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Strategic Banking  
Corporation of Ireland

# Strategic Banking Corporation of Ireland Summary Strategic Plan **2020-25**





# Introduction

This document contains a summary of the SBCI Strategic Plan for 2020-2025 which has been prepared in accordance with section 2.12 of the Code of Practice for the Governance of State Bodies.

Over the five years since its incorporation, the strategy of the SBCI and its business model have evolved to reflect changing market conditions, the policy priorities of its stakeholders and the financing needs of SMEs. The SBCI has consciously developed itself as a flexible, adaptable and innovative provider of solutions and policy measures to address failures in the SME credit market. This remains a critical feature of the organisation and requires the SBCI to continuously develop its capabilities, as well as innovative solutions that are aligned with the SME environment.

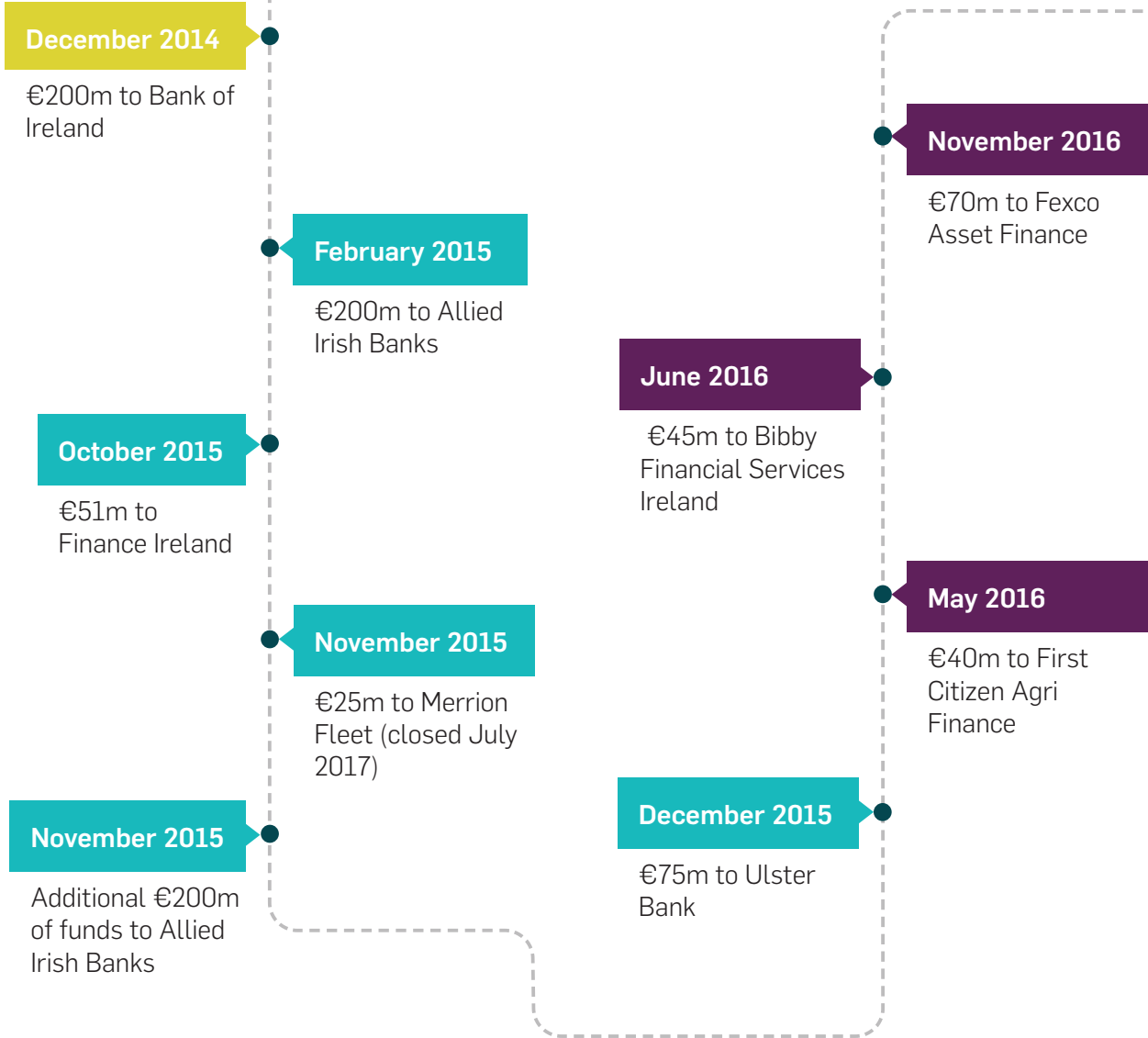
The SBCI has built out and expanded its range of supports from providing liquidity to banks to encompass non-bank finance providers and several risk-sharing guarantee schemes to support SMEs with better access to long-term appropriately-priced finance. It is also serving to drive competition in the market for SME lending. The SBCI will continue to work on delivering the government's policy objectives where a market gap exists, while expanding its range of supported products and on-lending partners as part of this strategy.

