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Tapping the next big thing in emerging-market banking

Lending to micro-, small, and medium-sized enterprises looks particularly attractive. Here's how to overcome the traditional risks in reaching this market.

Over the next ten years, an estimated 60 percent of the growth in global banking revenues will come from emerging markets. New McKinsey research shows that a particularly attractive segment will be micro-, small, and medium-sized enterprises: the revenues they generate for banks could jump from $150 billion in 2010 to more than $350 billion by 2015.

The report based on our research—*Micro-, small and medium-sized enterprises in emerging markets: How banks can grasp a $350 billion opportunity*—explores the way the projected increase is being propelled by these countries' rising GDP levels, higher penetration of the formerly unbanked and underbanked, and new demand for advanced products, such as trade finance and cash management. In emerging markets, this customer segment will generate higher revenues over the next five years than those we expect from sales and trading, asset management, and investment banking combined.

Of course, the scale and growth potential of micro-, small, and medium-sized enterprises vary greatly from one emerging market to another. But more and more banks in these countries are finding ways to overcome the traditional difficulties of reaching this market segment. Innovations in technology and business models are making it easier to manage the inherent credit risks and lower the cost of distribution.

One highlight of our work is an approach to grouping countries: four clusters based on branch density and credit bureau coverage. These are convenient and reliable proxies for the physical accessibility of micro-, small, and medium-sized enterprises and for the scale of credit risk, respectively (exhibit).

- Countries where it is relatively difficult both to reach potential clients among micro-, small, and medium-sized enterprises and to manage risk—and where radical credit-assessment solutions will be required.

- Others with relatively good credit bureau coverage but poor physical distribution—banks here will want to exploit direct channels such as the Internet and mobile.

- Countries that typically have good distribution but sparse credit bureau coverage, so that banks wishing to do business in them must overinvest in risk management.

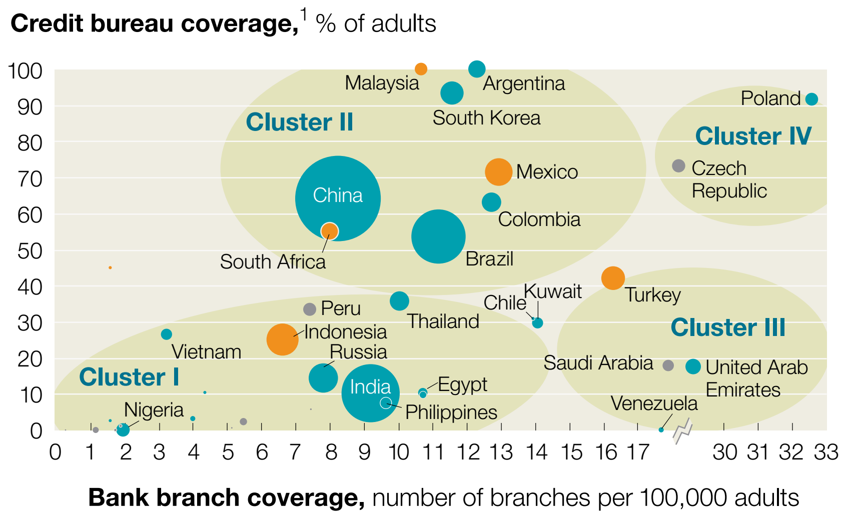
- Those that score well on both branch density and credit bureau coverage.

The report also analyzes the characteristics that banks operating successfully in this segment are likely to display. Among others, these include a fine-grained understanding of the market, innovative risk management, and the ability to cut costs.

Read an executive summary or download the full report on mckinsey.com.

Exhibit

Micro-, small, and medium-sized enterprises in emerging markets represent both opportunities and challenges for global banking.



Cluster I: Micro-, small, and medium-sized enterprises are hard to reach and risk management is difficult. Radical solutions will be required.

Cluster II: Credit bureau coverage is good, but distribution is poor. Banks should exploit direct channels such as Internet and mobile banking.

Cluster III: Branch banking is good, but credit coverage is sparse. Banks will need to innovate in risk management.

Cluster IV: Markets score well on both credit bureau and bank branch coverage.

[1]Some countries with smaller revenue pools are shown but not labeled here. For a full display of countries, see *Micro-, small, and medium-sized enterprises in emerging markets: How banks can grasp a $350 billion opportunity,* available on mckinsey.com.

Source: International Monetary Fund (IMF) financial access survey 2006–10; World Bank's Doing Business database; McKinsey analysis