12.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Factoring</td>
<td>1.9</td>
<td>1.8</td>
<td>7.5</td>
<td>1.1</td>
<td>1.7</td>
<td></td>
<td>0.3</td>
</tr>
<tr>
<td>Foreign trade financing</td>
<td>2.9</td>
<td>5.6</td>
<td>13.2</td>
<td>2.0</td>
<td>5.2</td>
<td>4.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Credit card</td>
<td>13.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>11.2</td>
<td></td>
</tr>
<tr>
<td>Letter of credit</td>
<td>2.1</td>
<td>1.0</td>
<td>14.6</td>
<td>1.5</td>
<td>7.8</td>
<td>13.8</td>
<td>0.3</td>
</tr>
<tr>
<td>None</td>
<td>30.8</td>
<td>29.8</td>
<td>13.2</td>
<td>64.9</td>
<td>29.1</td>
<td>21.7</td>
<td>51.3</td>
</tr>
</tbody>
</table>
## SME Side

### Services and Other Products Used by SMEs (% of SMEs)

<table>
<thead>
<tr>
<th>Services and other products</th>
<th>Argentina</th>
<th>Colombia</th>
<th>Chile</th>
<th>Mexico</th>
<th>Peru</th>
<th>Puerto Rico</th>
<th>Venezuela</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance</td>
<td>63.1</td>
<td>48.3</td>
<td>45.0</td>
<td>23.5</td>
<td>62.3</td>
<td>64.7</td>
<td>0.0</td>
</tr>
<tr>
<td>Payment of taxes</td>
<td>57.2</td>
<td>59.7</td>
<td>60.1</td>
<td>48.7</td>
<td>90.9</td>
<td>0.7</td>
<td>8.2</td>
</tr>
<tr>
<td>Payment of wages</td>
<td>52.7</td>
<td>45.2</td>
<td>23.8</td>
<td>37.5</td>
<td>12.4</td>
<td>37.6</td>
<td>8.2</td>
</tr>
<tr>
<td>Payment to suppliers or third parties</td>
<td>22.5</td>
<td>36.9</td>
<td>23.6</td>
<td>49.7</td>
<td>56.0</td>
<td>38.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Other payments done at branch</td>
<td>49.8</td>
<td>36.3</td>
<td>26.2</td>
<td>45.8</td>
<td>34.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internet banking</td>
<td>53.9</td>
<td>61.7</td>
<td>73.0</td>
<td>50.9</td>
<td>38.0</td>
<td>60.2</td>
<td>98.1</td>
</tr>
<tr>
<td>Transfer</td>
<td>49.8</td>
<td>53.2</td>
<td>35.6</td>
<td>36.1</td>
<td>92.0</td>
<td>36.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Automatic debit</td>
<td>40.6</td>
<td>18.5</td>
<td>35.0</td>
<td>19.0</td>
<td>27.3</td>
<td>22.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Debit card</td>
<td>28.6</td>
<td>20.3</td>
<td>29.2</td>
<td>32.2</td>
<td>22.2</td>
<td>1.1</td>
<td></td>
</tr>
<tr>
<td>Foreign exchange</td>
<td>16.4</td>
<td>10.0</td>
<td>17.1</td>
<td>12.7</td>
<td>22.0</td>
<td>2.1</td>
<td>1.6</td>
</tr>
<tr>
<td>Credit card for executives</td>
<td>14.0</td>
<td>13.5</td>
<td>14.6</td>
<td>9.6</td>
<td>26.2</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>Collection of receivables</td>
<td>13.3</td>
<td>4.9</td>
<td>5.8</td>
<td>4.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>None</td>
<td>2.0</td>
<td>5.5</td>
<td>4.4</td>
<td>5.9</td>
<td>0.1</td>
<td>3.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>
SMEs’ Degree of Involvement with the Banking Sector

<table>
<thead>
<tr>
<th>Country</th>
<th>Basic Client</th>
<th>Ascendent Client</th>
<th>Involved Client</th>
<th>Valuable Client</th>
<th>Star Client</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peru</td>
<td>18%</td>
<td>21%</td>
<td>14%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>35%</td>
<td>23%</td>
<td>15%</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>Venezuela</td>
<td>24%</td>
<td>35%</td>
<td>21%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>40%</td>
<td>25%</td>
<td>14%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>34%</td>
<td>32%</td>
<td>14%</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>41%</td>
<td>29%</td>
<td>15%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>45%</td>
<td>37%</td>
<td>9%</td>
<td>4%</td>
<td></td>
</tr>
</tbody>
</table>
1. Motivation
2. Data
3. SMEs as Bank Clients
4. Business Model and Risk Management Systems
5. SME Side
6. The Effects of the Crisis
7. Conclusions
The Effects of the Crisis

