BUSINESS LENDING TECHNOLOGY: BUYERS' GUIDE

The ultimate guide to choosing a better system for lending to SMEs

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Introduction

If you're a business lender, and want to improve the way you lend to small and medium enterprises (SMEs), or launch new SME finance products, how do you choose the right technology platform?

This guide sets out the most important questions to ask potential vendors, and what to look out for in their answers. The questions explore current capabilities, and adaptability to future changes in your business and the markets you operate in. You'll find the guide useful if you're a leader in IT/digital, change/transformation, or procurement, at a bank or alternative finance provider.

The guide will help with major change programmes, as well as smaller projects such as setting up a new product. It sets out:

1. Key market trends
2. The benefits you should expect
3. Questions you may wish to put to vendors, and what to look out for in their answers

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Key trends in lending

Commercial lending is having to react rapidly to external factors, particularly the pandemic, and to competitive pressures across the industry.

Increasing demand and higher customer expectations

During the pandemic, many businesses have been compelled to borrow for the first time, and this has brought increasing demand for finance of all types. The abrupt closure of non-essential activity has led to many businesses needing cash quickly, just to stay afloat. They have discovered that the typical time to cash is 90 days, and it can take 30 hours to make an application – and this doesn't cut it in a world where people are accustomed, in their personal lives, to getting almost instant credit at online checkouts, with services like Klarna and PayPal Credit.

Demand for different products

There's a mismatch on assets. Lending products have tended to be secured against tangible assets, but the vast majority of businesses (around 80% in the UK and Australia) are service-led, and have intangible assets such as intellectual property and licence sales.

Digital transformation and embedded finance

The digital transformation of lending services continues, with processes increasingly becoming digitally visible – although lending is still highly relationship-driven, there's demand from customers, introducers and lenders to be able to apply, and track, view and manage accounts, on demand. They want financial services delivered to them at the real point of need with embedded financial services.

Open finance and risk management

Challenger banks and alternative finance providers are disrupting the market, with simpler, more convenient services. Some of them are taking advantage of open finance, using customers' shared financial data alongside traditional data sources to get a better picture of risk and gain a competitive edge over incumbent banks.

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Ensuring your business benefits

The solution to all these challenges is a lending platform or lendtech. If you and your borrowers are to get the full benefit, you need to pick the right one.

A lending platform supports or provides some or all of your lending processes: origination, onboarding, customer relationship management, broker/introducer management and settlement.

It can acquire data from internal and external sources – such as your own customer data, or data from credit reference agencies – and process it, for decision-making or to trigger actions.

With the right platform, you should benefit from improved sales, margins and customer satisfaction thanks to:

- A single view of the customer, available to all your teams. This provides consistent information about customers and potential customers, throughout their lifecycle, so you can originate and manage loans more efficiently, and thus faster and at lower cost
- High-quality reporting and dashboards, enabling you and your customers to track accounts, so you can resolve bottlenecks and identify success
- Streamlined or automated workflows, which are faster, more efficient and suffer fewer errors
- Scalability, so it can expand as your loan book and product offerings expand

Buy or build?

If you already have in-house capability, should you consider building your own platform, customised to your needs? The pros and cons are the same as for any other purchase. An in-house build will give you something that's fully tailored to what you want to do for your customers, for competitive edge. But you'd also need to consider:

Time to market

You need to start from scratch instead of buying something that's available now

The build and maintenance costs

You bear them all yourself, rather than sharing them between multiple buyers

Risk

Will it work? Until it's built, you won't be able to see a demo, or ask existing customers for their experience; if the build fails, you, rather than an external supplier, bear the costs

Maintenance and development

Build teams often disperse when their project ends, resulting in a loss of intellectual property and momentum to innovate

When to buy

What's the right time to acquire a lending platform?

