

Backbase



IBS intelligence
Global FinTech Perspectives



WHITEPAPER

Why SME banking matters

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Introduction

Why SME banking matters now more than ever

SME banking

Distinct segment in MEA banking

In today's rapidly evolving financial landscape, Small and Medium Enterprises (SMEs) are vital to economic resilience and innovation, particularly in high-growth regions like the Middle East and Africa (MEA). In these regions, SMEs contribute significantly to GDP—often 40-50%—and form the backbone of local economies.

Traditionally, banks in the MEA region have classified SMEs in different ways, with some grouping them within retail banking and treating them similarly to individual customers, while others categorize them under corporate banking, or adopt a mixed approach—such as placing sole traders and freelancers under retail, and medium-sized businesses under corporate.

This approach, however, falls short of meeting the unique needs of SMEs, whose financial requirements are often more complex and dynamic

than those of retail clients, but less so than those of corporate clients.

Treating SMEs as a distinct banking segment through tailored products and digital experiences enables banks to address the unique challenges faced while tapping into a largely underexplored market opportunity. This is underscored by the statistics that SMEs account for approximately 80-90% of all companies in the MEA region. Given that SME lending remains only 3-4% in the GCC, with an estimated funding gap exceeding \$250 billion. In Africa, this gap is even larger, exceeding \$331 billion. This presents a massive opportunity for financial growth and investment.

This shift not only enhances service quality for SMEs but also enables banks to build deeper, more profitable relationships by aligning financial solutions with SMEs' evolving needs.



An SME-focused banking approach involves rethinking the traditional retail framework to offer products and services that address the challenges of small businesses, such as cash flow management, invoice management, and collection management. Equally important is the need to provide convenience for small business owners who often lack the time to undertake brick & mortar banking for routine transactions. By doing so, banks

can expand their role from mere service providers to growth partners, helping SMEs overcome financial constraints and seize new opportunities. This tailored strategy opens avenues for banks to deepen customer loyalty and increase their footprint within a segment that has historically been underserved. Let us look at some survey statistics which highlight this issue:



\$331 Billion

estimated financing gap for SMEs in sub-Saharan Africa.



40%

of the SMEs in Africa mention that access to finance is their primary growth constraint.



70-75%

of MENA SMEs feel underserved by banks in terms of advisory support, turning to tech-driven advisors for restructuring.



45-50%

of SMEs are frustrated with manual banking processes, preferring digital onboarding experiences.



50-60%

of SMEs need financing for growth or to refinance COVID-19 loans, while 20-25% seek IPO support to scale up.



35-40%

of MENA SMEs are looking to fintech & Big Tech for future financing needs.

Beyond inclusion

Profitability & innovation in SME banking

While financial inclusion is an essential goal, the value of SME banking extends far beyond inclusivity. SME banking represents a scalable, profitable opportunity for banks to diversify their offerings and foster sustainable growth. **SMEs are a highly adaptable, growth-oriented segment that demands innovative, digital-first solutions**—characteristics that align well with the modernization goals of banks aiming to future-proof their business models. By prioritizing SME banking, financial institutions can drive profitability and establish a competitive edge through innovation, as SMEs are often more receptive to new technologies and services than traditional corporate or retail clients.

In addition to loan products, SMEs are increasingly seeking services like digital payments, cross-border transactions, and advisory support, which present new revenue streams for banks. By embracing a scalable, digital-first approach to SME banking, banks can boost margins and leverage cross-selling opportunities. For example, by integrating digital solutions that streamline loan approvals or simplify payments, banks not only meet the demands of SMEs but also create operational efficiencies and enhance customer satisfaction, leading to sustained profitability. In fact, banks using advanced analytics and AI for fraud detection have seen a decrease in fraudulent transactions by up to 30%.

SME landscape

Economic backbone & regional growth initiatives

In regions like the Middle East and Africa (MEA) with dynamic economies, SMEs are not merely partakers but are the core of the region's economy. This is justified by research statistics that show SME growth in MEA growing at 4% CAGR for the past 5 years which is double the global SME growth rate at 2%¹. Given the central role of SMEs in MEA economies, banks that target this segment align with regional efforts to promote sustainable, diversified growth.