Trends from 2006 but Prior to the Beginning of the Crisis:
Bank Involvement in the Segment

- Argentina
- Chile
- Colombia

Worse than expected  As expected  Better than expected
The Effects of the Crisis

Trends from 2006 but Prior to the Beginning of the Crisis:
Arrears Rate in the Sector

- Argentina
- Chile
- Colombia
The Effects of the Crisis

Trends from 2006 but Prior to the Beginning of the Crisis: Costs of Serving SMEs

- Argentina
- Chile
- Colombia

Worse than expected:
- 20% (Argentina)
- 17% (Chile)
- 25% (Colombia)

As expected:
- 70% (Argentina)
- 75% (Chile)
- 83% (Colombia)

Better than expected:
- 10% (Argentina)
- 0% (Chile)
- 0% (Colombia)
The Effects of the Crisis

Trends from 2006 but Prior to the Beginning of the Crisis:
Profitability of Loans to SMEs

- Worse than expected
- As expected
- Better than expected

Argentina
Chile
Colombia
Trends from 2006 but Prior to the Beginning of the Crisis: Profitability of Services to SMEs

- Argentina
- Chile
- Colombia
The Effects of the Crisis

Trends from 2006 but Prior to the Beginning of the Crisis: Possibility of Exploiting Synergies
The Effects of the Crisis

Trends from 2006 but Prior to the Beginning of the Crisis:
Competition in the SME market

- Argentina
- Chile
- Colombia

Worse than expected:
- 30% Argentina
- 33% Chile
- 38% Colombia

As expected:
- 60% Argentina
- 67% Chile
- 63% Colombia

Better than expected:
- 10% Argentina
- 0% Chile
- 0% Colombia
The Effects of the Crisis

Before the Beginning of the Crisis:
Was the Bank Planning to Reduce, Maintain, or Increase Its Involvement with SMEs?
The Effects of the Crisis

Before the Beginning of the Crisis:
Was the Bank Planning or Implementing Changes in Its Organizational Structure in Order to Increase Its Involvement with SMEs?

- Argentina: 70% No, 30% Yes
- Chile: 50% No, 50% Yes
- Colombia: 25% No, 75% Yes

Argentina  Chile  Colombia
The Effects of the Crisis

The Effect of the Crisis on Non-Credit Products and Services to SMEs in Real Terms

- Involvement has Decreased
- Involvement has not changed
- Involvement has Increased

Argentina • Chile • Colombia

11% 20% 0%
44% 67% 60%
44% 33% 20%
The Effect of the Crisis on Non-Credit Products and Services to SMEs in Relative Terms (with Respect to Large Firms and Individuals)

- Involvement has Decreased
- Involvement has not changed
- Involvement has Increased

Percentage of banks

- Argentina
- Chile
- Colombia
The Effects of the Crisis

The Effect of the Crisis on Loan Products to SMEs in Real Terms

- Involvement has decreased: Argentina 44%, Chile 50%, Colombia 57%
- Involvement has not changed: Argentina 33%, Chile 29%, Colombia 14%
- Involvement has increased: Argentina 22%, Chile 50%, Colombia 14%
The Effects of the Crisis

The Effect of the Crisis on Loan Products to SMEs in Relative Terms (with Respect to Large Firms and Individuals)

- Involvement has Decreased
  - Argentina: 17%
  - Chile: 0%
  - Colombia: 0%

- Involvement has not changed
  - Argentina: 50%
  - Chile: 50%
  - Colombia: 67%

- Involvement has Increased
  - Argentina: 50%
  - Chile: 50%
  - Colombia: 33%
The Effects of the Crisis

Other Changes Concerning the SME Business as a Consequence of the Crisis

- Less funds to lend to SMEs
- The rate of SME loans has increased
- The term of SME loans has been shortened
- The risk has increased due to macro-economic instability
- The risk has increased beyond macro-economic instability
- The bank prefers to lend to other sectors
- SMEs demand for loans has decreased
- SMEs demand for other services has decreased
- SMEs demand for other services has increased

[Graph showing the percentage distribution across Argentina, Chile, and Colombia for each change mentioned above]
The Effects of the Crisis