Typical triggers are:

- When the contract with an existing provider is coming to an end, and there's a desire to bring your lending operation fully up to date
- When your current technology is under-powered or not being updated
- When you're expected to monetise your data. Making more effective use of the data you have – by using it to make faster, better-quality decisions – will get more value out of it, and could position you to monetise it
- When you want to treat customers fairly (both borrowers and introducers), and need greater transparency in customer journeys to achieve this
- When you need better customer relationship management (CRM)
- When you plan to launch a new product. You might be keen to increase your market share by offering more complex lending products such as invoice finance
- When the total cost of ownership (TCO) of traditional tools becomes too great
- When your existing KPIs and metrics are causing concern. For example, when they're pointing to process or efficiency concerns, such as applicants dropping out, or applications getting stuck
- When you want to explore new business models using technology as a catalyst

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Questions to ask potential suppliers

...and what to look out for

Which finance products can the system support?

How easy is it to adapt or add products in response to market changes?

Does the platform support just one product (such as invoice finance), or is it built to support an entire category like working capital? Will it support products that haven't been invented yet?

Some platforms are built to be flexible, and will handle a variety of securities, payment cycles and risk profiles. The flexible variety allows you to adapt quickly to changing market dynamics: scale your business, branch out into new products, including ones you've not thought of yet, and diversify your portfolio.

How does the platform handle customer relationship management (CRM)?

You may already have a CRM system such as Salesforce, Microsoft Dynamics 365 or Hubspot – or perhaps you're using a spreadsheet or other general-purpose software.

If so, ask about **how the lending platform will integrate** with it and how flexibly it can do that.

Best of all, pick a platform that's CRM agnostic, so that, if you decide to change CRM, you won't be stuck with an incompatible lending system. This is sometimes called a "headless" system.

Or, if you're using general-purpose software, consider a move to CRM. Introducing a lending platform is the ideal time. **Ask if the platform has CRM capabilities built in**, so there's no extra outlay and no additional software to manage.

Then, when you make a sale and the prospect becomes a customer, there will be no need to copy information from the CRM to your core systems. You'll avoid copy/paste and re-keying errors, and instead get a single customer view (SCV) – one version of the truth about the customer, rather than multiple records that could all vary. You can also make use of the CRM throughout the customer lifecycle, for example for cross-sell and up-sell campaigning.

Which other systems and applications can it work with? Which data feeds can it take?

Can the platform integrate with your core systems? If so, you can bring financial data into application assessments effortlessly, giving you a more rounded picture of borrowers' financial health so you can make better risk decisions. It also enables the single customer view, so that all your teams work off a single version of the truth.

Can it import the data you need for decisions from your other systems, as well as external sources such as credit rating bureau feeds, and your customers' online accounting systems? Look for a platform that can accept API feeds alongside batch data from legacy systems.

Some can handle spreadsheets and even documents such as ownership deeds. This means that your teams can access all the information they need from one place, and no longer need to hunt through emails and folders.

If you're using Salesforce and augmenting it with third-party apps, how will the platform interact with them?

Can it provide real-time data? If so, you can run reports and make decisions based on the information available now, rather than on the situation last week or last month.

Is it flexible enough to support other functions? You may have enough applications already that can only do one thing. The more versatile platforms will enable you to rationalise some of your IT estate.

Is the platform cloud-based or cloud-native?

Can it be deployed on a private cloud? This may be required if you're a regulated banking entity with stringent regulatory controls over your systems. **Can the platform be deployed in a hybrid-cloud environment** to ensure all bank data resides within your private cloud environment?

Already chosen your cloud infrastructure? You may have already selected a strategic partner for your infrastructure. Does the solution allow you to **deploy on any type of cloud service provider?**

How does it process the data?

How easy is it for the platform to extract relevant information? For example, if you're offering invoice finance, can **the platform easily access the right invoices?**

Is the data entity-centric? This enables a single customer view.