As the SBCI looks ahead to the next five years, it is set to build on its significant progress by offering a wider range of supports both to the SME sector and the development of the economy, while maintaining its own sustainability and ability to respond to market dislocation and deliver government policy measures.

In formulating this updated strategy, the SBCI has reflected on its progress to date and the changes in the market environment to update the core elements of its strategy, including its values and beliefs and its purpose and vision to create an effective strategic framework and clear strategy to deliver on its mandate.

It is important to note that over the period in question, unforeseen market developments may emerge, which require the SBCI to reprioritise or change direction. The strategy will be reviewed annually to monitor its progress and resource requirements. Approval for the details of each initiative will be brought to the SBCI board for review and approval.

# SBCI progress to date



**ACSL**  
Agri Cashflow Support Loan Scheme

**CGS**  
Credit Guarantee Scheme 2017

**BLS**  
Brexit Loan Scheme

**FGLS**  
Future Growth Loan Scheme



# Strategy 2020-2025 Summary

## Strategy Statement

The strategy of the SBCI is to support the development and maintenance of an effective market for the provision of credit to SMEs in Ireland, while maintaining its ability to respond to major market dislocations and the policy delivery needs of government. It does this through the delivery of financial support in the form of low-cost liquidity for finance providers, the sharing of risk on underlying loans and the development of innovative new forms of financial instrument.

The SBCI is focused on three impact themes: SMEs First, in support of the development of the broader SME credit market; SME Innovation, which supports lending to higher risk but faster growing SMEs; and Climate Action, where the SBCI will develop financing solutions to address the challenges posed by climate change to SMEs and the broader economy.

The SBCI's supports utilise government and European backing and are designed to address failures in the market, to provide finance to SMEs including farmers, when there is a policy requirement and where this supports economic development and enhanced competition. They are designed and delivered by the SBCI's own team and in partnership with its broad set of institutional relationships in the Irish market.

## Vision and Mission

Recognising the SBCI's role in delivering policy initiatives for the SME market, the SBCI's new vision is:

**The SBCI is a flexible State financing partner that delivers positive impact for SMEs and supports economic development in Ireland.**

In realising its vision;

**The SBCI's Mission is to deliver effective financial supports to SMEs that address failures in the Irish credit market, while driving competition and innovation and ensuring the efficient use of available EU resources.**

## Our Purpose



Supporting SME's



Delivering impact for SMEs and Society in an agile, creative and flexible way



Building capability and independence



Partnering with Stakeholders



Learning

## Values

The SBCI team is fundamental to the achievement of our goals. Our core set of values and approach to developing the SBCI business continues to be relevant to enable the team to develop and contribute to our strategic goals:



## SBCI: Overview of the current SME Finance Market

- Providing SMEs with appropriate finance at the right time will empower them to grow, develop and contribute to employment and economic growth.
- With the right support from the SBCI at the right time, the market will increasingly develop the capacity and ability to deliver this finance independently.
- Supporting competition in areas where the market is developing will result in an effective market for SME finance that enables growth in productivity, the economy and employment.
- Delivering the SBCI's products through a digital channel will make them more effective, efficient and easy to deploy and use.
- SMEs have an important role to play in climate action investment and will actively participate, given the appropriate supports.
- Appropriate credit finance has a supportive role to play alongside higher risk equity finance as supplied by Enterprise Ireland, ISIF and the market in supporting innovative and fast-growing SMEs to become the mid-size and large enterprises at the heart of the future Irish and European economy.
- The SBCI has a critical role and strong capability in delivering finance and credit related policy measures on behalf of the government.

