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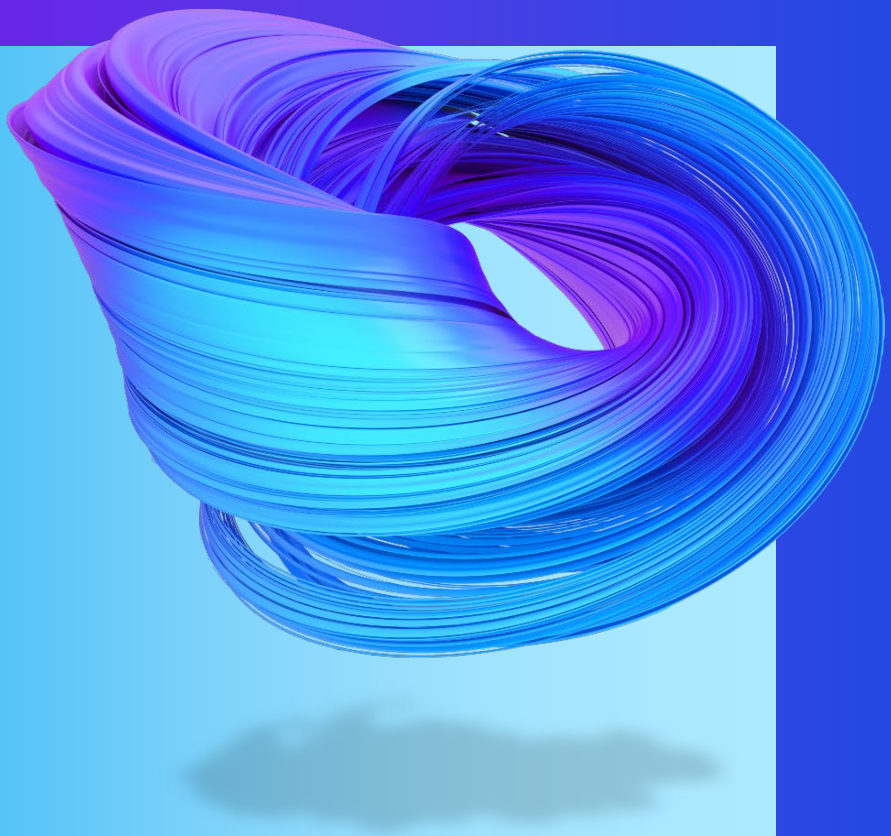

# Rethinking your Digital Lending Strategy

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While Open Banking has empowered banks to digitise financing and improve credit decisioning, most banks continue to struggle with legacy processes and traditional models as they navigate through the digital lending market. Even though credit needs of SMEs (small-medium enterprises) continue to grow exponentially, banks are unable to reach their full potential, only allowing competitors to better serve the market.

The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of $5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending. Despite the profitable opportunities, banks lack a clear strategy and right operating models to meet the market needs. Not only is their customer data fragmented (no single view of customer insights), but also a lack of 'digital skills' make it challenging to cope up with the new ways of working.

We observe the below trends that can influence how banks leverage new lending opportunities in the post pandemic market.

## Trends and Opportunities in Digital Lending

According to Grand View Research, the global digital lending platform market size was valued at $5.84 bn in 2021 and is anticipated to reach $36.8 bn by 2030. This forecasted growth presents the importance for banks to continually invest to seize this market opportunity. To remain competitive in the market, some key focus areas would include:

### Building End-to-End User journeys

While assessing the current state and building journey maps, it is important to identify legacy dependencies, key data sources, major pain points and repetitive manual hand-offs. As customer experience is key, the user journeys ought to be built in close partnership with RMs (Relationship Managers) as they are better informed of the customer requirements and automation possibilities.

### Strategic partnerships & increased collaboration with Fintechs

Legacy systems and high human-touch service models often bring risk, complexity, and cost to traditional banks in the digital lending domain. Fintech lenders are, in contrast, often winners in delivering with speed and flexibility and disrupting the market with the latest technology in AI and Data Analytics. Banks therefore need to engage in the right partnerships within the vast landscape of vendors to enhance their offerings and digitize processes especially within the SME-lending value chain.

### Coping with Cultural shift

Quite often, management and staff are resistant to change as they are unable to foresee how digitalisation will impact the organisation and their work. For the senior stakeholders, it is essential that they understand the target state and plan well to acquire talent to prepare for both the 'transform' and 'run' state. Banks also need to identify a central credit authority that connects the right stakeholders across business, technology, risk, and regulation to recreate business models and enable better customer experience.

### Sustainable lending

Climate Bonds Initiative (CBI) suggested that green bond issuance reached an all-time high of $500bn in 2021. This growth reflects investor's increased appetite for green investments, growing market standardisation and preferential lending rates and terms for green borrowings. Those that develop a mature ESG data platform, focus on reskilling and building a diverse portfolio of green instruments will stay ahead of regulatory expectations and the sustainable lending curve.

