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White Paper

Solving Payment Services for SMEs

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As SMEs recover from the pandemic, they need payment services which are fast, flexible and secure – and fit the digital economy.

Johan Strand, Chief Executive Officer at Zimpler, outlines what SMEs are looking for and how banks can improve the payment services they offer smaller companies.

Small and Medium Enterprises (SMEs) continue to be the backbone of Europe's economy. According to data from the European Union¹, SMEs account for 99 percent of all businesses by number across the bloc. In some markets such as Germany, SMEs account for 82 percent of all economic value created.

Despite this importance to our economic well-being, delivering great service to SMEs has long been a stumbling-block for Europe's banks. In a 2020 survey, financial infrastructure provider Banking Circle found² almost half of Europe's SMEs were looking for new providers of banking and payments services given low levels of satisfaction with their current providers.

As the SME sector recovers from the pandemic, small firms across Europe are going to be looking for digital-first, low-cost payments services that are easy to integrate and simple to operate. At a time of rising competition in the banking sector, banks must offer payment solutions that meet the needs of this important segment, or risk losing market share.

Building back for digital

It's already clear that the post-COVID economy will be rooted in the digital world. In the US alone, online sales grew by more than 14 percent and now account for one dollar in every seven spent by consumers. At the same time as they manage the switch to digital, SMEs are also looking to hire – and these hires are often part-time or temporary workers who need to be paid more frequently. The Visa Direct service, built to help companies pay freelance and contract employees, experienced growth of more than six hundred percent in the last quarter of 2020 – proof that employment patterns are going to look very different after the pandemic.

As well as paying and getting paid more often, we're likely to see expansion in the number of companies accepting a wide variety of electronic payments, with cards and mobile wallets being used for micro-payments from parking

"Online fraud is a particular challenge for SMEs, who often lack the time and resources to equip themselves with adequate defences."

¹ **See data from Eurostat:** https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Statistics_on_small_and_medium-sized_enterprises

² **See The Fintech Times, 29 May, 2020:** <https://thefintechtimes.com/banking-circle-study-of-online-sme-merchants-reveals-banking-gaps-that-payments-businesses-can-fill/>

charges to street food vendors. We can expect cryptocurrencies to play a role, and we'll also see a wider range of payment types, from cash to cards, prepaid, push payments, wallets and others.

If the digital economy creates opportunities for banks, then it certainly has its challenges. Fraud in the digital channel has been rising stubbornly, with fraud attempts against all businesses up 46 percent over the past year, according to May 2021 data from TransUnion³. Online fraud is a particular challenge for SMEs, who often lack the time and resources to protect themselves adequately. According to research from e-commerce specialists Riskified⁴, as many as one in seven e-commerce transactions are declined by acquirers, with 72 percent of these transactions actually being legitimate. All told, these "false declines" can amount to up to one Euro in ten of a company's revenue – a significant figure for any business, but especially if total turnover is less than €250,000.

"Smaller companies need a payments solution that reduces cost and complexity, and helps money flow quickly."

The best deal for banks – and SMEs

Smaller companies are looking for a solution that reduces the complexity and costs associated with administering payments – a solution that helps money flow quickly from their customers and to their suppliers. While services like PayPal and Square seem attractive, especially for micro-merchants, such solutions can cost between 2 and 3 percent of revenue. As online fraud grows, SMEs will also need a payments solution that protects them against fraud, helping them to convert more purchases into revenue and save the time and expense associated with chargebacks and fraud management.

Banks have a real opportunity to enhance customer loyalty and grow their revenues by offering more flexible, digital-first payments solutions for their SME customers. For too long, SMEs have been perceived as too risky or too expensive to service adequately. With the EU's second Payment Services Directive (PSD2) making partnering with third-party services easier for banks through open APIs, and securing online transactions through Strong Customer Authentication, now is the time for banks to deepen their relationships with SME customers and broaden the range of services they offer.

³ See **TransUnion and The Aite Group**: <https://www.cutimes.com/2021/02/10/cus-must-prepare-for-wave-of-post-pandemic-synthetic-fraud/>

⁴ See **Business Insider**: <https://markets.businessinsider.com/news/stocks/e-commerce-revenue-protection-pioneer-riskified-releases-results-from-its-first-annual-online-shopping-fraud-behavior-consumer-survey-1027909454?op=1>



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“Banks can enhance loyalty and grow revenue by integrating flexible, digital-first payments for their SME clients.”

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In particular, account-to-account (A2A) solutions are likely to prove highly popular with SMEs. At present, only 20 percent of European banks offer account-to-account payments, with a further 27 percent planning to introduce them in 2021, according to the Aite Group⁵: this statistic suggests that offering A2A payments will give banks real competitive advantage. Meanwhile, A2A payments are taking off in the US. According to Nacha⁶, the organisation that governs US account-to-account payments, business-to-business payments directly between accounts for vendor payments and bills increased by almost 11 percent to 4.4 billion, while the direct deposit of salaries, wages and benefits to individuals increased 12 percent to more than 8 billion last year. Overall, account-to-account payments reached a record level in 2020, a trend that looks set to continue in 2021.

When it comes to addressing the market, retail banks have inherent advantages over app-based solutions, in that they still retain high market share in SME banking – though this is eroding fast as digital-only banks onboard thousands of new customers every month across Europe. Banks also have deep experience of engaging with regulators and satisfying compliance requirements in areas such as AML and fraud prevention, and can bring decades of fraud management experience to the table.

“Account-to-account payments reached record levels in 2020, a trend that looks set to continue in 2021.”

Despite these advantages, banks are going to have to act fast to protect their positions in the face of strong competition from the digital-only banks that have seen stratospheric growth in recent years. Grand View Research predicts that digital-only banks will grow at around 50 percent each year to 2028, claiming market share from established retail banks. Given such a competitive context, banks can enhance their offering with payments solutions that better fit SME needs.

⁵ See the Aite Group, cited in “What’s New in How People Prefer to Pay”: **The Payers, August 2020**: <https://thepayers.com/reports/payment-methods-report-2020-whats-new-in-the-way-people-prefer-to-pay/r1244363>

⁶ See Nacha, “Two records are set in the first quarter”: <https://www.nacha.org/news/ach-network-volume-rises-112-first-quarter-two-records-are-set>

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Whether they're traditional bricks-and-mortar banking players or new digital-only "neobanks", financial institutions should be looking to partner up with end-to-end payments solutions that respond to SME needs for speed, flexibility and security. In doing so, Europe's banks have the opportunity to protect their market share, build relationships with their existing SME clients and expand their service offering with low-cost, high-performing payment solutions.

*To find out more about optimal payments solutions for SMEs and banks, please contact **alexander@zimpler.com** or visit **www.zimpler.com***

Zimpler is a fast growing Fintech company that provides an account to account payment solution to companies that want an easy and quick way to offer incoming and outgoing payments for their users.

In short: we make it real easy for you to allow your users to transfer money to and from your account.

Our vision is everything should just work. Imagine a world that is completely friction free. No waiting in line, no arguing with support, no woopsie daisy unexpected errors. Just smooth sailing from when you wake up in the morning until you slither down between your sheets in the evening. Wouldn't that be nice?

As a Fintech company, our contribution to this comfier future is to simplify transactions between people and businesses everywhere. We're finding better, smarter, smoother, prettier, user friendlier and more innovative ways to do things.

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