Changes in Organization and Management as a Consequence of the Crisis

- There are more units serving SMEs
- There are less units serving SMEs
- The SME Officer plays a more important role
- The SME Officer plays a less important role
- More differentiated treatment between small and medium firms
- More specialized risk management for SMEs
- Cross-selling strategy is more important
- Cross-selling strategy is less important

Argentina: 67%, 63%, 50%, 40%, 60%, 63%, 50%, 0%
Chile: 63%, 67%, 50%, 0%, 63%, 63%, 50%, 0%
Colombia: 0%, 0%, 0%, 0%, 0%, 0%, 0%, 0%
The Effects of the Crisis

Effects of the Crisis on the Perceptions and Views Relative to the SME Segment

- The crisis is transitory and the bank plans to continue serving SMEs
- The crisis offers a good chance to consolidate and increase the involvement with SMEs
- The SME segment is still profitable and the bank will go on serving it
- The SMEs is a high risk segment and the bank will reduce its exposure
- SME segment is saturated and the bank will take the opportunity to reduce its exposure
- The model for serving SMEs needs to be revised significantly
- The bank's interest in the segment depends on government programs supporting SMEs

Argentina | Chile | Colombia

0% 0% 17% 13% 13%
70% 80% 75% 75%
83% 50% 38%
75% 67% 0% 0% 0%
0% 0% 0% 0% 0%
1. Motivation
2. Data
3. SMEs as Bank Clients
4. Business Model and Risk Management Systems
5. SME Side
6. Conclusions
Conclusions: Summary of Results

- Conventional view not supported by new data
- Different pattern of bank involvement with SMEs, beyond pure relationship lending
- Consistent facts across banks, countries, datasets
- Consistent with Berger and Udell (2006)
- Observable even in less developed countries
  - Where relationship lending expected to be more prevalent
- In particular, five main stylized facts
Conclusions: Summary of Results

1) Contrary to perceptions, most banks do want to serve SMEs and find them profitable

- Margins in other banking markets narrow
- Public sector and large firms access capital markets
- Competition in the retail sector
- Incentives to incur the switching costs to serve SMEs
- SMEs have emerged as a strategic sector for most banks
- Large and foreign banks, not just small and niche banks
- SME market competitive, yet far from saturated.
Conclusions: Summary of Results

1) Relationship lending not the only way to lend

- Transactional technologies facilitate arms-length lending
- Credit scoring, standardized risk ratings and processes
- Asset-based lending, factoring, fixed asset loans, leasing
- Hard information and incentive-compatible mechanisms
- Compensate for weaknesses in institutions
- Weaknesses particularly matter for non-collateralized long-term lending
- Mechanisms free banks from relying on government subsidies to lend to SMEs
Conclusions: Summary of Results

1) Lending just one part of a larger overall package

- Wide range of profitable fee-based non-lending products and services (e.g., payments, saving, and advice)
- Lending not always the main or the first product
- Cross-selling at the heart of business strategy
- Selling products and services deepens the engagement
- Facilitate doing more lending while attracting other clients (like SME employees and owner’s family)
- For these products, institutional environment for contract writing and enforcing less of a constraint
Conclusions: Summary of Results

1) Large and international banks relative advantage
   - Benefit from economies of scale and scope
   - Compensate for fixed and switching costs of developing products and services to engage SMEs
   - Cover many SMEs with large services platforms and branch networks
   - Sophisticated business models and risk management systems
   - E.g., credit scoring, link to corporates, supply non-lending products and services
   - Leaders and relatively more aggressive
Conclusions: What This Means

- Relationship lending may still be important, but not the only way in which banks interact with SMEs
- SMEs seem yet unable to get crucial products
  - Some loans with certain collateral (e.g., inventories, equipment, cattle, intangible assets)
  - Long-term fixed-interest rate loans in domestic currency
Conclusions: SMEs and Crisis

1) Crisis has not affected interest and involvement
   - Post 2006, banks implemented changes in their organization and management to serve SMEs
   - Higher risks due to macroeconomic instability
   - Lower demand for loans by SMEs
   - No reduction in credit and non-credit products relative to large firms and individual, but less in real terms
   - Crisis temporary
   - Structural nature of engagement means SMEs still of interest, but pace of financial innovation?
Conclusions: Future Research

- More data on scope of countries
- Structural change vs. cyclical bonanza
- More data on revenues, costs, and risk-adjusted profits associated with SME business
- Consequences on the banking sector, including its structure
- Importance of information
  - Role of government
- Are SMEs receiving “adequate” financing?
Thank you!