Margo Bank, a European bank for new generation SMEs

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Abstract:
Margo Bank is striving to set up a responsive and human bank that uses technology to bolster customer relations. To better address the financial support and digital transition issues faced by European SMEs, three entrepreneurs have decided to build a new bank from scratch.
By building its own tech stack and recasting its organisational structure and processes, this emerging bank is equipping itself to innovate in line with the new uses and expectations of its bankers and customers. Unlike "100% digital" initiatives, Margo Bank is putting the client relationship back at the heart of banking and is shaping its local teams to step up customer contact.
In addition to banking products, the future credit institution will also provide SMEs with the resources required to make use of their own data. The goal is to help them get to know themselves better and to boost their productivity and decision-making capabilities.

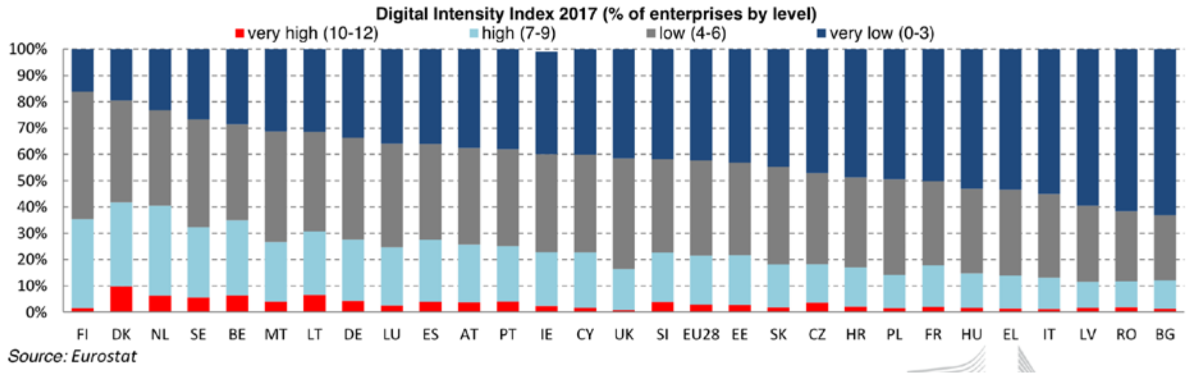
Creating a bank from the ground up. The concept may appear very daring or even unachievable. Yet this is how we have elected to provide a sustainable and bold response to the difficulties encountered by European SMEs by forging a new generation banking partnership with them.

Observations

The digital transition is now central to SMEs' expansion strategies: online sales, paperless procedures, task automation, etc. Information technology and networking have created a global paradigm shift and new uses.

Among the large number of studies with the same findings, the one drawn up by Roland Berger Strategy Consultants (*The digital journey, an opportunity for France,* 2014) concludes that "The most digitally mature companies have experienced growth 6 times higher than the least mature ones". And, an even more telling remark is that "Employees of the most digitally mature companies show a well-being score in their professional lives 50% higher than those of the least mature ones".

Unfortunately, French businesses are trailing the field when it comes to digitalisation. According to the most-recent Digital Economy and Society Index (DESI) Report, which is drawn up every year by the European Union, 82% of French SMEs have low, or even very low, digital density. Another study conducted by Deloitte (*Économie numérique : Le digital, une opportunité pour les PME françaises*, December 2016) revealed that only 11% of SMEs with between 10 and 249 employees are equipped with digital productivity tools.



It is only now that SMEs are addressing this digital shift which is vital for their future. Regrettably, they receive very little support with this process. As banks are also caught up with this transformation, they cannot really help them and only a few actually answer the call and provide their support both in terms of products sold and tools supplied.

Over the last two decades, banks have focused investments on two customer segments:

- Individuals, for whom the multitude of new digital projects has heightened competition. This has caused all the banks to set up or acquire at least one 100% online subsidiary which often reflects strategic defensive positioning.
- Major businesses which have had in-house financial expertise for many years and which have gradually equipped themselves to get the most out of relations with their banking partners.

Caught between these two segments, SMEs have really lost out in recent years. Ultimately, their relationship with the banks is not easier to manage than that experienced by large businesses. In the same way as the latter, SMEs have to devote countless man hours to the relationship, they are subject to just as much red tape but, owing to their size, they generate less net revenue for banks. This latter factor complicates the financial equation with banks and makes their investments harder to justify. A number of banks have even chosen to end relations with the smallest companies as they are no longer able to assist them profitably.

When we analysed the market, we found that banks provide their SME customers with very few digital tools. When they do exist, they are often ineffective, have no Application Programming Interface (API) and fail to comply with market standards. They do not work in real time (there is a time lag of between one and four days) and are not available as mobile smartphone apps. The mobile apps of the six main banks that do target SMEs in France have very low average rating: 2.5/5 for Android apps and 2.1/5 for Apple apps. One of the top four French banks does not even have a mobile app for SMEs.

Nevertheless, we frequently hear that this clientele is well catered for. French banks have never lent so much at such a low cost. According to the French Banking Federation (FBF), “95% of SMEs in France are granted the loans they apply for and 87% have received new cash loans. Rates applied for new loans granted to SMEs average 1.68%”. There is no doubt that credit is working but is it the only indicator to factor in? How much time passes between the first contact and the loan drawdown? What tools are provided to the company to include this loan in its financial forecasts?

The issue does however extend far beyond national borders. Currently, no bank is able to meet the requirements of a European company. There are European banking brands but these actually host subsidiaries with their own accounting systems and highly varied IT systems which are, most often, incompatible. This means that companies have to deal with a large number of contacts who do not know each other the majority of the time and whose objectives are sometimes at odds even though they are under a common umbrella.