# Transforming the Digital Lending Model

At KPMG, we observe that our clients often assume automation to be the ultimate solution to streamlining the lending process. They fail to understand that the goal is not to build a 'faster horse', but to retire the horse and recognise the need to assemble an efficient sports car. If banks are indeed looking to race, they need to co-create solutions in partnerships with FinTech and enhance customer experience to penetrate the market faster.

Based on our experience, we see the below as significant to rethinking your digital lending strategy:

## 01 Clear Product Strategy aligned to Business Strategy

Even before banks embark on transforming their lending processes, it is key to understand customer needs and objectives across different products. If the focus is SME Lending, banks should be able to list key pain points and identify opportunities within lending journey to meet immediate and long-term needs. Partnering with the right Fintech can empower banks to further customise their offerings and introduce innovative and flexible solutions.

## 02 Transformed Customer Journeys

While automation can help in improving efficiency of the lending process, banks would need to think beyond their existing policies and systems to improve customer experience. This includes not only redesigning the customer journeys, but also reconsidering data retrieval and documentation processes. For example, a large European bank has partnered with Trade Ledger to reduce its business loan 'time to yes' from 20 days to 5mins. Trade Ledger's SaaS (Software as a service) platform aggregates application, accounting, and business credit data to free up a significant RM (Relationship Managers) time to reinvest with customers.

## 03 Enabling Technology Platform

Based on our experience, we see four key enablers to build an enduring platform that caters to an optimal digital experience

- **Build a digital platform that not only provides a simple to understand interface but is also customised to meet the needs of the customer from the initial application process to servicing of the requirement.**
- **Leverage both internal (e.g. customer demographics, current account data, transactional data, loan and deposit data) and external sources of data (e.g. credit- bureau data, data from government agencies) to create rich insights, automated workflows and automated decisioning to reduce processing time.**

- **Embed a strong risk management framework by implementing an integrated and quantitative credit risk solution that supports in-life monitoring. The framework should support target alerts, which are triggered when a specified red flag event occurs. The alerts should further automatically redirect to specified user groups for handling.**
- **Create a platform that provides a single view of all customer details including application details, product requirements, amount requested and status of application. The platform should enable RMs by supporting real-time notifications, fraud or suspicious invoice detection, automated workflows or application reviews, and automated document generation.**

## 04 Reformed Operating Model

Apart from defining roadmaps and customer journeys, banks would need to reconsider their target operating model. A centralized credit authority would be key in adapting to business models, securitizing the digital platform, and ensuring regulatory preparedness.

Redesigning and scaling of the IT architecture would further require a front-end that supports loan initiation via multiple channels (Web, mobile etc.). A CRM (Customer Relationship Management) platform, Credit model and secure Data Integration would be strong foundations of the Digital Lending architecture.

New end-to-end journeys would require fostering a digital culture that focuses on collaboration, knowledge sharing and continuous learning. It is important that the technical reforms be made in collaboration with business stakeholders. Business and technology stakeholders would need to own joint metrics that track both business and performance outcomes. Banks would need to attract digital talent and focus on reskilling/training not only their technology staff but also the RMs/non-technical colleagues who are accustomed to old ways of working. This would need a comprehensive talent strategy while leveraging partner and vendor support.

# Summary

Whilst there has been fast emerging growth in SME lending, there has also been an increased competition from alternative SME lenders like online peer-to-peer lenders and payment companies. This calls for banks to respond more rapidly to the fast-evolving needs of SME that emphasises on speed and flexibility in the lending experience. Banks that engage in strategic partnerships with Fintechs would therefore see themselves unlock a key opportunity and become a competitive differentiator with better business efficiency and cost savings.

We can also identify some longstanding challenges that bank face – legacy IT systems, data siloes, lack of cooperation between business and risk as well as the scarcity of digital talent. To truly transform their digital lending offering, banks must look beyond automation, rethink their underlying processes while making data driven assessments to optimise the credit model and customer experience. By enhancing their product strategy, processes and operational model, banks can be in a better position to capitalise on the emerging growth in SME Lending.

At KPMG, we are supporting our banking clients in redefining the end-to-end secured lending journeys covering both automated and RM-assisted decisioning. In partnership with Fintechs and Microsoft Business Solutions, we have built a Digital Lending platform that provides seamless customer experience and further empowers Relationship Managers with a single view of all customer data and product requirements. Our KPMG Target Operating Model framework enables us to help you define a clear business strategy and operating model as you transition to the new lending platform.

# There is more to Digital Lending than automation KPMG can help you see beyond.

## Contact our author(s) for assistance


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