



SME Lending Monitor

February 2020

Moving at the speed of light



How rapid decisioning is transforming SME lending

Every quarter, using proprietary market data based on more than 30,000 businesses that access our services, we delve into emerging funding trends.

In this, the second edition of the Funding Xchange SME Lending Monitor, we reveal how 'Time-to-funds in account' is changing the competitive dynamics in the market.

Faster speed of decisioning is set to have a profound impact on the SME lending ecosystem – for banks, lenders and small businesses alike.



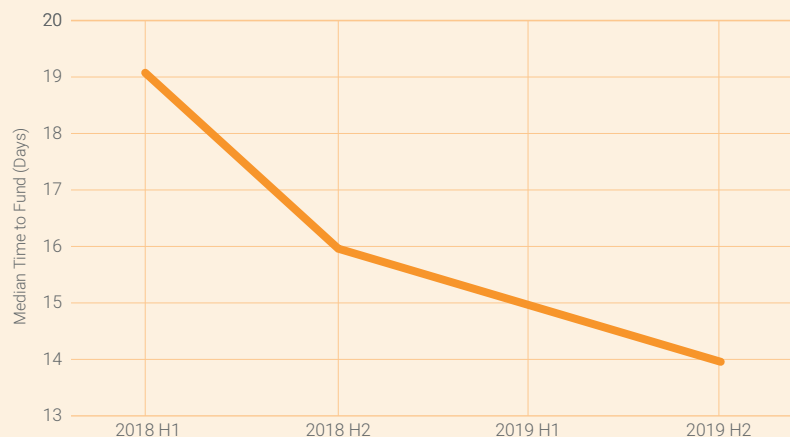
The Q1 2020 Lending Monitor is published in collaboration with ezbob, a provider of digital end-to-end technology that helps lenders reduce the Time-to-funds-in-account for their customers.

Key insights – What the data shows

Time-to-funds-in-account is rapidly speeding up, transforming the way lenders compete and how customers select their loan provider



More than half businesses using Funding Xchange receive funds within 14 days



Analysis based on sample of 584 customers accessing unsecured term loans. Excludes credit lines and credit cards. Date of application = date application made to Funding Xchange; date of funding = date funder initiated transfer of money.

- **Time-to-funds-in-account has decreased by 26% in the last two years as lenders increasingly focus on speed.**

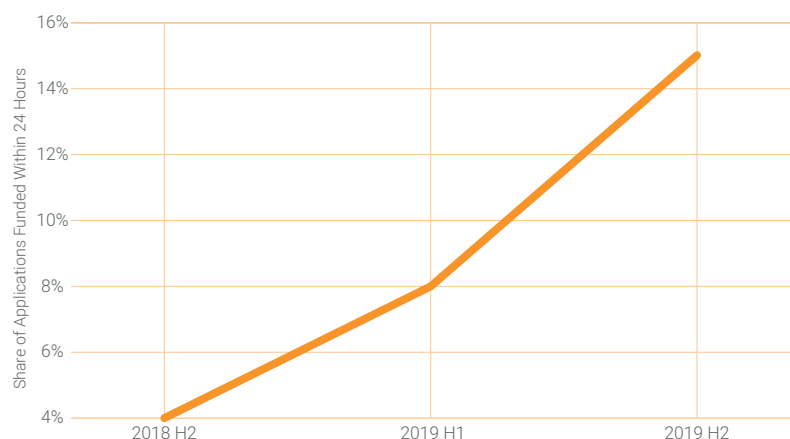
Smaller businesses often apply for funding when their need is urgent. Today, over half of our customers have drawn down funding within 14 days of applying through our platform. In early 2018, this figure was 19 days.

- **Speed is vital when competing for customers with the best credit profile.**

The biggest benefit in the reduction in funding time is being felt by the most attractive customers. Half of Funding Xchange Gold customers (those with a strong credit profile) are able to access funds in less than 10 days. Bronze customers wait an average of 13 days, or 30% longer.



Gold customers are increasingly fast-tracked by lenders



Analysis based on sample of 283 Gold customers. Date of application = date application made to Funding Xchange; date of funding = date funder initiated transfer of money.

- **Instant decisions are no longer just a vision.**

15% of Gold customers were funded within 24 hours in late 2019, compared to less than 1% in early 2018. Overall, just 23% of applicants wait more than three weeks to receive funding, down from 31% in early 2018.

- **Speed and cost of funding are correlated.**

Customers with stronger risk profiles are fast-tracked by digitally enabled processes, which could also mean better pricing. If funded within 14 days, the median cost of borrowing for this segment is 19%; those who wait longer pay 28%.

Key insights – What this means for the lending ecosystem

Speed of funding is changing the competitive dynamics in SME lending



Changes driven by faster lending decisions are empowering customers to select the best funding solutions.

