April 2023

How Instant Loan Disbursements Could Drive Lenders' Growth

Money Mobility Tracker® Series

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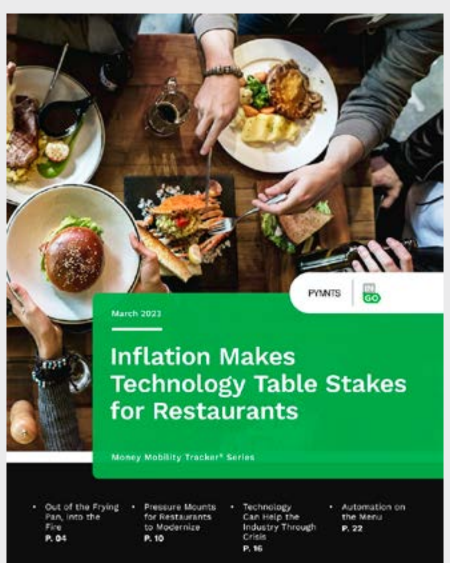
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What's Inside

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Acknowledgment

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Need to Know

A Challenging Economy Demands a Better Lending Experience

With rising inflation and a recession looming, nearly all consumers have anxiety about their personal finances. This concern means more saving and less borrowing among banking customers. In fact, 48% of consumers are less likely to take out a loan since interest rates have gone up, compared to 33% who are more likely to do so.

To stay competitive in this challenging environment, banks must provide an enhanced experience in ways that relate to the modern customer. Today's borrowers are more digitally aware and have greater expectations for innovative products and services. Lending is at the heart of banks' profitability, and those lenders that can make borrowing easier and more secure without adding too much friction can win more revenue.

Lenders have a major opportunity to ease consumer anxiety over finances with innovative digital experiences.

48%
Share of U.S. consumers who are very concerned about their finances

48%
Portion of U.S. consumers who are less likely to take out a loan now than before interest rates increased

9%
Increase in retail revenue banks could see by launching innovative advice-oriented offerings and reestablishing customer trust

Need to Know

Borrowers want a faster and easier lending process.

Across customer segments, people who borrow money want change from their lenders in the form of a faster and more convenient process. A recent survey revealed that 35% of consumers believe they should be able to complete a personal loan application in less than two hours. Especially in an unforgiving economy, borrowers seek less friction. Four in 10 say it is not easy to transfer mortgage loans, and they are twice as likely to experience problems as customers who say it is very easy.

Small to mid-sized businesses (SMBs), meanwhile, are also looking for a fast decision process with immediate funds availability from lenders, and they are willing to switch to FinTechs if legacy banks fail to deliver.

A recent survey found that SMBs across Europe will opt for FinTech or specialist lenders if their banks cannot deliver a speedier lending experience.

Share of European SMBs that want access to faster credit — **66%**

Portion of European SMBs that want to be funded within a week — **55%**

Share of European SMBs that want to be funded within three days — **31%**

Need to Know

Increasing fraud complicates digital lending, but solutions promise big rewards.

Complicating this need for speed is that as more digital payment options go online, fraud attacks are on the rise among financial services firms and lenders. Credit lenders in the United States are seeing 64% more mobile transactions, opening themselves up to bot attacks. Phishing is the most common scam, cited by 75% of U.S. lending firms and 88% of those in Canada.

Lenders with high digital transaction volumes are at an even greater risk. This is a major contributor to the rising cost of fraud among financial services firms and lenders. Banks and mortgage lenders in the U.S. have been hit particularly hard, with fraud costing them $4.36 and $4.20, respectively, for every $1 of fraud loss. These trends make reducing friction trickier in a need-for-speed environment. Technology and data automation can drive efficiency for lenders, however, allowing them to reduce fraud while making more accurate credit decisions and delivering them faster.

All types of lenders are seeing increases in fraud losses at the start of the customer journey.

36%

Share of lending fraud losses among credit lenders in the new account creation stage, up from 29% in 2021

34%

Share of lending fraud losses among mortgage lenders in the new account creation stage, up from 30% in 2021

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News and Trends

Modernizing Loan Origination Could Boost Satisfaction for CUs

A recent white paper contends that credit unions (CUs) have an opportunity to reverse recent dips in consumer satisfaction by leaning into modernization of the lending process. Banks and FinTechs saw an increase in customer satisfaction in 2022, while CUs fell slightly — a difference the paper attributes to the former groups' superior digital and mobile banking features. Lending is a strong suit for CUs, however, with many consumers turning to credit unions for the best loan conditions. To leverage that interest, a modern loan origination system can bring CUs up to speed and make applying for loans more user-friendly, faster and safer.

Automated decisioning has the power to accelerate underwriting. Low-risk borrowers can be approved instantly for standard loan offerings, enabling lending teams to focus more on complex applications, speeding up the timeline for customers to get a decision — and their money.

