



## A TECHNOLOGY DRIVEN APPROACH TO SME FINANCING – October 2024

*Written in July 2024 by Ian Kerr, Director of Business Development, Episode Six*

Small and medium sized enterprises (SMEs) often find themselves underserved by mainstream banks, as they fall between two stools being neither retail nor corporate customers. They can sometimes be perceived as challenging and risky to manage, with concerns that onboarding costs may not be offset by future revenues. However, SMEs are the lifeblood of many economies, with over 5 million in the UK and some 30 million in the US. They have unique financing and liquidity needs essential for oiling the wheels of commerce.

Corporate and business banking have valuable lessons to learn from consumer and retail banking, and vice versa. Episode Six (E6) is a global payments technology company that empowers businesses to create payment products that customers love, with a modern platform architected to support a broad range of use cases. Over the last few years, we have developed capabilities in credit line management to support credit card processing and introduced an issuer-led Buy Now, Pay Later (BNPL) offering, enabling payments to be split into a series of instalments.

BNPL has garnered attention due to the potential for individuals to sign up for multiple merchant-focused schemes, leading to access to extensive lines of credit. As the card issuer, the bank is well-positioned to make instalment offers by leveraging their comprehensive view of the customer relationship and utilizing advanced credit scoring and decisioning models to mitigate risk. The same principles apply to SMEs; with better interaction and support from data, banks can provide timely and necessary financing propositions. It was with this goal in mind that E6 launched the solution Business Now, Pay Later™ at SIBOS 2023 in Toronto, aiming to address the unique needs of SMEs and enhance their access to financing.

Business Now, Pay Later is an end-to-end, digitally enabled solution initially focused on financing payables, with the capability to expand into asset financing and even receivables. E6 is working with several SME-specific solution vendors in adjacent spaces, including ITFA member Credable, who offer not only an enhanced customer user experience but also integration with leading accounting packages and a more streamlined approach to digital onboarding. The E6 platform handles line of credit management, reflecting the bank's credit policies and leverages the flexibility to work cooperatively with existing and evolving technology stacks.

Banks are often cautious of making changes to legacy systems that may have been in place for decades, are not well understood, and were never designed to support the type of digital customer journeys that neobanks have made commonplace. Our approach to progressive payments modernisation maximizes the strengths of these legacy systems as performant, data-processing systems of record, while insulating their limitations from customer visibility. This approach allows banks to tap into the underserved SME sector with innovative, revenue-generating propositions, while maintaining balanced risk and ensuring minimal disruption to existing operations.

Another potential route for financing is to engage in broader investor community, akin to ITFA's Trade Finance Distribution (TFD) initiative. The API-enabled, cloud-native E6 platform makes it possible to present financeable transactions to investors beyond mainstream banking. We are in discussions with organisations who see this as a significant opportunity to provide much needed liquidity for SMEs struggling to secure necessary funding from their banking relationships.

The potential of managing SME financing extends beyond generating new lending revenue; it also addresses the liquidity issues faced by growing businesses that could be the corporates of the future. E6 is looking forward to being an active member of ITFA whose goals are very much aligned to our own.