SME lending is becoming more like applying for consumer loans or credit cards. Customers, who increasingly expect a seamless experience, can easily and quickly compare offers from different providers and select the most suitable product for them. Customers are penalising lenders with outdated models – whether these are digital players with imperfect pricing, traditional lenders who require longer periods to make a decision, or banks that have struggled to deliver end-to-end digital solutions.



Lenders must constantly evolve their product and service proposition to win customers because the market is changing rapidly.

While customers benefit from greater transparency, lenders are disadvantaged as they do not fully understand how competitive market dynamics are changing – in particular at the micro-segment level. For example, the requirements (and providers) for a Gold customer search for a loan under £25k over a 12-month, versus a 24-month loan period, are different. These dynamics change again for loans between £25-100k or if a lender moves into 36 or 60-month products. Lenders do not have real-time visibility of the delineation of the micro-segments, the changes within each, and the implications for their product positioning versus the competition.

In a transparent market, the ability to track and react to change is critical to ensure that lenders attract and convert the right customers. With the accelerated change we are seeing, live market insights, rapid testing of propositions and deep credit analytics are becoming essential ingredients for competing in SME lending.



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The risk of adverse selection is crystallizing for lenders unable to compete on speed and accurate credit assessment.

As the best customers can get confirmed offers within minutes, lenders with less developed digital capabilities or slower processes are left to serve a pool of customers with a poorer credit profile – and will therefore see adverse selection at the portfolio level. As competition intensifies (see our last Lending Monitor on specific customer segments), lenders unable to identify and fast-track good quality customers will miss out on a golden opportunity.

For example, we see the adverse selection dynamic impacting the secured asset finance space, with incumbents increasingly losing out to more nimble – and often more competitively priced – unsecured providers. Given the limited use of data-driven credit models and digital technology by more traditional lenders, some are seeing a shift in the typical credit profile of their portfolio as the more creditworthy customers have been taken off the market before they are able to make an offer.



We will see a broader move towards instant decisioning and end-to-end digital origination over the next 18-24 months.

The combination of increased competition, regulatory scrutiny and the need for the robust application of credit and affordability models will drive the adoption of digital models. To win good quality customers, it is becoming critical for lenders to adopt streamlined processes that include accurate credit risk modelling within a competitive offering.



The winners will leverage new data sources to validate larger offers.

Lenders are increasingly adopting solutions that connect, validate and interpret live data. While the competitive focus on speed is already shaping the sub-£25k funding space, we expect that in the next 18-24 months lenders will push the boundaries for instant decisioning to the £50-100k bracket as the use of data sources such as Open Banking, tax information and interpretative layers like cloud accounting give lenders greater confidence in their digital credit assessments.



How the customer experience is changing...

Funding Xchange partners with a number of other Fintechs to support lenders' digitisation and intelligent use of data. **ezbob** helps lenders deliver end-to-end solutions through the use of advanced data analytics, coupled with industry benchmarks, to optimise their decisioning and enable accelerated learning.

"Harnessing the latest in AI technology, our lending solution maximises real-time data from multiple service providers using APIs. This enables us to carry out automated regulatory requirement checks and verifications, as well as credit risk assessments, in minutes rather than days.

We are integrating with Funding Xchange to enable customers to go from application through to a lending decision in just seven minutes. Once we've verified details and received the customer's signed documentation, our digital solution can process funds on the same day – often within the hour."



Yaron Shoshani,
CTO ezbob





On the horizon

Katrin Herrling, Funding Xchange's CEO and Co-Founder, outlines how different stakeholders will be impacted by the increasing speed of funding



How will lenders be impacted?

Lenders will have to become clearer about the market segment in which they are competing, and get each element of their product and service proposition absolutely right. This requires two fundamental changes:

- ✓ Lenders will have to be more externally focused to gain real-time understanding of how market dynamics around them are changing – and make decisions on where they want to compete, and what it takes to win.
- ✓ Underwriters and technologists will have to work more closely with marketers to design, test, monitor and evolve successful propositions. Building a common language and culture of collaboration between these functional silos is a challenge, in particular for companies where they have developed over a number of decades.



If the market changes, the track record of established lenders does not protect them against the pronounced shift in customer profile that will follow.



What are the risks for those that fail to make the transition to faster, more transparent funding solutions?

Many traditional lenders have historically benefited from accessing a broad mix of customers to diversify their balance sheet exposure. This natural blend of risk profiles has added some protection, but it is important to recognise that if the market changes, the track record of established lenders does not protect them against the pronounced shift in customer profile that will inevitably follow. The only remedy is for these lenders to introduce rigorous, continuous credit assessment, while increasing their sensitivity to changing market and customer conditions.



Does that mean lenders should move to digital-only solutions to compete effectively?

Our most successful lenders are clear about what customers value about their proposition and are increasingly putting technology at the forefront of its delivery.



