

Redefining finance: How embedded finance is set to help banks to resume their original mission — to the benefit of startups and SMEs

Europe is in a lending crunch, and SMEs are bearing the brunt of it. Although SMEs make up the backbone of the European economy, accounting for a staggering 64.4% of EU employment, 73% of SMEs say they can't even secure a meeting with their bank and that a quarter of all SMEs say that lenders don't understand their business. There's really a quite simple explanation to this - the typical SME isn't the ideal loan candidate for the typical high-street bank, and hasn't been for a long time.

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Private mortgages and loans to large corporations are far more profitable for the banks. It takes them about the same amount of time to process a loan application regardless of the loan amount. Hence, the larger the loan, the greater the profit. As SMEs usually don't need much cash to carry them over - even as little as €5000 could constitute a make-or-break situation - they have *simply been overlooked* when the banks have pursued profit over purpose.

As a founder myself, it's easy to see why entrepreneurs and business owners are frustrated. After all, isn't the idea of a bank to *support people and businesses* and lend them money when they need it?

Banks have an essential role to play for SMEs. Banks are - or should be - the engine of growth for SMEs and, as such, the economy as a whole. And although banks haven't had processes suitable for bootstrapped startups or SMEs, the rise of embedded finance means that things are changing - fast. While the discussion around embedded finance typically has centered on how it can enable new kinds of Buy Now, Pay Later (BNPL) solutions on the consumer side. There's something much bigger at play on the business side of things. With embedded finance, high-street banks can finally resume their original mission and empower entrepreneurs and start lending money to SMEs. And be profitable while doing so.

Here's how.

1. Helping more in less time

Most banks have long and convoluted processes to assess loan applications, processes that SMEs typically don't have the time or bandwidth to deal with. Many SMEs consist of one-man bands, and they need quick and straightforward solutions. By embedding SME financing solutions that simplify and digitalize the whole lending process - from assessments of loan candidates to payouts - high-street banks can assess new candidates much faster. What typically took up to eight weeks in manual processes can now be done in seconds thanks to new technology.

2. Allowing banks to focus on what they do best

High-street banks possess unparalleled expertise and knowledge, especially within business. Technological dependencies and legacy systems have often hindered their ability to innovate and led to them not developing solutions built for SMEs' requirements. Embedded financing allows the banks to integrate already-built lending solutions

to drastically increase the number of businesses they cater to. By adopting white-labeled solutions, banks can focus on their core strengths while leveraging external expertise to enhance their offerings with lending tailored to SMEs.

3. Leveraging embedded finance to comply with SME referral mandates

The European Commission's proposed SME referral scheme will mandate banks to direct SMEs to alternative financing sources if their applications are declined. This initiative represents an opportunity for high-street banks to embrace embedded finance and integrate a complementary ecosystem of financial services seamlessly into their digital platforms. This goes beyond mere regulatory compliance, as it also provides the banks an opportunity to improve customer satisfaction while opening new avenues for growth.

Embedded finance shouldn't be considered a nice-to-have for high-street banks. The evolving digital finance landscape and shifting SME expectations underscore the urgency for banks to implement embedded finance solutions in order to maintain a competitive edge, innovate, and build stronger SME relationships. Embedded finance enables banks to meet regulatory demands while supporting growth and innovation.

Not only is embedded financing in a solid position to help banks grow their business. It's a strategic imperative that will help them brush up their brands and fulfill their original mission. By catering to SMEs and contributing to their success in the broader financial ecosystem, banks will become an engine of economic and societal growth.

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