Key government initiatives, such as South Africa's Small Enterprise Finance Agency (Sefa), emphasize the importance of SMEs in achieving economic independence and reducing reliance on traditional industries like oil and gas. These programs aim to create favorable business environments for SMEs by fostering innovation, promoting digitalization, and ensuring better access to financing. For banks, these initiatives underscore the importance of

developing tailored services that empower SMEs, transforming banks into active contributors to national growth agendas.

Aligning with these government-led strategies allows banks not only to support SMEs but also to establish themselves as essential partners in the economic future of MEA. This alignment with regional policies enhances a bank's public standing and provides strategic advantages in a region focused on rapid, technology-driven growth.

"SMEs play a crucial role in Africa's economic growth and development, especially when it comes to the creation of jobs which remains a significant problem across the continent."²

– Jeremy Awori, Chief Executive Officer, Ecobank Group

¹ IBSi Research

² Significance Africa

Unlocking profitability

Untapped potential of SME banking

The SME segment in MEA represents a largely untapped source of revenue for banks willing to innovate and meet this market's diverse financial needs. By focusing on SMEs, banks can unlock substantial profitability across a range of services:



Digital payments

With the rise in e-commerce and digital transactions, SMEs need efficient payment solutions. By offering digital payment services, banks can tap into this ongoing shift, creating new revenue streams and fostering loyalty among SME clients.



Tailored lending solutions

Unlike traditional loans, SME-specific financing can include flexible repayment terms, invoice financing, working capital loans, and supply chain finance. Customized lending solutions can help banks cater to SMEs with limited credit histories, increasing financial access while minimizing risk.



Cross-border transactions

As MEA-based SMEs increasingly engage in international trade, banks can capitalize on the demand for streamlined cross-border transactions. Providing services that simplify international payments and reduce currency exchange risks can strengthen relationships with SMEs looking to expand beyond local markets.

The revenue potential in SME banking is substantial, as this segment continues to grow and seeks services beyond traditional banking. By focusing on SME needs, banks not only unlock profitability but also position themselves as key players in an evolving market. The following sections will delve into strategies for maximizing the SME banking opportunity, including the transformative role of technology, the adoption of SME-centric models, and actionable insights to foster sustained growth.

Leveraging technology to transform SME banking

Innovative approaches to SME financing

As SMEs increasingly demand digital, personalized, and efficient banking solutions, financial institutions face the dual challenge of meeting these needs while maintaining profitability and operational efficiency. Technology changes the unit economics of serving SMEs at scale, making it possible for banks to tap into this segment profitably. Data analytics, Artificial Intelligence (AI), automation,

and open banking solutions are transforming SME banking, offering new pathways for risk management, process efficiency, and customer-centricity. By adopting these innovations, banks can develop tailored financial services that not only meet SMEs' unique needs but also enhance decision-making and strengthen risk management.

01

Data-driven lending

Enhance the efficiency and accuracy of loan assessments by using advanced analytics to quickly evaluate creditworthiness and provide tailored loans. SMEs can secure fast loans to capitalize on seasonal opportunities.

02

AI, automation, and efficiency

Streamline SME banking operations using AI to enhance efficiency, speed up product delivery, and improve loan assessment accuracy. This leads to faster decisions and higher customer satisfaction.

03

Open banking and APIs

Open banking enables SMEs to access integrated financial services, positioning banks as growth partners. APIs connect SMEs' data with third-party apps, enhancing cash flow management and customer experience.

Data-driven lending

Precision in risk management and lending

One of the foremost challenges banks face in serving SMEs is accurately assessing credit risk. Traditional credit assessment models, which rely heavily on financial history and collateral, often exclude SMEs due to their limited credit histories or insufficient collateral. Data-driven lending powered by advanced analytics and AI has revolutionized this aspect, offering a more holistic and nuanced view of an SME's financial standing and potential.