## Strategic Framework

The SBCI's revised strategy is based on three core themes with supporting pillars to facilitate its delivery. The themes are based on putting the SME first in everything we do, helping them to grow with a particular focus on climate action and innovation which are two of the biggest challenges facing Ireland. This approach is closely aligned to government policy.







### Climate Action

- Bank delivered Energy Retrofit Scheme for SME, Farm and Residential Buildings
- Non Bank SME custom facilities scheme



### SMEs First

- Large scale risk sharing via banks
- Non bank liquidity
- Non bank risk sharing
- New large scale distribution channel



### SME Innovation

- SME Mezz and Second Lien guarantees
- SME Innovation Lending platform



### Networks & Relationships

- On-Lending Channel
- Peer Networks
- Research
- Marketing and SME Awareness



### Skilled Team with NTMA support

- Adaptive and Collaborative Culture
- Technical and Structuring Capabilities
- Customer Service/Hub Tech Platform
- Credit Risk Management



### Government & EU Backing

- First Loss Funding
- Balance Sheet and Liquidity
- European Support
- Working with Departments to Develop and Deliver products

## Financial Strategy

The SBCI's financial objective is to be sustainable, such that it operates without recourse to unexpected recapitalisation by its shareholder. The SBCI will seek to generate sufficient returns in the long term to maintain financial resilience and to sustain any operational and impairment losses which may arise, however the achievement of financial profitability is a secondary objective relative to the achievement of the SBCI's mandate and strategic objectives. The SBCI will continue to leverage external sources, e.g. European funding and risk-sharing capacity, to maximise the impact of its financial resources.

## The Structure of the Strategic Plan

For the SBCI to deliver sustained public value and deliver on its mandate, it needs to continue to:

1. Understand the needs and expectations of its key stakeholders.
2. Ensure delivery of useful products, policies, and initiatives.
3. Operate within its capabilities based on a robust assessment of what it can feasibly deliver.

This strategy document addresses these areas by providing an analysis of the market and policy context set against the mandate of the SBCI and by articulating the strategic framework, which covers what is to be delivered through its three themes and the capabilities and resources to be deployed in achieving this through the three policy delivery pillars.

In delivering its 2020-2025 Strategic Plan, the SBCI has sought to align this with the current market and regulatory environment.



Reflecting the current SME market, the direction of national policies, and in line with its statutory mandate, the SBCI's revised strategy is based on three core themes with three policy delivery pillars to enable its implementation. The themes are based on putting the SME first in everything the SBCI does by addressing failures in the credit market, while helping them to grow and innovate as well as to address the challenge of climate action. This approach is closely aligned to government policy.

