TRADE LEDGER

Working Capital

Predictions 2023

19 industry leaders. 4 key themes. 1 report to help you make the right moves

This one's a bit different...

When I was 12, I spent a lot of time waiting in banks. I remember my dad refusing to leave the building until an approved business loan landed in his account. I remember my mum in tears, having to remortgage our home to pay suppliers and deliver new orders.

My parents are serial entrepreneurs. They've dabbled in everything from import/export to kids cooking classes. So much of our dinner table talk was about cash flow problems.

Decades later, these memories remind me how little business lending has changed. SMEs still struggle to get the working capital they need. Even in an age where an artificial intelligence chatbot can diagnose medical conditions or crack jokes to make a human laugh.

The voices you'll hear in this report give me hope.

Hope that things are finally changing. And that the change – a shift from talking about problems to solving them – is accelerating.

The insights you'll read come from experts in every corner of our industry, from the "fin" to the "tech".

You'll feel the energy of start-ups, the caution of the giants, and the sharp analysis of consultants. You'll hear a lot about pulling closer to your customers and reimagining core systems (rather than being distracted by the latest shiny tech).

We're being asked to unshackle from the past to understand the future.

A car, as they say, is not a fast horse. Likewise, data-driven credit decisions or open banking are not like paper forms and letters of credit. You'll read about a new modular ecosystem and how important it is to stay flexible when change is constant.

2023 will be tough, and it will be busy. There'll be winners and losers. But, like one of our contributors says, "the field is wide open". There's opportunity for companies that use technology to bridge the funding gap.

The contributions are split into four key themes: technology, operational efficiency, risk management and loan book growth. There are nuggets of wisdom across all four themes.

For me, these insights stand out:

1. Be where businesses hang out. The technology exists to make embedded working capital as easy to implement as consumer BNPL (buy now pay later). If you don't have an embedded lending strategy yet, make this a priority.
2. Find the nuance. Use data to make more sophisticated and relevant business lending decisions. Lenders who do will win loyalty from business owners.
3. Partnerships are the key to unlocking growth. The funding gap won't be solved by a single player, but by an ecosystem of specialist providers. Lenders who embrace 'plug and play' flexibility will keep up with an industry in flux.
4. Stop comparing like for like. Whether you're replacing legacy systems, launching products or making your processes more digital, think transformation, not just automation.

We're quick to praise SMEs as the backbone of an economy, or drivers of innovation. But 2023 is a year to remember the people who give and risk everything to run those businesses. People like my parents.

To quote another one of our contributors: "Let's stop talking about how amazing SMEs are, and start helping them in a meaningful way."

Childhood memories shouldn't be about banks or cash flow. We've got the tools now to make sure they aren't.

Lauren Muir
Head of Marketing
Trade Ledger™

You'll hear from

accenture | Allica Bank | experian | EY Building a better working world

KPMG | METRO BANK | Microsoft | Oxbury

publicis sapient | shawbrook | sonovate | The London Institute of Banking & Finance

Thought Machine | tide | Validis | Virgin MONEY

To all our contributors... thank you for being so generous with your time and insights.

Bite-sized industry insights

To warm up, we asked two dozen lenders, technology providers and strategic partners questions about our industry. Here are five key takeaways from our poll:

5 years

More than 60% predict that fast, easy access to working capital will be the norm within five years.

No. 1 priority

Investing in modern technology, followed closely by loan book growth.

Next-gen working capital

The industry is split about how to define next-generation working capital. It's a tie between new types of lending products and reinventing your business model.

2 in 3

say they're buying Software as a Service (SaaS) and Open API vendors, rather than building in-house.

Invoice finance

Digital receivables/invoice finance wins the popularity contest for the product that will be launched in the next three years.

More numbers and insights on **page 33**.

01

Technology cost of ownership

“A jazzy front-end, without a modern, agile tech stack behind it, will set you up to underdeliver on your promises.”