Data-driven lending employs predictive analytics, machine learning, and alternative data sources to create more comprehensive credit scores for SMEs. Beyond traditional financial metrics, banks can analyze non-traditional data points such as transaction histories, supply chain relationships, social media activities, and even utility payments. This broader dataset enables banks to assess SMEs' financial health more accurately, leading to more informed credit decisions.

“In the last few years, we have invested disproportionately in digital lending enabling us to give in-principle lending decision to SMEs in 15 minutes.”

– EVP at a leading UAE bank



CASE STUDY

Emirates NBD has strengthened SME banking with innovative initiatives like NFC-based contactless payment solutions, enabling instant in-store purchases and driving over AED 3.5 Billion in transaction value. Through its collaboration with EDB, the bank offers up to

AED 5 Million in financing to SMEs, supporting their growth with a 50% guarantee by EDB. With 7,000+ new business accounts opened and complimentary access to its digital platform, Emirates NBD is redefining SME support.

AI, automation & efficiency

Transforming banking process

Artificial Intelligence and automation are transforming the way banks serve SMEs, revolutionizing everything from customer onboarding and document verification to loan processing. These innovations don't just streamline operations—they redefine the customer experience by delivering faster, more accurate, and compliant services.

SMEs represent a highly heterogeneous segment with financial needs that vary significantly, making it challenging to address them effectively with traditional, 'one-size-fits-all' approaches. AI and automation allow banks to cut through this complexity, offering personalized product recommendations and financial advice at scale—providing the tailored touch of a relationship manager without the same resource constraints. The onboarding process for SMEs is often

complex, requiring thorough identity verification, risk assessment, and compliance checks. Manual onboarding is time-consuming and resource-intensive, creating delays that frustrate customers and increase operational costs for banks.

By automating Know Your Business (KYB), Know Your Customer (KYC), and Anti-Money Laundering (AML) checks, banks can streamline onboarding—processing higher volumes, improving efficiency, reducing costs, and accelerating loan approvals. Leveraging government APIs and systems can further simplify the process by enabling real-time utilization of verified information, reducing friction, and enhancing efficiency. This integration enables SMEs to open accounts and access financial services more quickly, while ensuring compliance and reducing friction in the customer journey.



CASE STUDY

African Bank has redefined digital banking by integrating real-time analytics and AI into the African Bank App, delivering seamless and secure transactions in real time.


By prioritizing digital inclusivity, the bank offers diverse, accessible channels safeguarded by

secure digital identification. Through hyper-personalized customer journeys and smart automation, African Bank has enhanced customer engagement, ensuring frictionless and tailored experiences across every interaction.



Interested in the topic of agentic AI?

AI is revolutionizing banking, but what's next? Agentic AI is redefining personalization, making digital banking smarter, more intuitive, and truly customer-first.

[Listen to the podcast](#) 

Embedded finance, open banking & APIs

Integrating financial services into SME operations

Embedded finance, open banking, and APIs are transforming how banks serve SMEs by integrating financial services directly into the tools these businesses already use, such as accounting software and POS systems. This approach allows banks to meet SMEs at the point of need within their daily workflows, creating a convenient, all-in-one experience. APIs enable banks to offer real-time payment solutions, allowing SMEs to pay

suppliers and receive payments instantly, which is especially beneficial for those involved in cross-border trade. By leveraging these capabilities, banks can reduce the delays associated with traditional transfers and become essential partners in SMEs' daily operations. This shift not only enhances convenience but also fosters deeper relationships and increases customer retention.



CASE STUDY

Mashreq Bank leverages open banking to revolutionize SME banking in the UAE, enabling secure data-sharing for seamless, transparent, and Shari'ah-compliant financial solutions.

Through its digital platform NEO BIZ, SMEs can open accounts in three days and receive instant loan approvals within 15 minutes.

Future outlook: the role of emerging technologies in SME Banking

As the financial sector continues to evolve, new technologies such as blockchain, Artificial Intelligence, and predictive analytics will further transform SME banking. Blockchain, for instance, can streamline cross-border payments and enhance security in trade finance, making it easier for SMEs to participate in global markets. Predictive analytics will enable banks to anticipate SMEs' financial needs, offering pre-emptive solutions that support business growth.