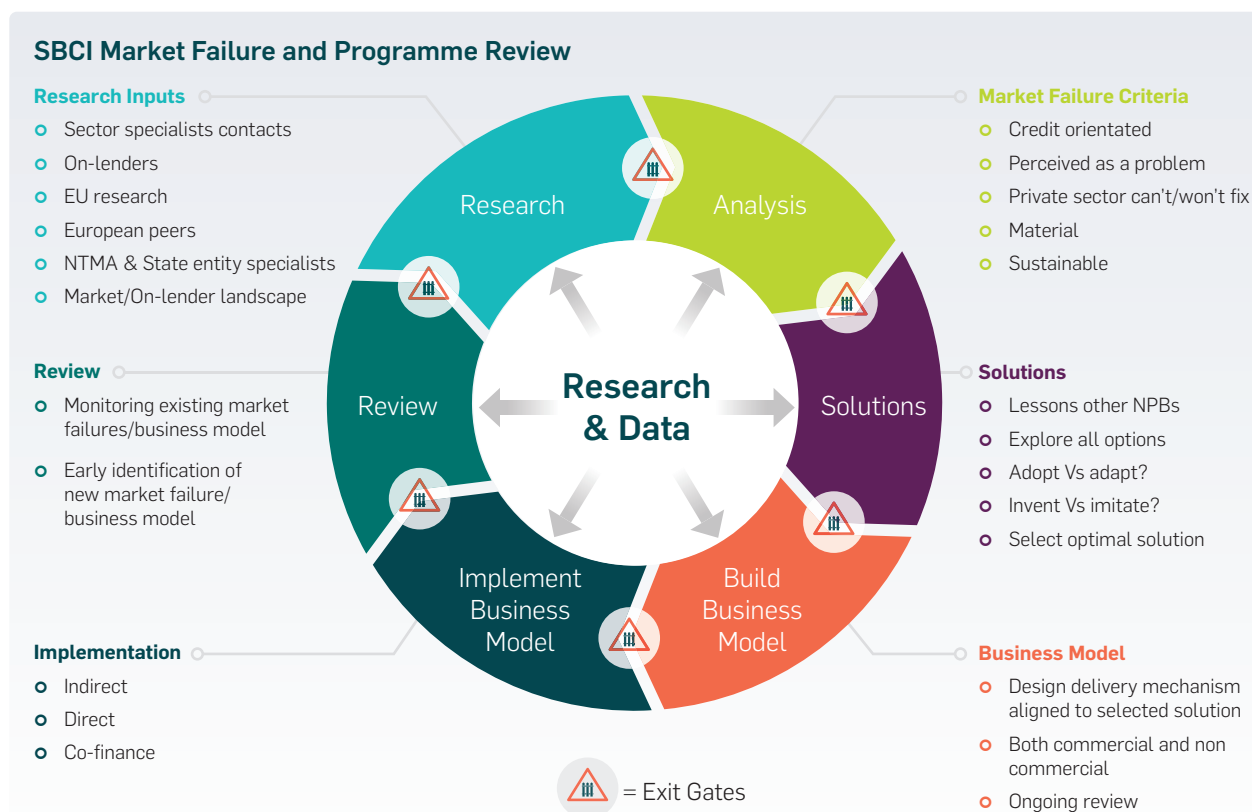
# Policy Landscape

The SBCI has also reflected on the principal Government Policy Initiatives in compiling the Strategic Plan.

Policy	Date Published	Government Department
<b>Enterprise 2025</b>	November 2015 and updated in March 2018	Department of Business, Enterprise and Innovation
<b>Future Jobs Ireland 2019</b>	March 2019	Department of Business, Enterprise and Innovation
<b>Project Ireland 2040</b>	June 2018, first annual report issued in May 2019	Department of Public Expenditure and Reform
<b>All of Government Climate Action Plan</b>	June 2019	Department of Communications, Climate Action and Environment

## Project Prioritisation, Market Failure Assessment and Product Development and Review Cycle

To establish and demonstrate that the SBCI is creating public value and impact in its existing and proposed new products and initiatives, it is important that these are assessed, developed, monitored, and reviewed within a framework that ensures a consistency of assessment. The SBCI will use its existing approach to ensure that its strategy and business model are reviewed against the prevailing market. This framework ensures the SBCI's business is continuously reviewed to proactively identify and respond to emerging and evolving market gaps but does so in a coherent structured way. At the heart of this framework is robust research based on qualitative and quantitative data.



The SBCI considers the prioritisation of initiatives in the context of their urgency such as in the event of a crisis or major market dislocation, the degree to which the initiative is additive to SMEs through addressing a material market failure, creating a new needed market or creating real competition, before then looking at how it supports economic development by addressing broader economic, societal and competitiveness goals.

## SMEs First – Impact Theme

### Summary

The SMEs First theme places SMEs at the centre of the purpose and focus of the SBCI to promote entrepreneurship, productivity, economic growth and employment by ensuring the availability of, and effective competition in, the provision of appropriate SME finance.