Are workflows event-triggered? Some platforms assess the financial health of the customer using information provided by the customer when they first applied for credit – but that's immediately out of date. To see the current situation, look for a platform with real-time data feeds. Some platforms are event-driven, generating alerts when action is required, such as reviewing an application or account, highlighting exceptions, or fetching a particular type of data.

How is analytics handled? Can the platform integrate with your credit scoring modules, or provide one if you need it?

Will the system help manage relationships with introducers and brokers?

The introduction of a lending platform is the perfect time to assess how you interact with introducers – and whether it can be improved.

Separate systems for managing brokers give you a further layer of complexity, and increase the likelihood of mismatched data and double entry. If instead you deploy an integrated system, the information flows can be made seamless.

Does the platform include a broker portal? This gives brokers appropriate access to the data and tools you use in-house. It should give you visibility of the progress of broker sales, and enable them to use your data feeds. This accelerates the time to cash for customers. The greater visibility improves relationships and collaboration between you and your brokers. When brokers can see their applications progressing, and don't have to rely on their relationship manager for updates, it can help them reach their targets more easily and encourage them to bring more business to you.

What will the customer experience be like?

Applying for a loan is laborious and time-consuming for potential borrowers. A good customer experience will minimise dropouts during the application process.

Does the platform offer good design with intuitive user experience? Can it automate some, or all, of your application process? Fully automated origination can deliver an initial draw-down in as little as a day, enabling the borrower to get on with running their business and the lender to grow their book.

How are documents handled?

Does the platform offer a document repository to make it easier to handle documents? If so, you can say goodbye to hunting for documents attached to emails or hidden in folders. Some platforms make it incredibly easy to store and search for relevant documents.

Is e-signature supported? This makes a big difference to the closing stages of origination. E-signature eliminates the need for customers to print, sign, scan and send agreements. Some lending platforms provide e-signature capability. It's much more convenient for customers. Relationship managers and sales teams get an audit trail of signatures with timestamps, as well as easy access to the documents in the future.

How much visibility is possible?

Will you be able to **track the progress of origination and on-boarding?** If multiple loan applications get stuck at the same place, will you know about it, so you can fix it?

Some platforms offer dashboards that give you real-time insights into your business operations – including broker deals.

How secure and resilient is the system?

Don't risk your data. **Does the platform have ISO 27001?** How resilient is it, and what are the uptime figures?

Is there a cultural fit?

Do you share the same values? Do you want to work collaboratively in a partnership, or are you looking for an execution-based vendor? **Can the vendor work within with your funding cycle and procurement processes?**

A good match culturally and ethically will bring rewards throughout the engagement.

Is it future proof? What's the total cost of ownership (TCO)?

We've already looked at some aspects of future-proofing, including whether the platform can adapt to support new products, and whether it can handle changes to other systems, such as if you decide to change CRM.

It's also essential to ask **how your lending platform itself will stay up to date.** With some systems you buy a particular version of the platform; if you want an upgrade, you pay again. With others you get free upgrades, but installing them requires a system integrator's help. With both of these, your system is already out of date when you install it.

Some platforms are constantly updated without extra charge. Every time you use the system, you're using the latest version, including the latest security features.

This is an important factor to include when you assess the **total cost of ownership (TCO)** of the platform.

Ask too about the technology roadmap, and the pace of improvements over recent months. **Is the platform being improved all the time, or stagnating?** Is the supplier investing in the platform, or do the developers have to fight for funding?
Can the platform support machine learning/augmented intelligence, or is it restricted to rules-based analytics?

NEXT STEPS

To make the right purchasing decision, it's critical to ask the right questions.

We're up for a chat about any of the topics highlighted in this guide, and would welcome a conversation with the people who will use, support and implement the system. Just let us know how to get in touch, via **www.tradeledger.io/contact**

About

Trade Ledger is the global technology provider to the commercial banking and financial services industry.

The Trade Ledger platform brings together all the data you need throughout the customer lifecycle, analyses that data, and automates key processes. With Trade Ledger, you can lend faster, to more businesses, at greater profit.

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