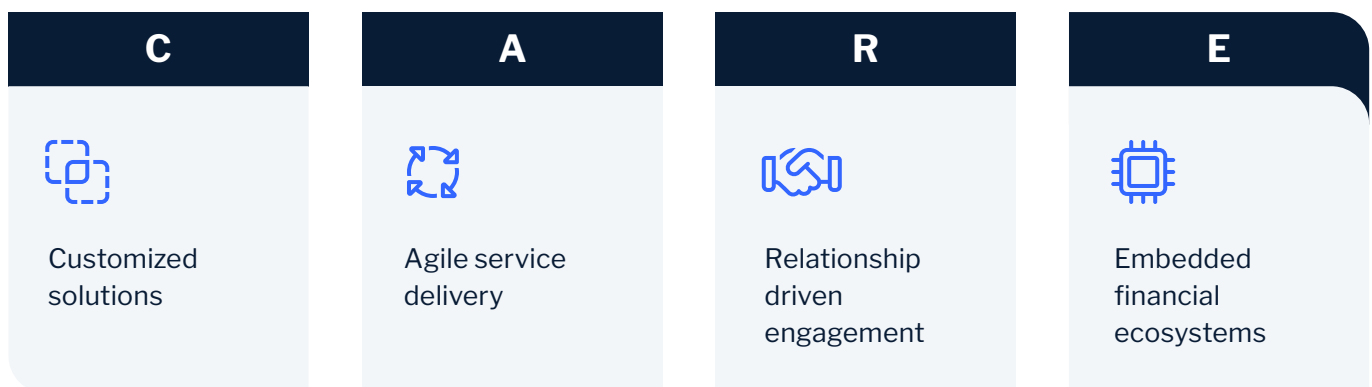
Banks that invest in these technologies will be better equipped to serve the SME market, providing tailored, forward-looking solutions that meet the demands of a digital-first world. By leveraging these emerging technologies, banks can build agile, adaptable service models that drive long-term value while positioning themselves as future-ready, free from the risk of being held back by legacy systems and hindering innovation.

The SME-centric banking model

C.A.R.E. framework

As SMEs continue to play a critical role in global economies, banks face a substantial opportunity to differentiate themselves by offering tailored, SME-specific services. Treating SMEs as a unique banking segment enables banks to develop customized solutions that address the distinct challenges and requirements of this dynamic sector.

Leveraging the C.A.R.E. Framework, banks can cultivate deeper, more profitable relationships with SMEs, strengthen customer loyalty, and build a sustainable business model that drives growth.





Customized solutions

While traditional banking models focus heavily on loan products, the financial needs of SMEs extend far beyond simple access to credit. To build enduring relationships and add meaningful value, banks need to rethink their approach by offering tailored solutions that go beyond conventional banking services. This means either building new

value-added services that directly address SME challenges or partnering with third-party providers to bundle complementary solutions into their products. In essence, catering to every aspect of an SME's operations becomes crucial.



Digital Investing

As SMEs grow, their financial needs become more complex, often encompassing investment strategies and capital optimization. By offering digital investing and advisory capabilities, banks can help SMEs allocate surplus funds effectively and plan for long-term financial goals.



Insurance Solutions

Risk mitigation is another critical area where banks can provide tailored insurance products that address the unique vulnerabilities of SMEs. This may include coverage for business interruption, supply chain disruptions & liability risks.



Beyond Banking Services

Leading financial institutions have expanded their offerings to include services that go beyond traditional banking, such as automated bookkeeping, cashflow forecasting, invoicing, payroll management, expense management and business dashboards among others, providing more value to SMEs.

Moniepoint

CASE STUDY

Moniepoint, a top Nigerian fintech, powers SMEs with banking, POS, credit and expense tools. It provides working capital, speeds transactions, and enhances financial management with real-time analytics. Handling more than 800 Million transactions monthly, surpassing \$17 Bn, it drives financial inclusion and economic growth across Africa.