News and Trends

Borrowers want faster mortgage process, especially at closing

Regardless of whether they are purchasing or refinancing, homebuyers are clear in their demand for a faster mortgage process. Recent research found that nearly three in four consumers want to complete the mortgage process within three weeks. First-time homebuyers or those who have not previously refinanced are even likelier to want a fast process.

A more streamlined, digital process would help the 49% of borrowers who prefer to close in a shorter period of time. Borrowers cited going paperless, relying more on technology to do the work for them, reducing in-person meetings and increased transparency as the top factors that could have made their lending experiences faster.

Data analytics can improve KYC friction, accelerate lending process

Know your customer (KYC) checks are an essential part of the lending process, helping verify new customer identity, address, income and banking statements. For nearly half of all FinTechs, including 37% of mature FinTechs, however, KYC is their top challenge. The challenge is even greater among business-to-consumer FinTechs at 55%. Inconsistent sharing of documents and lack of sufficient technology investment add friction to customer onboarding. Data analytics represents an opportunity for FinTechs to make the KYC process more efficient and effective and improve customer experience and overall business performance.

Share of FinTechs using data analytics to support their KYC processes

Share of FinTechs outsourcing KYC processes

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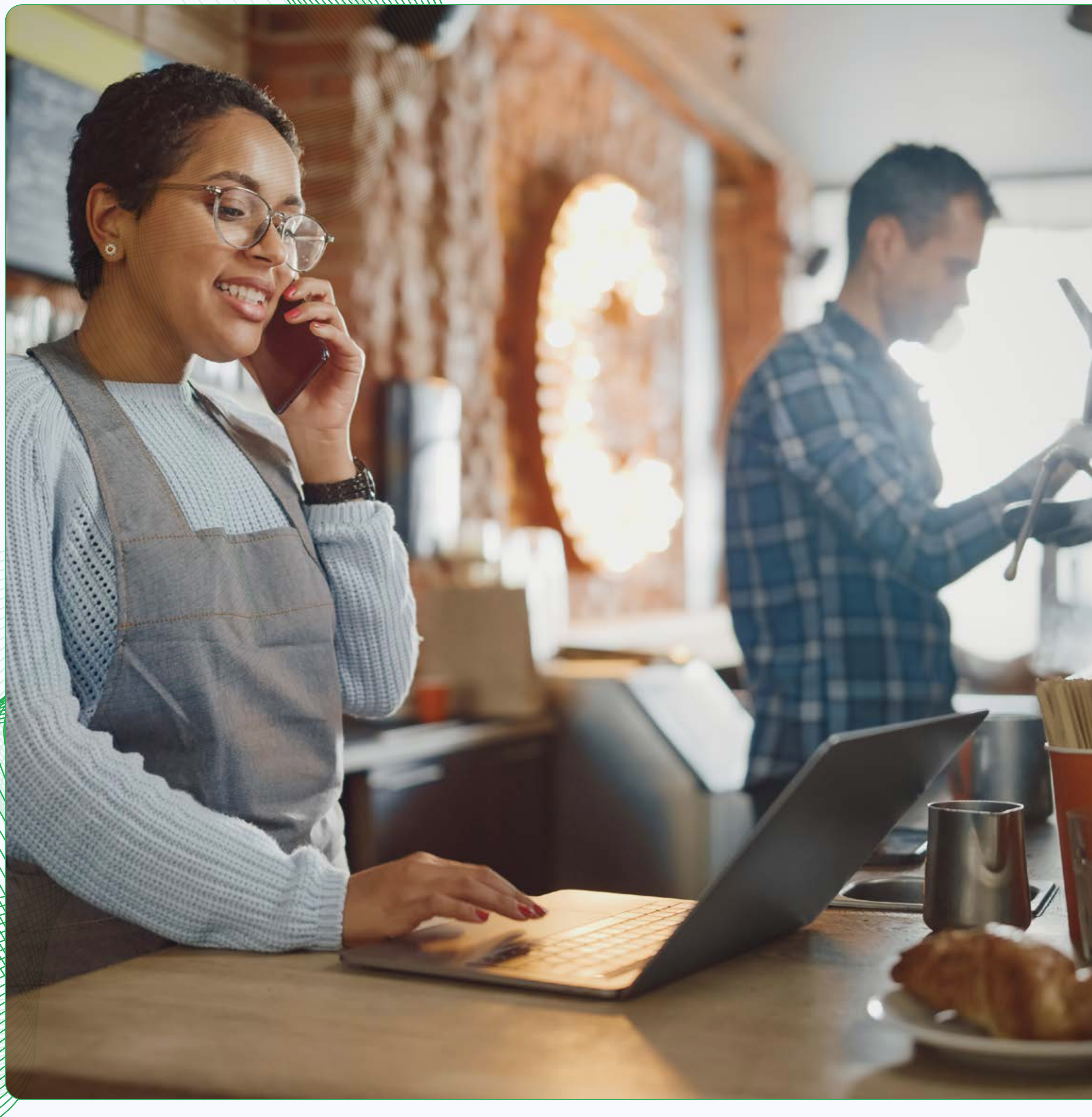
Partnering to Power Growth With Instant Loan Disbursements