Microsoft

Joel Bloomfield

Azure Lead UK Financial Services
Microsoft

Niall Archibald

Head of Industry Strategy – Financial Services UK
Microsoft

#MODERNTECHSTACK

#AGILESYSTEMS

#UNIFYCUSTOMERDATA

#COMPOSABILITY

Need to do more with less? Keep IT simple

Everyone's out to do more with less. Everyone's on a journey of change. But to reach your destination, you need a true picture of your technology infrastructure, and how much it's costing. For us, that's a big focus this year.

Customers expect the world, and financial service companies are rushing to deliver. But some banks are straddled with systems created when the first moon landing was making headlines. A jazzy front-end, without a modern, agile tech stack behind it, will set you up to underdeliver on your promises.

Three key things to watch in 2023:

- Companies are making their tech stacks more modern and sophisticated. That means buying solutions to reduce complexity. It means hybrid cloud models, more Software as a Solution (SaaS) and less own builds.
- Product agility is a top priority. Change is accelerating. There's so much volatility, uncertainty and complexity. How do you respond? With agile products you can change or tweak. Fast.
- Unity of customer data can be the difference between success and watching your competitors outperform you. Companies are investing in getting a singular view of their customers, doing away with data duplication across dozens or hundreds of products.

You're only as good as tomorrow

To keep innovation flowing, and catch the winds of regulatory change (towards open finance and APIs), we must accept that we can't be everything to everyone.

The market is moving towards an ecosystem made up of components (composability). Click them together, and you get an open system, where data drives decisions and relationships with customers.

Don't try to swallow the whole transformation elephant. This year, pick one or two use cases where you can make a real impact.

To do more with less: create agile systems, assemble the right teams, automate, use data to see ahead and build winning partnerships.

Allica Bank

Ravneet Shah

Chief Technology Officer
Allica Bank

#TIMETOSTEPUP

#SERVERLESSCOMPUTING

#MACHINELEARNING

#BUILDVSBUY

The advice I give my team? Don't run after shiny tech

There's always new, exciting technology out there. And as tech people, we're always running after it.

But often, we land up chasing squirrels in a park. There are many of them, they're fast, and catching them is very difficult. A better approach for 2023 is to think carefully, stay vigilant and find what technology is going to work best for you.

Business lenders are behind. Time to catch up

I've run a business and know the pain of spending months applying for a loan. Business lenders are good at buying software, but less good at using it. Most are still living in a world of paper forms, slow decisions and siloed systems.

It's time to come out of that zone. To be more effective. To integrate tech components and bring data together, so we can have a singular, holistic view of what we're doing.

I'm keeping an eye on serverless tech and machine learning

I'm interested in the evolution of technology and tools I can configure. The two I'm watching with interest are:

- Serverless computing, which provides back-end services on as-used basis. This flexible technology drives innovation and sustainability.
- Machine learning. If lenders automate credit decisions, they can drive down costs and speed up the flow of working capital.

We're at a point where we can use these technologies, safely, in day-to-day banking. They help us reimagine the entire process. And that's important in today's economic climate.

There's a lot to do. A lot to focus on. But a great place to start in 2023 is to build or buy technology that helps you better understand your data. Ask questions like: Should I build something I can buy (like a CRM system)? Does this software support my mission? Is it simple to configure?

With the answers, you won't chase the wrong squirrels.

Thought Machine

Travers Clarke-Walker

Chief Marketing Officer
Thought Machine

#NEXTGENTECHNOLOGIES

#BUILDSTRONGFOUNDATION

#FINTECHPARTNERSHIPS

A big surprise in 2023? Not dealing with your tech foundation

Don't get caught out by doing nothing this year. In a wide ecosystem, lending is a team sport. Next-generation technologies have evolved and matured. Companies are migrating to cloud infrastructure. The market is turning start-ups into must-haves. In short, we've hit a tipping point.

This is the year to go deeper than a slick app. To dig down to the foundation. We call it a year of foundational systems transformation. It's a chance to speed up change. To overhaul the core of your lending machine: the lines of code that help you record each transaction or apply the latest interest rate.

Don't build your house on software sand

This change can't wait. Those who don't transform will be left behind. Further down the road, they risk the systemic failure of their business. If you don't move to a cloud-based micro services architecture, your innovation will grind to a halt.