Agile service delivery

SMEs operate in fast-paced, unpredictable environments that require financial partners who can respond with speed and flexibility. Traditional banking processes, often burdened by bureaucracy and inefficiency, do not align with the needs of

SMEs. Adopting an agile service model empowers banks to meet SMEs' dynamic needs efficiently, enhancing both customer satisfaction and operational effectiveness.



Relationship driven engagement

At the heart of an SME-centric approach is the commitment to building long-lasting relationships. SMEs value financial partners who understand their business intricacies and can provide relevant, timely support.

Banks that focus on relationship-driven engagement can maximize customer retention and establish a reputation as reliable partners invested in their clients' success.



Embedded financial systems

The future of SME banking lies in embedding financial services seamlessly into the fabric of SMEs' daily operations. This requires leveraging technology to create integrated ecosystems that simplify financial management.

Creating an embedded financial ecosystem transforms banks into integral partners in SMEs' growth journeys, embedding banking services into everyday business operations for maximum convenience and value.

Cross selling & upselling

Maximizing touchpoints for greater engagement

Serving SMEs opens the door to multiple touchpoints where banks can deepen relationships, cross-sell products, and upsell additional services. SMEs typically have a wide range of financial needs that evolve as their business grows, providing banks with opportunities to introduce complementary products that add value to their core services.

One effective approach for cross-selling and upselling to SMEs is through customized service bundles. By bundling services, banks not only provide greater value to SMEs but also simplify the banking experience, as clients can access all their financial solutions in one place.

Cross-selling additional services as outlined in the C.A.R.E. Framework, such as investment products, payroll solutions, or accounting software integration, allows banks to create a more interconnected and comprehensive financial ecosystem for SMEs. This approach increases the bank's role in the daily operations of SMEs, making it more challenging for clients to switch to competitors.

Building the SME services of the future

Embracing innovation & digital resilience

To remain competitive in a digital-first world, banks must envision and implement an SME-centric model that leverages technology to enhance service delivery, customer experience, and operational efficiency. An SME-focused bank is better positioned to implement technological innovations quickly, as these banks are attuned to the fast-paced, ever-evolving needs of the SME market.

By investing in digital solutions, future-proofing infrastructure, and adopting agile practices, banks can create an adaptable, resilient business

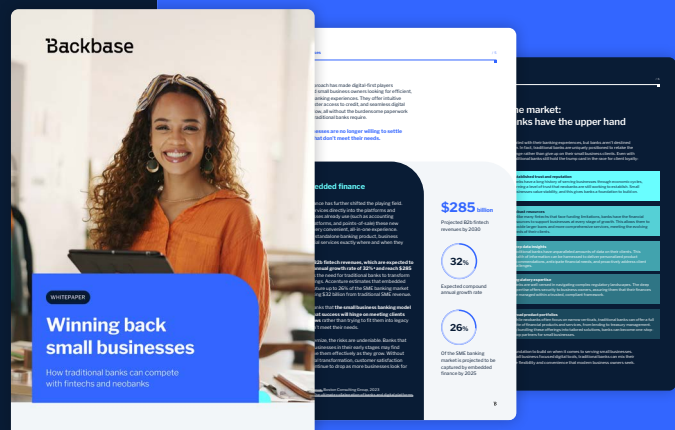
model that serves SMEs effectively and therefore profitably.

The SME-centric model, therefore, represents a profitable, growth-oriented strategy that aligns with the evolving financial needs of SMEs while driving long-term value for banks. By investing in this approach, banks can become essential partners in the growth and success of SMEs, creating a sustainable and competitive advantage in the market.

Winning back small businesses

Find out why banks are losing SME loyalty—and what it takes to win them back.