### Lending Business Model

The SBCI's business model in supporting SMEs' ability to access credit has evolved from 'mono' to 'multi' business lines to meet the evolving market gaps and reflecting the development of the SBCI's various support mechanisms. This approach ensures the SBCI can bring the appropriate support tailored to address failures in the SME credit market (i.e. using capital, liquidity, and innovation), while seeking to ensure its sustainability.

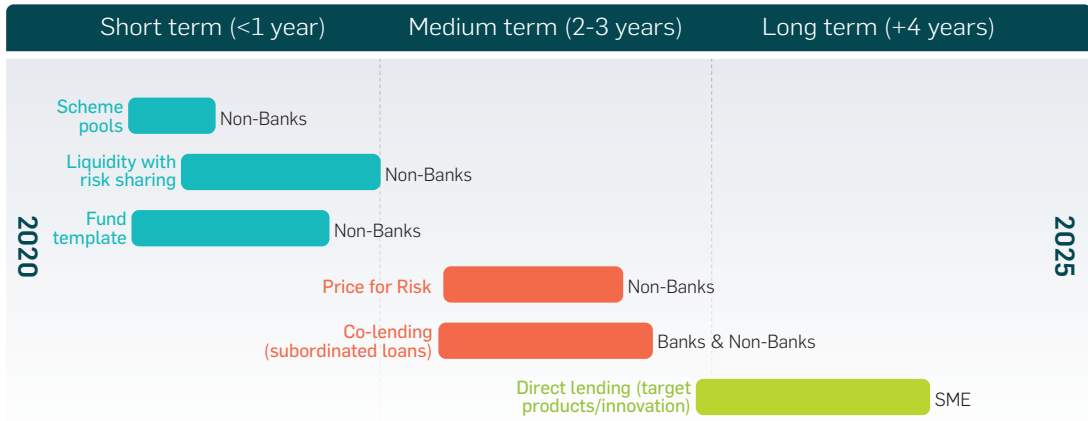
The SBCI team has undertaken an in-depth review of its on-lending model in response to the changes in the SME financing environment since it commenced wholesale funding in 2015.

The objective of the review was to assess how the SBCI could best use its liquidity and other supports to most effectively support SMEs in Ireland. This review identified the following market challenges from both SME and lender perspectives.

Market Challenges to be addressed	Did we address this?	Is it a SME challenge in 2019?	Is it a lender challenge in 2019?
Liquidity	✓	✗	✗
Access to Appropriate Finance	↔	✓	✗
Price Vs EU	✓	✓	✓
Competition	✓	✓	✓
Impact of capital requirements on lending appetite	↔	✓	✓
Move to direct banking and lack of financial advice and literacy	↔	✓	✓
✓ Yes   ↔ Partially   ✗ No			

Based on its analysis, the SBCI then looked at options what would address the market challenges, applying a robust assessment process to select which options to progress forward and when.

## Lending options



*\*Proactive and reactive approaches to target both banks and non-banks at scheme/product level*

### Scheme pools

The promotion of a Liquidity Scheme to the market with a specific SME lending product or suite of products targeted. The objective being to invite potential On Lenders (non-bank) to express an interest in providing a specific product or suite of products<sup>1</sup>.

### Liquidity with risk sharing

The creation of a portfolio of loan assets, funded by SBCI Liquidity with a first-loss risk-share wrap.

To combine low cost Liquidity and Risk Sharing capabilities, leading to lower cost funding and expanded risk appetite for non-bank On Lender.

### Fund – Template

The SBCI is investigating the potential to attract investor funding into the Irish SME market through a guaranteed investment platform concept, which could provide funding to non-banks lending into the Irish SME market at interest rates significantly below what they can currently access from their funders. This would be done through creation of an investor funded loan portfolio platform underpinned by an SBCI first-loss guarantee to 'crowd in' private investors at a higher leverage/lower cost than market rates.