The industry's top engineers don't work with software that belongs in museums. With an outdated core system, you'll battle to attract talent. Your cost-to-income ratio will rise, and your products won't satisfy your customers.

Crucially, you won't be able to operate in tomorrow's ecosystem. You'll struggle to do things like apply decent versions of embedded finance, or play in the field of open data analytics, artificial intelligence or machine learning.

We're stronger together

The new ecosystem has many players. And many of them are new. Building a solid foundation means creating winning fintech partnerships and making the best components fit together.

This year, we expect to see a downturn. But every reason to transform is still there. Downturns reward those who act, not those who hide. I'm going into 2023 with an optimistic view: this is the moment to accelerate change.

publicis
sapient

Fifi Ahmed

Director
Publicis Sapient

#DIGITALBUSINESSTRANSFORMATION

#AIANDMACHINELEARNING

#MINIMISEMANUALPROCESSES

Free up your experts, and let technology fill in forms

Large, complex institutions find a certain comfort in using legacy platforms. It's time to get uncomfortable. And there's no better year than 2023.

Artificial intelligence and machine learning are increasingly being recognised as key differentiators in financial services. That's happening because of how lenders are using digital business transformation to be more efficient. The technologies are also helping reduce manual oversights and errors.

But implementing new technology can be super challenging on all sides of lending. Consulting firms, like ours, help organisations deliver state-of-the-art tech, and make sure that customer experiences take centre stage.

Let the machines handle the manual tasks

Legacy platforms require a tremendous amount of manual effort. Even so, big institutions, which are resistant to change, often pay the price for the sake of comfort.

This is something we must overcome. And we need to do that while launching automated tools and data-based decision-making solutions. For some, that feels like replacing human interaction. But in reality, it allows lenders to increase productivity, innovate and get involved in cutting-edge initiatives.

Minimising manual processes, institutions can cut costs and reap the benefits of automation. A good example is manual keying or handling, which are not only time consuming, but can be extremely monotonous. We tend to see far too many employees get involved in such processes.

If these people – including senior experts or relationship managers – are spending their time filling in forms or readdressing completed tasks, they have less time to focus on their roles. This can lead to a number of different problems down the line, including runaway process costs.