Instant disbursements adoption set records in 2022 and is anticipated to continue increasing in the near term. The only disbursements that consumers were significantly less likely to receive instantly last year were those in the borrowing category, including personal loan payouts and debt consolidation loans. Nearly half of all consumers wish to receive disbursements instantly, and two-thirds of customers who tap FinTechs as their FIs would be very or extremely willing to pay extra specifically for instant loan disbursements. For consumers, there is a clear demand for faster lending options and not enough supply.

Even more compelling is the case for instant loan disbursements for SMBs. Small businesses have high expectations for a fast and seamless lending experience, and a growing majority are voting with their feet to bank with FinTechs when legacy banks cannot meet their needs. Evidently, the lending space is ripe for an instant disbursements transformation.



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Lending's digital transformation has been slower to take off

Lending poses unique challenges for instant disbursements due to long-time perceptions about security. While consumers prefer to open most new financial accounts digitally — including personal banking, savings and credit card accounts — they still prefer to initiate personal loans, auto loans and mortgage accounts at branch offices or by phone.

In part, this is because consumers continue to see physical branches as the most secure FI channels for such high-value transactions, with 68% of customers rating branch offices first in providing security, while only 35% view web portals as secure. The lack of wide availability of digital tools to support loan applications, however, may itself reinforce this perception. With demand increasing for faster loans, the opportunity is strong for digital innovation to build more trust in the lending space and drive greater customer satisfaction and loyalty.

Consumers still trust branch offices more than digital channels for offering security and information.

68%

Share of U.S. consumers who prefer branch offices for providing security

69%

Share of U.S. consumers who prefer branch offices for providing information

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Modern loan origination systems allow FIs to speed onboarding and application securely

Against the backdrop of traditional lending, FinTech lenders have made significant strides toward more streamlined digital lending processes that allow consumers to apply for loans simply and securely from their mobile devices. Consumers want faster loan applications and disbursements, but they prioritize security above customer experience. In an era rife with cybersecurity threats, applying for loans and transmitting personal documents through email and unencrypted web forms will not meet their expectations. A state-of-the-art loan origination system integrates features that streamline the process, enabling a frictionless and secure experience for both borrowers and lenders.

Modern loan origination system features:

- **Intuitive, mobile-first**
- **Automation capabilities, including for custom processes**
- **Integration with AI tools**
- **Integration with compliance tools**
- **Improved data management**
- **Ability to scale with your business**

Origence. How credit unions can use technology to reduce friction in the lending process. 2023. https://news.cuna.org/articles/122126-how-credit-unions-can-use-technology-to-reduce-friction-in-the-lending-process. Accessed March 2023.

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Partnering with FinTechs can enable faster, customer-oriented lending innovation

Increasingly, top banks are partnering with FinTechs to bring this innovative approach to their lending to better win and retain customers. Automation with enhanced data and analytics not only improves speed and accuracy in credit scoring and lending decisions but also provides banks with rich, real-time data for personalizing offerings to fit individual customers' needs.

Banks must ultimately generate new revenue, and lending is an essential core of banks' profitability. Bringing the lending space fully into the digital revolution with instant disbursements could prove an important — and overdue — driver of banks' growth in both the near and the long term.

76%

Share of lenders that are either piloting AI for loan portfolio optimization and risk assessment or have it in production

65%

Share of lenders that currently use the cloud in loan origination

Chart of the Month

Gen X, Millennials Opening Most New Loan Accounts

People of all ages are opening new loan accounts, but there are clear preferences for certain products among different generations. These trends give lenders a chance to better tailor financing products to customers and deliver personalized recommendations. Generation X had the most new mortgages and auto loans, while millennials were the most likely to open personal, home equity and small business loans. Generation Z, unsurprisingly, was the most likely to open student loan accounts.