### Direct & Co-lending (targeted)

SBCI lends directly to SMEs targeting gaps with specific product types e.g. innovation, mezzanine finance, etc. alone or alongside other lenders.

## Challenges

The SBCI needs to enhance its ability to parallel process structuring, underwriting and delivery of multiple opportunities in terms of resourcing, systems, State Aid and EU and Government support. In exploring any direct support for SME innovation, the SBCI will also have to factor in any increased regulatory burden and the need to establish a clear market failure.

<sup>1</sup> All applicants will need to demonstrate an ability to deliver these products in a prudent manner.

## Climate Action – Impact Theme

### Summary

The Climate Action theme will focus on supporting the creation and development of new markets for the finance of climate action measures such as energy efficiency in the first instance and address market failure in existing markets to enable Ireland to meet its climate targets.

### Business Model

The All of Government Climate Action Plan sets ambitious targets across most sectors of the economy. The target for home energy retrofits is for 500,000 house upgrades to BER B2 by 2030. The Plan also targets the installation of 400,000 heat pumps in existing homes within the same timelines. It is intended that there will be the retrofitting of one third of commercial buildings to BER B by 2027. In looking at how to address the issue of supporting investment for SMEs in conjunction with the EIB Group, it became clear that a combined solution that addressed SMEs, residential and farm buildings would have the scale and provide the momentum to successfully address this challenge, while individual efforts would likely not. While the SME element remains the focus of the SBCI in this respect, should the policy delivery need of the overall government climate action strategy require a wider measure then it has been determined that the support this would provide for broader economic development through the inclusion of persons other than SMEs would be still in line with the SBCI legislative mandate.

Given the scale of the investment required, a new holistic approach, combining financial supports, regulatory intervention, financing innovation and advisory support is needed. The SBCI and the EIB are engaging with the DCCAE and the Department of Finance, as well as with the Sustainable Energy Authority of Ireland (SEAI) and NewERA to explore the most effective delivery mechanism (focusing on grant and loan funding) to help achieve the targets set out in the Plan. Loan funding may be provided via a guaranteed loan fund through the Irish banks to support investment for residential and commercial premises owners.

Separate to this bank deployment, there is also an opportunity to design a non-bank led funding proposition which would appeal directly to commercial businesses, including those focused on providing energy retrofitting services to the SME community. Some electricity suppliers already co-ordinate the design, installation and SEAI grant application for consumers and businesses who invest in heat pump, solar and wind energy upgrades, however the cost of financing for these upgrades is a deterrent to investment. Certain non-bank lenders provide this type of finance and the SBCI could reduce the cost of finance for those investing businesses through provision of low-cost liquidity and or risk sharing.

### Challenges

This theme will require new technical expertise, additional reporting burdens and complex multi-stakeholder policy measure design, deployment and delivery processes as well as being dependent on the assembly of the value chain and service providers to deliver the work.

## SME Innovation – Impact Theme

### Summary

The Innovation theme sets out to address the gap in the support for businesses that are innovative and scaling beyond equity finance, where credit is not available but is required to deliver rapid growth. Addressing this will enhance SMEs' competitiveness, scale and ability to address major societal and innovation challenges.

### Business Model

All the State policy roadmaps include a requirement to foster innovation and support firms that are adapting their models and practices to enhance competitiveness, drive productivity and build robust agile businesses that can provide high quality employment for Ireland's growing workforce. A report on the **Digitalisation of Small and Medium Enterprises in Ireland** prepared by Oliver Wyman for the Department of Business, Enterprise and Innovation and the European Investment Advisory Hub identifies that traditional indigenous SMEs are slower in leveraging digital solutions to reduce costs, drive innovation and expand market presence. The SBCI can look to support these companies by including the financing of SME innovation in its wider product set.

There is also a gap in the market where businesses have moved beyond or are not able to source equity finance but do not yet have enough scale or track record to secure senior debt to innovate and scale their businesses to deliver growth. Access to higher risk debt is beyond the reach of most indigenous Irish businesses due to their smaller scale. There is an acknowledgement of this gap across the main retail/business divisions of the Irish banking market.