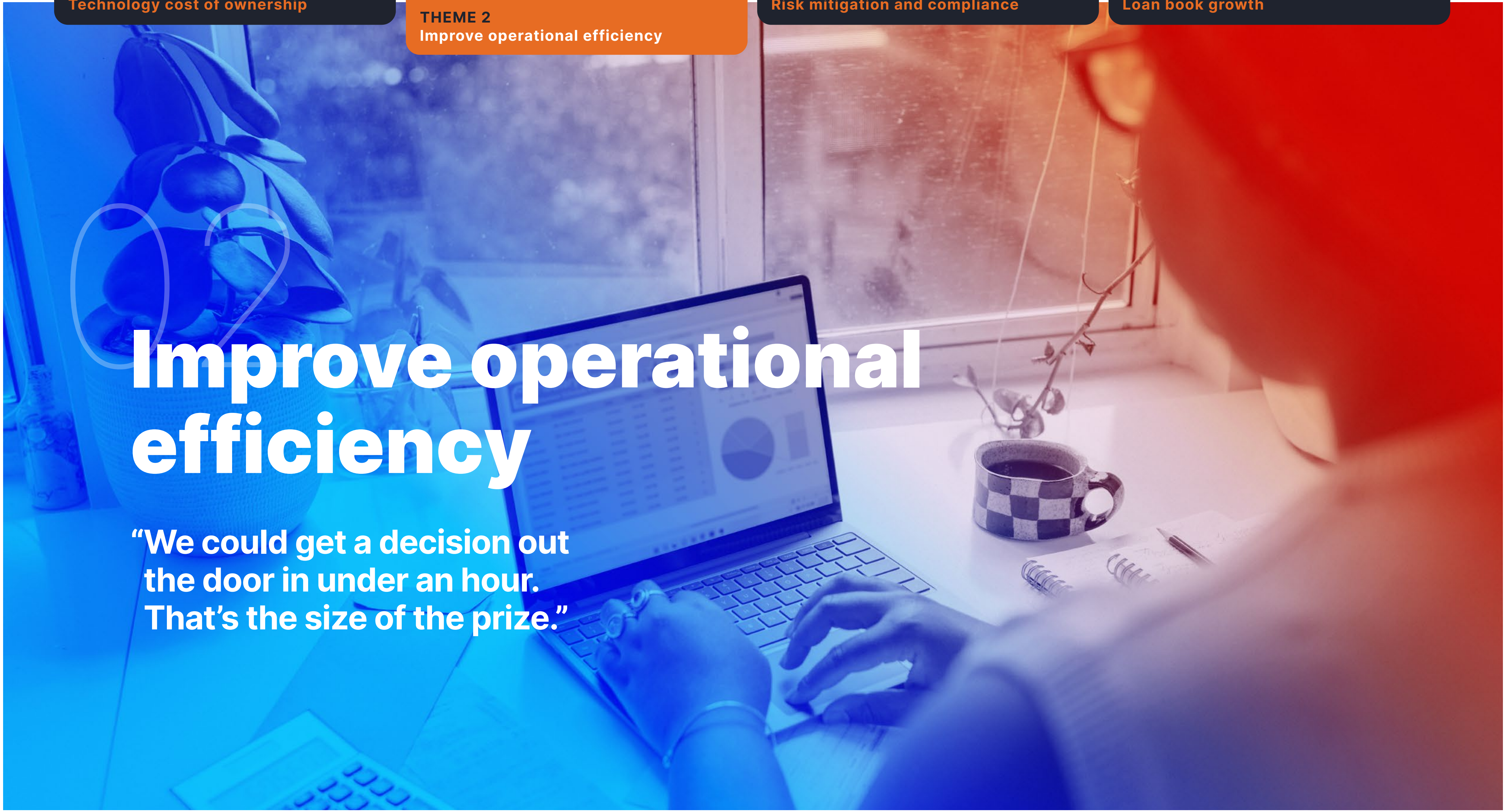
To be more efficient this year, use technology to free up people and let them put their specialist skills to work.

Key takeaways:

01 Get a true picture of your technology infrastructure – and how much it's costing

02 Build or buy technology that helps you better understand your data

03 Change can't wait. Those who don't transform risk the systemic failure of their business



Improve operational efficiency

“We could get a decision out the door in under an hour. That’s the size of the prize.”

METRO BANK

Kevin Craven

Head of Invoice Finance
Metro Bank UK

#TRUSTINTECH #CUSTOMERFIRST #EASYTOACCESS #EASYTOUSE #EASYTOUNDERSTAND

Keep your eye on the prize: your customer's experience

"Difficult to access, difficult to understand and difficult to use. But aside from that, it's the best product in the world."

That's a light-hearted description of invoice finance lending, but there's a lot of truth in there. As an industry, we've been slow to evolve. Slow to use modern tools to improve customer experiences.

But we're changing. And getting faster

In extreme cases, it takes a couple of months for a loan to be approved. In theory, we could get a decision out the door in under an hour. That's the size of the prize. It's what's driving a project Metro Bank is rolling out – in partnership with Trade Ledger™ – to use data to speed up what we do.

Our journey isn't about the latest software or ticking off techy buzzwords. It's about using technology to make it easier for our customers to deal with us.

Making that happen also helps us sharpen our internal operations. Where technology can do both these things, you've got a real win.

Automating tasks lets us focus on relationships

With access, we can pull data directly from accounting packages. That means customers aren't spending time gathering it. Our systems can format the data and present reports to us, highlighting or flagging key areas.

Despite the complexity of our lending decisions, there's no reason why some of them can't be handled by decision engines. That way, we can focus on building relationships.

In future, trusting new technology should become easier. But these are early days, so we spent months testing our new system. And we're being careful in how we roll it out.

The right tech partner helps overcome tech fear

You have to bring together the people who know the technology and the people who do the job. Yes, these digital changes can give lenders a competitive edge. But they benefit the industry as a whole.

Together, we can make borrowing easy to access, easy to understand and easy to use.

