

Trending in lending.

From high-risk borrowers to unstable markets, many lenders have shied away from new technology players in the current climate. This has led them to fall behind disruptors, losing valuable customers and market share.

Four lending areas are hot right now globally – real estate, microlending, small and medium enterprise (SME) lending and point-of-sale finance. We'll dig into the role that technology, specifically financial technology, has played in these areas, as well as what the future of lending looks like.

Are you agile?

In the digital banking revolution, legacy systems just don't cut it. They are unable to keep pace with the ever changing market, and the resources required to constantly maintain and upgrade these systems takes employee's time away from innovation and product development. And simply put, you won't survive if you don't innovate.

All lenders are now looking for technology that works seamlessly with any existing systems, while getting the competitive advantage of a digital approach. This changing landscape requires a revolutionary digital-first approach. A key component to achieving this digital-first approach is what we call 'composable banking'.

Composable banking is based on the well-established principles of composability in system design and software development. The idea is simple: instead of locking you into a monolithic stack with hard-coded integrations, composable banking optimizes for speed, agility and freedom. By embracing composability, lenders can reduce risk, make decisions faster, and deliver a great customer experience at a lower total cost of ownership.

The future of lending is a moving target, and composable banking has kickstarted a wave of lending innovation.

Step up, or lose out.

It's true that consumers and small businesses are increasingly turning to neobanks and fintechs. In Europe, a massive 64% of consumers have adopted fintechs for some of their banking needs, up from just 16% in 2015 (Global FinTech Adoption Index, 2019). In the U.S. the trend, though not quite as dramatic, continues.

In addition to market disruptors challenging the status quo, consumer behavior has clearly changed. This, coupled with COVID-19 effects, is driving new ways to lend. In the first quarter of 2020, while financial firms saw a surge in demand for enterprise loans or lines of credit, loan approval criteria for these tightened.

With changing regulations, increased demand and market unrest, the lending industry is more complicated than ever. Lenders want to speed up loan decisions and provide the best service for their customers but with the least amount of risk. To deliver, they look to implement agile products through digitalization. Simply put, new solutions are needed across a wider variety of lenders - the push for digital remains a priority.

For traditional lenders, creating new products or adjusting existing offerings can take months. Yet, neobanks and fintechs have been able to quickly implement measures like payment holidays and delayed interest payments, leading everyone to look at how they can sustain agility to remain competitive.

Modern lenders and financial institutions are responding to this change with a new approach we call composable banking - rapid and flexible assembly of independent, best-for-purpose technologies. Composable banking can help any lender be nimble and reactive.

Four trends to watch:

1 Real estate.

When looking at the real estate market, there is much debate on what the next 12-24 months will look like. It's important to note that the purchasing power of individuals has been severely impacted due to COVID-19.

With an increased number of employees and jobs made redundant, personal finances are strained and many are unable to pay back on their lending products. Not only does this affect their credit, it lowers the ability to buy, in turn driving down the market price.

This leaves many homeowners struggling to decide what to do next. Should they sell now, restructure their current mortgage, or play the waiting game and see what happens over the next few months?

This begs the million dollar question for lenders: How much of a loss can they take and will they be ready for the wave of missed payments? Most importantly, they need to ask themselves if they have the proper systems in place to quickly identify vulnerable customers. In order to have a fighting chance at sustaining their business, they need to decide if and how they increase the flexibility of their products, from more leniency to reduced interest rates.

2 SME Lending.

SMEs are the pillar behind many economies across the globe, representing about 90% of businesses and more than 50% of employment worldwide, with formal SMEs contributing up to 40% of national income (GDP) in emerging economies (World Bank). The World Bank continues to note that when it comes to financing, SMEs are less likely to be able to obtain bank loans. In fact, about half of formal SMEs lack access to formal credit.

Because of the lower ROI and higher cost-to-serve in the SME market, it has historically been left behind by traditional banks. Further, due to the cash-flow challenges, high-risk industry and unstable credit ratings, these banks are unable to meet the needs of their potential SME customers, leaving the majority underserved and left to fend for themselves.

According to the International Finance Corporation (IFC), it's estimated that there is an unmet financing need of \$5.2 trillion every year across 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) globally.

While SMEs struggled to access funding from traditional financial institutions, the alternative finance sector gained momentum. Enabled by technology, new challenger banks, fintechs and big tech firms are winning the market with innovative service models and customer-centric propositions, offering increased self-service, faster decision-making, flexible repayment terms, secured and unsecured lending and attractive interest rates.