The SBCI is in discussions with on-lenders to explore supporting mezzanine/junior debt facilities for such companies.

The SBCI's current risk-sharing schemes have had an important impact on the banks' risk appetite. If the SBCI is to have an impact on overall market risk appetite and increase competition, then direct lending (on a small scale) to the market is a strategic option that needs consideration to ensure the availability of those products missing or not widely available in the market (e.g. mezzanine/venture debt/stretch finance). The SBCI will explore the need for and creation of a platform to deliver this lending, working with stakeholders and the EIB Group to assess the need for and feasibility of this in the first instance.

### Challenges

The challenges of creating a new platform and funding concept are not to be underestimated. The development of such a lending platform would mean additional resourcing, complexity and risks (e.g. losses counted as government expenditure) for the SBCI. However, it is considered that the SBCI should pursue short and medium term (non-direct channels) that do not require significant resourcing, including exploring a notification to the European Commission's Directorate-General for Competition (DG Comp), which would allow the SBCI the option to fully price for risk through both indirect and direct channels.

## Government and EU – Policy Delivery Pillar

### Government Support

The support provided to the SBCI by the Minister for Finance is critical in sourcing low cost liquidity from international and multilateral institutions such as the EIB Group, the Council of Europe Development Bank (CEB) and Kreditanstalt für Wiederaufbau (KfW), which is currently delivered to SMEs through non-bank lenders. While the SBCI does not need this liquidity support at the scale originally envisioned, the capacity to raise further funds on this basis is a valuable component of the SBCI's ability to serve a counter-cyclical role in the event of a major economic dislocation. When combined with the significant uncalled capital the SBCI has in reserve, it ensures that the organization's ability to respond to such events remains unaffected by its current or future day to day activity. This support also underpins the SBCI's recently secured rating from Moody's (equivalent to Ireland's sovereign rating), which is important when dealing with banks and non-bank lenders as it enhances the extent to which banks can optimally recognise the capital benefit of the SBCI's guarantees.

It is an essential part of the SBCI's strategy to continue to work closely with the Departments of Business, Enterprise and Innovation and Agriculture, Food and the Marine along with its parent the Department of Finance. In addition, the SBCI is now working with the Department of Communications, Climate Action and Energy through its Climate Action theme.

### EIB/EIF Relationship

The ongoing relationships between the SBCI and the European Investment Bank (EIB) and the European Investment Fund (EIF), together the European Investment Bank Group (EIBG), have been central to the development and delivery SBCI's liquidity and risk-sharing schemes. While the EIBG lends directly to the public and private sectors, its minimum transaction levels are beyond most Irish businesses and the SBCI intermediates much of the EIB and EIF SME credit related activity in Ireland. The EIF specialises in finance for small businesses and mid-caps as a delivery partner for the European Commission. As with other European jurisdictions, the EIF deals directly with commercial banks as well as with National Promotional Institutions like the SBCI, however, more recently the provision of SME guarantees has been via the SBCI.

The SBCI is considering, as part of this strategic plan, the acquisition of a shareholding in the EIF and is in ongoing engagement with the Department of Finance in this regard. This would provide a positive financial return and support its objectives through enhanced market knowledge and the building of a stronger relationship with the EIF and EIBG as a whole.



## Skilled Team with NTMA Support – Policy Delivery Pillar

The SBCI team, in conjunction with the operational and technical support provided by the NTMA, is adequately resourced to deliver on its immediate strategic objectives, and the recruitment of a small number of team members is provided for in the financial forecasts.

However, as new initiatives are undertaken, the SBCI will need to build additional capabilities through recruitment and/or procurement of outsourced services and expertise, details of which will be included in any proposals brought to the Board. The SBCI team fosters an adaptive and collaborative culture which allows it to re-direct its resources to the evolving business needs and strategic priorities.

The majority of the initiatives contemplated under this strategy would not require a significant increase in resourcing, however taken together there will be a need to grow the team and potentially the development of a *Customer Hub* platform.