Loan accounts opened by customers

Share of consumers who opened new loan accounts in the past year, by generation

	Generation Z	Millennials	Bridge millennials	Generation X	Baby boomers and seniors
• Mortgage	11.1%	33.7%	39.2%	46.1%	30.7%
• Auto loan	17.6%	36.1%	36.0%	37.8%	26.1%
• Personal loan	10.7%	24.7%	23.1%	15.7%	10.5%
• Student loan	29.7%	25.1%	20.2%	10.3%	3.9%
• Home equity loan	6.1%	11.4%	8.9%	8.0%	7.0%
• Small business loan	6.9%	9.2%	6.4%	1.9%	0.9%
• No loan accounts	49.5%	30.3%	29.1%	32.0%	47.5%

Source: PYMNTS
Account Opening and Loan Servicing in the Digital Environment, Month 2022
N = 2,303: Complete responses, fielded Dec. 6, 2021 – Dec. 12, 2021

Insider POV

The Inside Take on AI's Role in Streamlining Lending for All

ANUJ NAYAR
Senior vice president,
financial health officer

LendingClub

"We need to be working hand in hand with the regulators, hand in hand with the people who are [overseeing] the [AI] systems to ensure that we are still doing the right thing for all our customers and all Americans."

PYMNTS speaks with Anuj Nayar, senior vice president and financial health officer at LendingClub, about how lenders seeking to offer faster payments can leverage AI to drive multiple sought-after gains.

When LendingClub's Anuj Nayar thinks about AI and its role in financial services, he envisions the holy grail for which many FinTechs have long aimed.

"How do you take that information and use it in a way ... that will allow companies to include more people in the financial ecosystem who may have been excluded previously?" asked Nayar.

Artificial intelligence (AI) and machine learning (ML) can accelerate lending and lay the pathway for instant disbursements, streamlining the entire process. AI-powered algorithms analyze a vast amount of data and other relevant factors in real time, enabling decisions in minutes. LendingClub has been using AI and ML in this fashion for some time. The technology can process more than 150 billion cells of data and 2,000 different attributes, automating the majority of the company's loan approvals and speeding up the delivery of its decisions.

Insider POV

AI algorithms also enable automated underwriting and fraud detection, while AI-powered chatbots and virtual assistants can provide personalized customer service. Along the way, LendingClub has continually increased the speed of its disbursements, now offering funds within 24 hours of approval via direct deposit.

"We can move much faster," said Nayar. "We're currently doing a little less than a billion dollars … of loan deliveries, and that takes a lot of sheer technology and manpower to make that stuff happen."

Nayar pointed out how traditional FIs and FinTechs have already used these technologies to modernize many manual banking processes, but he cautioned that AI's inherent power can be problematic for some if they do not proceed with a thoughtful plan.

"There have been multiple cases in the past [of] other companies that have maybe put the AI together, and even though they weren't intending to have a type of disparate impact, [they had one] because they weren't thinking through the ramifications," Nayar said.

Examples of these disparate impacts might be pigeonholing certain consumers who apply from particular zip codes or other demographic categories as "good" or "bad" risks. Nayar explained that LendingClub has devoted much time and energy to producing an industry-wide framework to ensure responsible AI use and to avoid disparate impacts that do not meet industry guidelines such as the Equal Credit Opportunity Act. He said lenders must avoid building a "black box of technology" that conducts decision-making without transparency or that does not work to ensure fairness outside of statistical models.

"The piece that we always have to be very, very careful of when you start using new technologies is to ensure that you're also not having any unintended consequences."

LendingClub has intentionally built out its AI beyond automation to drive financial inclusion. Having a much broader set of data from which to make decisions enables the lender to offer a loan to someone who may have been excluded from it in a traditional model or to price it lower if the additional data suggests that the applicant is a better credit risk.

"There's a whole bunch of innovation that's coming in," Nayar said. "We're seeing really interesting use of technology, and as long as we keep benefiting the customer at the center of what we're doing and not adversely impacting any customer, … it will continue to grow."

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Companies to Watch

Financial Services Giants Preparing for New Era of Lending

Visa has partnered with Nordic FinTechs Froda and Lunar to expand access to financing for growth-seeking businesses. The partnership created a digital product providing push-payment functionality that can reduce transaction times from months to just seconds and enables loan payouts and repayments via payment card.

KeyBank has deployed a software platform from cloud banking infrastructure provider Blend to make the mortgage application process completely digital and help the bank close home loans 17 days faster. Blend's platform drives better application completion rates, appeals to mobile users and streamlines document requests.

What's Next

Up to $3T at Stake in Small Business Lending

The growing power of AI can transform small business lending, which has changed dramatically since the pandemic by moving from face-to-face to a mobile process. Most vital information about a borrower can be tapped from the phone connected to their bank account, and coupled with real-world insights, it can paint a necessary picture of whether an SMB can be the right client for a lender. With $3 trillion in potential SMB lending at stake, lenders should ensure that AI and ML can work together to capture business-specific and alternative data that can help reach more customers with the right lending products.

> As borrower demand grows, lenders have an opportunity to stand out in an increasingly crowded field by offering real-time funding. But the realities of rising fraud rates and consumer experience expectations mean lenders must partner with FinTechs that can provide speed in combination with reach and security.

DREW EDWARDS
CEO

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