Validis™

Ronan O'Dea

Head of Product
Validis

#PROTECTCUSTOMERS

#AVOIDLOSSES

#GENERATEREVENUE

#ENDTOENDSOLUTIONS

Let go of the old, get the data you need, and take the time to listen

If lenders could pick a superpower for 2023, they'd do well to borrow Superman's X-ray vision. Looking across large portfolios of customers can blur the day to day of individual businesses. This year should be about using data to see through walls of economic difficulty, to better understand an SME's unique needs.

How do you understand the pain each business is going through? By going directly to the source of the data they generate daily in their accounting or invoice systems. Then it's down to structuring that data, isolating key indicators or drivers, and tracking key metrics that *help you help them*.

This year, to boost operational efficiency:

1. Get the data you need to make high-value decisions. Efficiency is when a banker no longer needs to review 100 customers, but only 20 key relationships. Data helps you isolate the edge cases (the under or overperforming 10%). With the right focus, you can protect customers, avoid losses and generate more revenue.
2. Move away from legacy end-to-end solutions. Invest in more flexible ones, which protect you in an uncertain landscape.
3. Spend more time listening to businesses. Do the research, talk to them, explore their needs (which are changing rapidly) and design products around these needs.

Not because it's "techy", but because it works

Gone are the days when you buy one big solution. Today, you want to buy a hybrid of solutions, with different modules. Data is portable and the same should apply to the technology building blocks you pick.

This approach isn't just "techy", it provides so much flexibility in the long term and allows you to respond and react. If eight out of 10 lending applications are still being rejected, lenders aren't being given the tools to better understand businesses.

Even if customers are struggling, that doesn't mean we shouldn't support them. And I suspect that in 2023, one surprise will be that we'll need to support more business owners than we expect.

accenture

Christopher Jaggard

Managing Director, Commercial Banking
Accenture

#BEWARECYBERCRIMINALS

#NEXTGENTECHNOLOGY

#DATADRIVENLENDING

Unleashing data is the key to discovering new revenue streams

Data-driven lending sharpens the accuracy of your operations and makes them more effective. But don't expect a smooth ride in 2023. There are going to be challenges, including data security and a tech skills crunch.

Cyber criminals are getting smarter. We expect to see a further increase in data breaches, and the scale of damage they inflict. We've witnessed the trauma this causes customers, and the huge financial and reputational toll it takes on lenders.

Then, there's the shortage of data experts in almost all sectors. A skilling report of Australia's tech sector workforce, based on research the Tech Council of Australia [TCA] commissioned Accenture to deliver, found a shortfall of 186,000 tech workers is anticipated in Australia by 2030.

Use data to leapfrog over less-savvy competitors

Lenders who deal with these challenges will reap the rewards. They'll release new revenue streams, manage risk, speed up decisions and offer new services and products. In short, they won't leave money lying on the table.

They'll invest to make processes simpler. They'll look to automate. This will help:

- deliver more to customers, faster, with less effort and in a more transparent way
- free up relationship managers to spend more time with customers, and less time doing admin
- grow the business by reducing the load in credit and operations (more automation, less human error)
- stay compliant by enforcing risk and legal controls within your workflows.

Lenders are in a unique position to champion next-gen technology

This year, we hope to see more appetite for the application of predictive AI and machine learning to supply chain. Used right, these can help banks deliver more proactive and personal working capital solutions.

Data trapped in monolithic databases or silos has limited value. It's time to release it. And use it as part of a wider strategy to unleash its full value and transformative power.

EY Building a better working world

James Sankey

EY EMEIA Corporate, Commercial and SME Banking Lead
EY

#DIGITALACCELERATION

#RAPIDACCESS

#NEWCOMPETITION

#TAILOREDSOLUTIONS

The longer-term trend in digital transformation will continue

I don't see the digital agenda changing in 2023. The demand from customers for increased customer centricity, more digital options and a better experience around core services – such as lending – continues. Banks are doubling down on how to improve cost to serve.

Last year, we surveyed around 6,000 SMEs globally*. What we found was over half of SMEs (66%) felt it was "very/extremely important" to receive faster access to credit when needed.