## Networks and Relationships – Policy Delivery Pillar

### Relationships and Networked Policy development and delivery

Critical to the SBCI's ability to both create and deliver effective products, schemes and initiatives, as well as dealing efficiently with SMEs, is its network of relationships. The SBCI has sought from the start to build successful relationships with a wide range of stakeholders from European Institutions to Government Departments, SMEs Bodies and SMEs through understanding their needs, values and interests and working to align with these, while achieving its own objectives. The strategy is to continue to emphasise effective stakeholder management and build on the progress to date.

### Market Awareness

Building SMEs and SMEs' advisors awareness of the SBCI and its products/services remains essential for the SBCI. To date, the SBCI has focussed on a strategy which comprised a combination of radio advertising, social media engagement, case studies and event attendance. Given the shift in the SBCI model to one where our relationships with banks are now predominantly relating to risk-sharing, the awareness strategy will evolve to ensure continued support for the SBCI's liquidity non-bank partners.

The new eligibility process for SBCI schemes (BLS/FGLS) has allowed SBCI to engage on a direct basis with SMEs. This engagement will be further enhanced with the development of a Customer Hub.

The Marketing function has developed strong relationships with industry bodies and our partner financial institutions. This effort will continue with a focus on the advisor community including accountants, and tax advisors. Reaching frontline bankers to ensure product and scheme awareness is an on-going challenge. To address this, the team will roll out its certified module for the Institute of Bankers' continuous professional development programme on risk-sharing.

## Research

Research forms the central element of the SBCI's market failure and programme review. To deliver on the SBCI's mandate it has recruited a senior research analyst to ensure the timely identification of market failures, inform and support strategic initiatives, influence product design, and facilitate the measurement of the impact of initiatives deployed in the market.

The research function will further support the public awareness effort and market understanding through the delivery of a bi-annual *SME Advisor Credit Market Health Survey and Index*.

The research team works closely with the NTMA Economics team, the CBI and others to source the required data. A core objective of the research team will be to work closely with and support the policy decision making of key stakeholders by providing input into their concurrent identification of more cyclical market failures.

The Research function's immediate priorities are:

- Ongoing market monitoring and impact assessment;
- Development of the SME Advisor Index;
- Specific research conducted at the request of the Product Development function such as the need for credit support in the delivery of energy efficiency investments by SMEs.

## EU Peer Relationships

The SBCI holds membership of three European National Promotional Institution (NPI) networks, namely ELTI (European Association Long Term Investors), NEFI (Network of European Financial Institutions for Small and Medium Sized Enterprises) and AECM (European Association of Guarantee Institutions).

As one of the smaller NPIs, the SBCI benefits from the expertise and experience of larger longer established peer members including Kreditanstalt für Wiederaufbau (KfW), Cassa Depositi e Prestiti (CDP) and Caisse des Dépôts et Consignations (CDC). These networks have been vital to informing the SBCI's thinking. Each network is differentiated in terms of its focus and mix of activities.

# Risk Management

The objective of the SBCI risk management function is to proactively and prudently manage the SBCI's risks in accordance with the SBCI Risk Management Policy and Framework and Risk Appetite Statement. The SBCI has identified the following broad categories of risk to which it is exposed:

- Strategic Risk;
- Macroeconomic Risk;
- Credit Risk;
- Resourcing Risk;
- Operational Risk;
- Compliance & Legal Risk;
- Third Party Risk;
- Reputational Risk;
- Liquidity Risk;
- Political Imperative Risk.

Each of the risks is identified, addressed and controlled in accordance with the SBCI's Risk Management Policy and Framework and Risk Appetite Statement, and overseen by the Audit & Risk Committee.

## SBCI Senior Management Team

**Nick Ashmore**, CEO

**Seán Farrell**, Head of Product Development

**John Madigan**, Head of Marketing and Research

**Ray Mangan**, Head of Risk, Finance and Operations

**Suzanne Sweeney**, Head of Lending

*"The Strategic Plan sets out the SBCI's goals for the period 2020-2025. As markets and unexpected economic events occur, the Plan will be developed and adapted to address these challenges".*

**Nick Ashmore**, SBCI Chief Executive