For some this means using technology to eliminate cumbersome offline processes. Speed does not have to mean less client engagement, but it does mean less administration and more focus on value-adding interactions with customers.

We believe that a **digital-first strategy will be adopted** by most lenders. This will enable the fast-tracking of customers into appropriate customer service models. Some of these will be more offline, and some entirely digital, depending on how and where lenders choose to compete.

Intelligent customer engagement models will consider competitive intensity, service expectations and longer term value. These models will deliver over the lifetime of the customer relationship by monitoring and identifying changing needs and credit risks to proactively support them, delivering tailored solutions – and ultimately manage their credit exposure.

Given the investment and sophistication required to compete effectively, we believe that **scale will become an important enabler of success**. In a market that is highly fragmented, this could play out quite rapidly in an economic downturn that exposes any weakness in individual lenders' balance sheets.



What role do you see brokers playing in a transparent market?

The traditional broker channel's drive to meet targets and keep credit lines open means that customers do not always have access to the most attractive offers. With increasing transparency and ease, customers have started to recognise the cost of broker introductions do not represent good value for money. We are seeing a



significant shift in volumes to digital acquisition channels that offer unbiased access to funding. Increasingly, brokers will have to prove that they are adding value. As a result, we expect traditional **brokers will increasingly focus on complex, high value funding** where the structuring of deals adds value for all parties.

There is an opportunity for lenders to automate the end-to-end journey and complete the full funding process in minutes.



Should we expect instant credit decisions for all types of lending application in 2020?

The use of digital technology and live data will continue to increase the speed of Time-to-funds-in-account. Given the rapid transformation we have already seen, we expect significant leaps in the next 18-24 months as the validation and interpretation of new data sources enables full decisioning for a large share of

businesses seeking funding of up to £50k. As the assessment of this amount is entirely based on the historic performance of the business and the credit profile of its directors, there is an opportunity for lenders to automate the end-to-end process and complete the full funding process in minutes.

At the heart of this transformation will be the ability to interrogate live, transactional data to enable full eligibility checks against lenders' risk models – including robust affordability models that consider both the business performance and its directors' personal credit position.

While Open Banking data will play an important role in enabling the automation of affordability models, the need for validation will require cross-referencing against other data sources including tax records, and use of interpretative layers like accounting information.

Snapshot: Fast forward to 2022...



We expect a market-wide move towards instant decisioning and end-to-end digital origination.

The combination of increased competition, regulatory scrutiny and the need for the robust application of credit and affordability models will drive the adoption of digital-first models.



Digital and non-digital customer engagement will be seamlessly integrated.

Digital-first will enable fast-tracking of customers into the most appropriate service models and will deliver long-term, proactive customer engagement solutions.



The winners will leverage new data sources and evolve their understanding of how the industry around them is changing.

Lenders will adopt solutions that connect, validate and interpret live data sources to help them develop and implement robust credit strategies that are attractive to their target customers.



Funding Xchange is an intelligent decisioning platform that transforms efficiency in SME lending distribution by holding lenders' underwriting models and integrating with their decisioning technology. Funding Xchange accurately mirrors lenders' decisioning based on their credit policies, affordability models and risk pricing. By using access to live transactional data, including closed group CRA (customer risk assessment) data, Funding Xchange provides accurate, personalised terms for SMEs, and is never more expensive than going direct. By holding decisioning within the Funding Xchange platform, applicants' personal data is protected, and businesses have full control over the funding process. Through deep integration with lending platforms, businesses can be fully approved for funding within 10 minutes without leaving the Funding Xchange site.

Funding Xchange SME Lending Monitor

We believe that collaboration between banks, alternative lenders, digital technology providers and policy makers is vital to ensure businesses have access to the critical lifeline that funding often represents. This collaboration brings together different capabilities, providing business owners with the ease of access to business finance that the consumer finance market has enjoyed for more than a decade.

Through our marketplace, which is used by over 30,000 businesses across the UK every quarter, we have a front row seat to observe any changes in funding needs – and the funding solutions available to them from more than 40 providers.

From this unique vantage point, in 2019 we launched our SME Lending Monitor, which tracks how the transformation in the sector is playing out – both from the perspective of small businesses' ability to access funding, and the rapidly evolving landscape of providers. It provides a unique insight into the pulse of SME funding in the UK.



ezbob is a pioneer in the rapidly growing 'lending-as-a-service' (LaaS) sector. They offer a best-in-class modular and end-to-end lending solution and guide banks and financial institutions through complex digital transformation. Funding Xchange has partnered with ezbob to deliver an instant and seamless origination experience for customers in search of funding – including those outside the credit appetite of a lender by enabling access to third parties who can offer funding or advice.

For more information, small business research, images or to arrange interviews, please contact: **Max.Firth@fundingxchange.co.uk**

For further information on our capabilities and to learn how we help small businesses, please visit: **www.fundingxchange.co.uk**

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