Of these SMEs, 58% would have liked to have received it within seven days, with 33% looking for access within three days. There was also a willingness to pay for a bank to deliver faster credit (26%).

As you plan this year, keep these broad trends in mind:

1. SMEs can access credit from an increasing range of places, including from nonfinancial services businesses and technology companies. We'll see more of this in future. Lenders need to embrace this, lean in, and assess embedded finance and new distribution models.
2. Business owners want tailored solutions from lenders who understand them and their strategy. That means digging deeper into verticals to develop solutions that meet the demands of specific sectors and finding new ways to segment and understand your customer, especially through data.
3. The ESG agenda continues its steady rise. Lenders are developing products that support their clients' transition plans and ESG goals. It's an opportunity for banks to do the right thing, protect their book as expectations change and profit from new products, services and customers.

Get creative with how you use data

Data and analytics play a crucial role in speeding up decisions, giving clients what they want and reducing lender's operational costs.

Interestingly, our SME survey* found that 82% of SMEs have at least some interest in sharing more business data with their bank or financial provider, if they can see the value.

While the deeper trends will stay true across 2023, there'll be constant surface change around you. It's a good time to make sure you're set up for it.

* EY SME Global Survey 2021

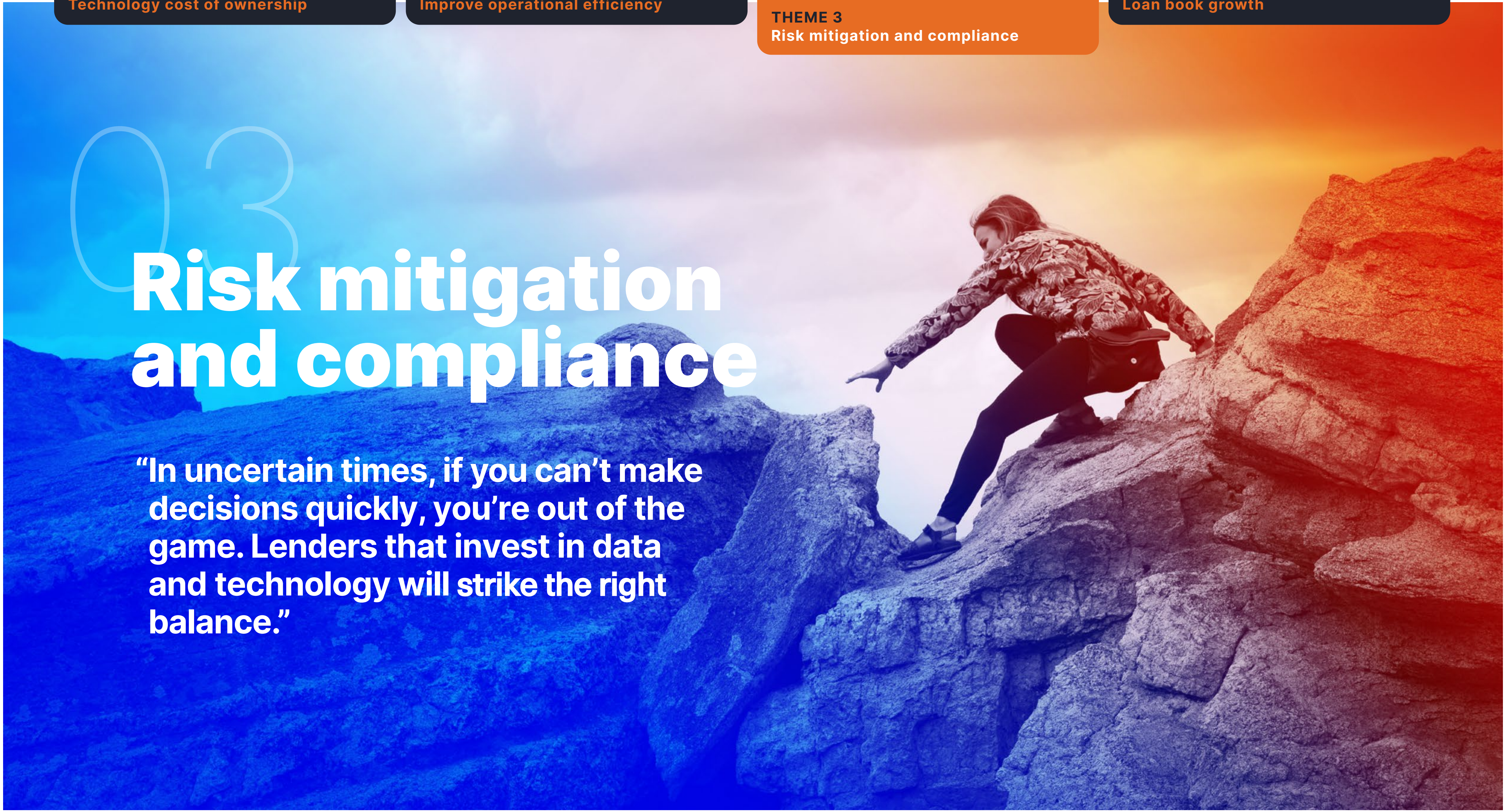
The views reflected in this article are the views of the author and do not necessarily reflect the views of the global EY organization or its member firms.