In the meantime, a number of countries that are not afflicted by an aging banking infrastructure are witnessing the emergence of new generation players. Credit is becoming a commodity as risk assessment now only involves data analysis, to be used to address other issues. For instance, Chinese stakeholders, to take just one example, who have been able to move away from fifty years of technological steps, are currently establishing technological bases that are more powerful, much more flexible and less costly than those of their European and American counterparts. Global software players, drawing on generations of extremely solid open source technologies and their thorough understanding of data analysis, are gradually starting to develop banking products at the request of, and to serve, their customers.

Our vision

In order to help SMEs with their digital transition and jointly create robust stakeholders able to expand at European level, we believe that it is necessary to forge a new type of banking partnership.

First and foremost, this partnership should supply financial products with perfect responsiveness or, potentially, on an automatic basis. It should also be a long-term partnership providing a strong human touch with experts who are both available and mobile. Lastly, it should give customers the tools required to manage and analyse their own data.

These three aspects (bank, customer relations and data) will feed off each other to bolster the standard and speed of services provided. They will give companies the support of a reliable banking infrastructure operating in real time and which is able to permanently improve, to understand the complexities of company business and to provide them with the information required to make informed choices concerning their future.

Our goal is to eliminate the numerous stumbling blocks faced on a daily basis by all entrepreneurs, CFOs, accountants, management controllers and all other people dealing with commercial banks. The experience should be straightforward, agreeable and seamless so as to encourage these people to regularly use their bank as a source of economic intelligence and decision support. The bank should also become a resource that serves other digital resources and thereby boosts companies' productivity.

Our approach

Creating a bank from scratch

We have taken a number of structuring decisions to help this new stakeholder to emerge.

We have decided to set up a fully-operational depository bank able to handle the three main banking functions (loans, deposits and payments) at European level. It is fairly unusual to apply for a full banking license when a bank is created. Recent initiatives have tended to opt for more limited accreditation to avoid regulatory red tape and security and governance requirements. However, we believe that in order to provide the responsiveness we are striving for, it is essential to embrace these constraints and to be able to take our own risks.

We then decided to build our entire tech stack from the ground up (our core banking system) without buying off-the-shelf solutions or outsourcing development to a third party. This has enabled us to come up with a new generation system that is centred on the client relationship and data management, without the burden of the past. We drew on seventy years of continuous improvements in standards, lower costs and best software engineering practices to trigger a true shift in model compared to existing banking software.

Starting with a blank canvas allowed us to reinvent the underlying technology which is a prerequisite for innovation. However, this also enabled us, just as importantly, to look into our bank's work organisation and processes. Ultimately, these three revamped aspects mean that we can give huge autonomy to our bankers in the field which also boosts our bank's responsiveness vis-à-vis its customers.

Recasting work organisation involves highly tangible initiatives which we use to move away from the incumbent silo-based organisational structures of major entities and to foster permanent innovation. This means that all our teams can work remotely using asynchronous equipment (only certain positions require a geographic base). We will provide office space in each of the areas in which we will operate and all the business lines will be able to use these offices. As a result, our business centres do not only contain project managers but also all the other professions. Accountants, engineers and product managers are perfectly able to work side by side. All staff are encouraged to take an interest in their colleagues' jobs and this, by serendipity, creates countless opportunities to make improvements for the benefit of customers. As a result, we are moving away from a silo-based pyramid organisational structure towards one that is communicative, asynchronous, decentralised and empowering.

This new structure requires radical changes to most of a bank's basic processes. These processes often use paper signing circuits, mailshots, document scanning or assume that two people will be present in the same room at the same time. Using all the world's available technology and rolling out the best possible organisational structure will mean nothing if the processes they serve are poor. A poor digital process is still a poor process, all the more so as it is more complicated. To restore effective and human processes, these must be systematically customer-oriented and upgraded according to their expectations (responsiveness, clarity, simplicity) and uses (our customers work directly from their smartphones, also have access to a great deal of information and are looking to make rapid and informed choices).

Provide value to data management

Our field surveys have shown that a new bank targeting SMEs that is highly responsive, contemporary and human would find its customer base fairly rapidly. We want to build on these findings by focusing on data management to help companies with their digital transition.

Much has been written about data management in recent years. Its correct use is seen as a key factor in ensuring the success of the world's technological giants. With neural networks, blockchain and big data, all the current software innovations bode for an era of data use. Banks are thought to be sitting on precious data and they simply have to act to use and benefit from it.

At present, the actual situation faced by SMEs vis-à-vis their banks is very different. Before even dreaming of using AI services, customers of the incumbent banks would like to have access to basic services such as current account histories, transaction filtering functions, or even to be able to effectively manage their payment cards.

We believe that banks are the best placed to enable companies to store, organise and use their data. By supplying them with tools to group together multiple data sources, then to cross-check them and carry out cross-referencing and make forecasts, SMEs can get to know themselves better, be more effective and expand more rapidly. Ultimately, it is a virtuous circle: a company which has finely tuned knowledge of its operating cycle and holds the keys to permanent improvement, will become, at the same time, a more robust and high-performing customer.

What type of bank for tomorrow?

Tomorrow's banks for SMEs will allow companies to expand faster on the European stage and speed up their digital transition to bolster productivity. This does not simply involve offering cheap financing conditions. A more proactive client relationship and heightened integration of data management will help managers view their bank as a partner with high value added.

Although there is a marked consensus concerning these observations within the banking industry itself, approaches differ in respect of the best way of providing the standard of service that customers expect. Instead of developing existing systems and silo-based organisational structures, we have opted for rebuilding and cross-disciplinary collaboration. We believe that this is the only way to overhaul the entire banking relationship and thereby meet the expectations of SMEs and their teams.   Only time will tell if our approach was the right one.