As a result, SMEs have access to tailored financial services, including real-time personalized assistance and immediate availability. Innovative SME lending challengers offer quick decisions on loans and mobile apps that simplify bookkeeping, and are easy to manage on-the-go.

ABN AMRO New10 took an entirely cloud-native approach, choosing Mambu as the core banking engine. Thanks to Mambu's agile, composable banking technology, New10 could choose the best, most innovative technologies available.

OakNorth chose Mambu for faster time-to-market and business agility to become the UK's first cloud bank. Mambu's composable infrastructure and API accessibility enabled OakNorth to offer business loans with flexible terms to SMEs enabling their future growth.

3 Microcredit.

In principle, the traditional concept of short-term and payday lending has been frowned upon; however, microcredit has emerged in some countries to fight against social and financial exclusion, promote self-employment and support microenterprises.

Under existing policy, the majority of applicants who are new to banking are faced with a catch-22: they are denied credit due to a lack of credit history; however, this then limits their ability to build credit history. As part of the re-bundling process, fintechs and neobanks have emerged with flexible products and services that better serve these types of applicants, including finding creative ways to build the necessary credit history.

Allowing the consumer to pick and choose means that digital lenders, like Monedo, are becoming increasingly viable alternatives for the underbanked and unbanked. Monedo selected Mambu's composable banking platform that was easily customized and configured for all of their markets (Spain, Poland, Russia and India), and successfully launched a short-term lending product specifically tailored to local consumer and regulatory needs. They are creating more personalized lending thanks to their self-learning algorithm that analyzes big data and calculates an individual's credit score within seconds using up to 20,000 data points.

Point of sale financing

A popular type of credit is the concept of Buy Now, Pay Later (BNPL). Having been around for nearly a decade now, BNPL has recently gained traction as online commerce has taken precedence over in-store shopping. BNPL allows shoppers to pay over time for goods, most commonly allowing for short-term bi-weekly installments that are interest free. Though there are longer-term credit-based offerings that may be spread across many months and are interest-bearing.

The economic impacts of the COVID-19 pandemic has made the idea of not paying upfront or in full for goods even more attractive. Retailers, being forced to shut during lockdowns, have survived thanks to the rise in online shopping, with the help of BNPL making the online POS experience more seamless for consumers. In the US, the shift from brick-and-mortar to e-commerce has been accelerated by 5 years (IBM Retail Index).

While this is an evolving area of finance, there are many benefits to both the consumer and retailer. A July 2020 study from The Ascent, found that nearly a quarter of consumers using BNPL are doing so in order to build credit scores, with larger lending needs such as mortgages in mind, and just under half (39.37%) are using this option as a way to split payments up over time and avoid paying credit card interest.

For fintechs looking to expand their offerings into lending and BNPL, intuitively-designed APIs and apps can help you can open a new area of business.

4 Transition not transformation.

Over the past few years, there has been a fundamental shift in how lending is managed, where staying relevant means being able to efficiently and effectively change.

Key areas like increased digitization and automation, e.g., having more digital-only lending products, will minimize profit loss for banks and lenders. Embracing cloud and taking a composable approach with partners who specialize in specific areas, rather than a one-stop-shop, gives lenders agility and control.

But change doesn't happen overnight. One way to do this is to apply the evolutionary approach - to build and pilot new solutions to determine the best way forward, then migrate from old to new, with low risk and easily configurable components. This allows lenders to optimize for what matters: growth to some, profit margins to others, innovation for others.

Where to go from here.

Lenders run the risk of having technology constraints that undermine even the best innovation strategy. Many organizations are crippled by complexity and are unable to take advantage of new tools and, therefore, are quickly losing their competitive advantage, and as a consequence, their customers.

To thrive in this period of change, lenders can embrace an agile approach, implementing a cloud-native platform like Mambu in order to keep pace with the market developments and shifting customer expectations.

By embracing Mambu's composability, lenders can reduce risk, make decisions faster, and deliver a great customer experience at a lower total cost of ownership. They will also have an expanded ecosystem of available components with third-party APIs as well as services and tools that are built in-house.

As market dynamics keep on changing, lenders have a chance now to have a tremendous positive impact on the lives of their customers. In the long-term they can choose to embrace the new world based on rapid evolution, partnership and modern technology. If you can dream it, we can build it.

Interested? Let's talk.

info@mambu.com