Key takeaways:

01 Use technology to free up your people and let them put their specialist skills to work

02 If the majority of lending applications are still being rejected, lenders aren't trying hard enough to understand businesses

03 SMEs don't just borrow from banks anymore – lenders need to lean in to the 'embedded lending' ecosystem



03

Risk mitigation and compliance

“In uncertain times, if you can’t make decisions quickly, you’re out of the game. Lenders that invest in data and technology will strike the right balance.”

Laura Hales

Analytics Product Director
Experian

#CONSTANTCHANGE

#SURVIVALMODE

#INVESTINTECH

#REALTIMEDATA

The field is wide open, but get ready to run fast

Speed. If there's one area you focus on in 2023, let it be how quickly and effectively you respond to constant change. And if anyone tells you they know what's coming, they're delusional.

Small businesses have always been affected by economic and political events. But we're living through extreme levels of uncertainty. For many businesses, 2023 will be about survival.

For lenders, it's about reading individual circumstances

Investors and entrepreneurs are finding the consumer lending market crowded. I anticipate there'll be movement into business lending. There's great potential there and the space is ripe for competition and innovation.

Compared to consumer lending, the SME lending space is archaic. There's a real open playing field for organisations that want to get on top of it, drive innovation and modernise it. The more quality data you have – and the analytics to interpret and understand it– the better positioned you are to make a material difference.

Real-time data (as opposed to, say, annual reports) helps lenders understand the nuances of individual circumstances – as they change. It helps them find the best customers, offer the best experiences and build relationships that last. Open banking is already proving its value in the SME lending space. I'm watching trends like machine learning with interest.

Run fast, but don't trip up on governance

In uncertain times, if you can't make decisions quickly, you're out the game. But fast decisions can't happen at the expense of governance. You need clear audit trails and the right sign offs. Lenders that invest in data and technology will be able to balance speed and automation with good oversight and risk management.

This year, risk profiles can change as quickly as energy bills. We're yet to see if SMEs will get more government support, and what tax rates we'll land up with. We can't avoid a recession, but we can manage it. To manage it, firms will need simple, flexible systems to act fast and track a market that will shift quickly.

The London Institute of Banking & Finance

Fix the leaking roof, and there's less chance you'll need a bucket

Helene Panzarino

Associate Director
The London Institute
of Banking & Finance

#TECHNOLOGYPARTNERSHIPS

#STAYALERT

#SUPPORTSMES

#WALKTHETALK

We're in for a busy year. There'll be some déjà vu from 2008, but also all kinds of new operational, financial and reputational risk. Smaller businesses are going to need access to finance, but will struggle to get it.

Too many SME owners reach for their own credit cards or max out personal overdrafts. If you bake fresh bread, or design beautiful shoes, you do that incredibly well, but there's a good chance you don't know the full range of financial products and solutions available to you.