[Get the guide](#)



Conclusion: seizing the SME banking opportunity

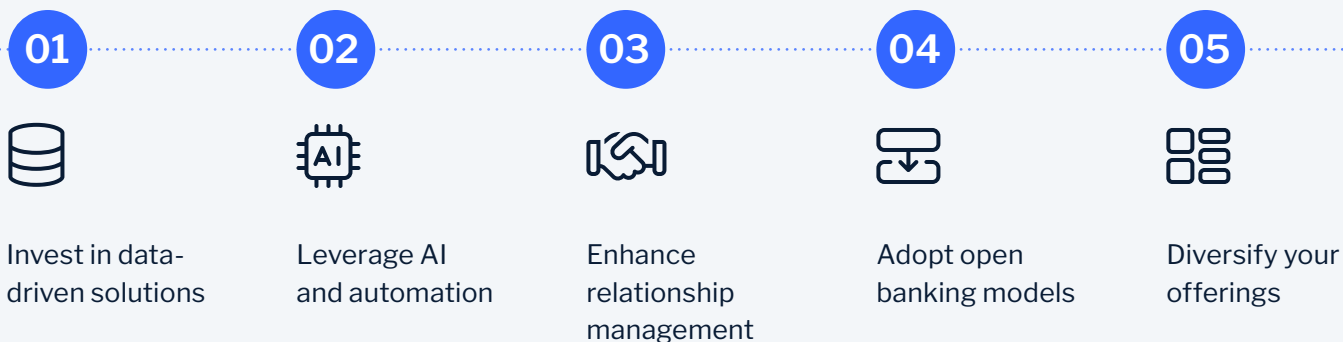
The landscape of SME banking is undergoing a transformation, driven by an urgent need for modernization and a growing recognition of the SME segment's immense potential. As economic engines in regions like the Middle East and Africa, SMEs demand a banking approach that is agile, technologically advanced, and strategically focused.

Banks that respond proactively to these needs will not only tap into new revenue streams but also lead the next wave of financial innovation, creating

long-term value for both the financial sector and the broader economy.

By harnessing the C.A.R.E. Framework: Customized Solutions, Agile Service Delivery, Relationship-driven Engagement & Embedded Financial Solutions one can redefine its bank's approach to SME banking. It is essential to take the necessary action today to position your organization at the forefront of this crucial market segment.

Strategic actions for SME banking services in MEA region



Time to invest is now

The SME segment should be viewed not merely as a responsibility or an inclusion effort but as a lucrative and strategic opportunity. Banks that prioritize SME banking now will secure a competitive advantage and play a pivotal role in shaping the digital financial landscape of tomorrow.

The MEA region, with its rapidly expanding SME sector, offers fertile ground for banks willing to embrace change. As of 2023, SMEs accounted for 96% of registered businesses in the MENA region, making them a cornerstone of economic growth. Half of these registered SMEs do not have access

to formal credit in Middle East & Africa, creating a finance gap of USD 195 Billion. Addressing this gap requires bold investments in technology, a commitment to understanding SME needs, and a willingness to experiment with new, customer-centric models.

The journey to becoming a leader in SME banking is challenging but immensely rewarding. The time to act is now. Banks that seize this moment will define the future of SME banking and drive unparalleled innovation in the financial sector.

About Backbase

Backbase is on a mission to put bankers back in the driver's seat — fully equipped to lead the AI revolution and unlock remarkable growth and efficiency. At the heart of this mission is the world's first AI-powered Banking Platform, unifying all servicing and sales journeys into an integrated suite. With Backbase, banks modernize their operations across every line of business — from Retail and SME to Commercial, Private Banking, and Wealth Management.

Recognized as a category leader by Forrester, Gartner, Celent, and IDC, Backbase powers the digital and AI transformations of over 150 financial institutions worldwide. See some of their stories [here](#).

Founded in 2003 in Amsterdam, Backbase is a global private fintech company with regional headquarters in Atlanta and Singapore, and offices across London, Sydney, Toronto, Dubai, Kraków, Cardiff, Hyderabad, and Mexico City.

Industry analysts Forrester, Gartner, Celent, Omdia, and IDC continuously recognize Backbase's category leadership position. Over 150 financials around the world have embraced the Backbase Engagement Banking Platform.

[See some of their stories](#) →

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