Partner up and get comfortable sharing

Everyone's getting in on the action, making use of real-time, permissioned data and open banking. Technology partnerships are unlocking agility. Today, working with business owners, lenders can see the rhythm – the financial flow – of companies.

They can proactively offer relevant products to boost growth and even predict when a customer is headed for turbulence. Ultimately, relationship managers can go back to doing what they do best: understand clients and start valuable conversations.

In 2023, industry players will need to show the Financial Conduct Authority that they've got a plan to help customers who are battling. In line with the Consumer Duty regulations, this is the year to implement a good financial vulnerability system. A year to spot the warning signs and get ahead of problems, much like you'd approach fraud or scam detection.

It's a bit of a jungle out there

As interest rates rise, we'll see new lending players enter the market. Payment or foreign exchange companies could step into the ring. It's going to get even more crowded. Incumbents willing to change, partner and tweak their business models and distribution channels will be in a strong position to compete, lend more (faster) and support smaller businesses.

Every year we talk about how important SMEs are. Let's stop talking about how amazing they are, and start helping them in a meaningful way.

sonovate

Amanda Rollason

Head of Underwriting
Sonovate

#BUILDTRUST

#FINTECHPARTNERSHIPS

#OPENBANKING

#REALTIMEDATA

Honest relationships, built on data, will shield you from the economic storm

The 2023 risk landscape will feel like being out on the ocean. There'll be periods of calm, stormy waters and invisible cross currents.

Emerging from the shadow of the pandemic – which hid the true financial state of many businesses – we are going to witness insolvencies, defaults and cash-strapped companies.

For money to flow, data must flow

What's going to matter in 2023 is building the right kind of relationships. Open ones, where information is shared honestly between SMEs and lenders. With the right technologies, lenders will be able to manage risk, and businesses will get access to the funds they require.

Fast lending doesn't mean compromise. Lenders need correct data to make decisions. There are many fintech solutions that can help; Codat, Trade Ledger™ and Equiniti, to name a few. If you strangle a customer for information when they're in distress, it's game over. It's all about how you can maximise open banking and real-time data to support them through a situation.

Technology guides decisions, but nothing beats the human touch

If you focus on one thing this year, develop and implement systems to help you automate decisions, which you can then monitor closely. That way, even in risky times, you'll streamline your process and get money to customers, quickly and safely.

The interest and inflation rates are going to put people under staggering pressure. Some sectors will be hit hard, and the ripples will run wide.

But the UK has a strong SME base and a resilient economy. It's time for funders to step up. We need to get creative. To find ways to share information and ride waves, not just wait for them to hit. If we do that, we can really help passionate business owners.

Raj Dash

Head of Risk Analytics Centre of Excellence
Virgin Money

#PAYATTENTIONTORISK

#REGULATORUPRESSURE

#ENERGYCOSTS #OPENDATA

#NEXTGENTECHNOLOGY

Around the world of risk in 2023: ideas for your journey

Risk management in 2023 will feel like travelling along the equator. Increasing interest rates will feel like crossing the searing Kenyan desert heat. Macroeconomic factors are lurking Amazonian dangers. Artificial intelligence (AI), technology and data hold promise, like rich African mines. Managing new sources of risk, while meeting higher regulatory expectations, is as stifling as the humid Indonesian jungles. No wonder, risk managers will be looking for the calm and soothing coral reefs of the Maldives.

In these increasing times of stress and uncertainty, risk management will take a more prominent role. There will be an increased need for traditional control, oversight and reporting (especially within alternative lenders and fintechs), in part driven by regulatory pressure.

At the same time, risk will morph into an insight and shaping function influencing strategy and increasing preventative actions before risks materialise.

To meet this rising need, risk managers will need to:

1. Expand and mature their remit with "new" risk types (for example: climate, model, fraud, cyber, etc.)
2. Move up the technology hockey stick of adoption, embedding recent advances such as digital, AI, cloud and even distributed ledgers
3. Adopt an effective and efficient way of working by deploying centres of excellence, adopting agile, valuing staff and integrating deeply into their organisation.

To summarise: the need for risk managers to do more, better and cheaper will accentuate in 2023.

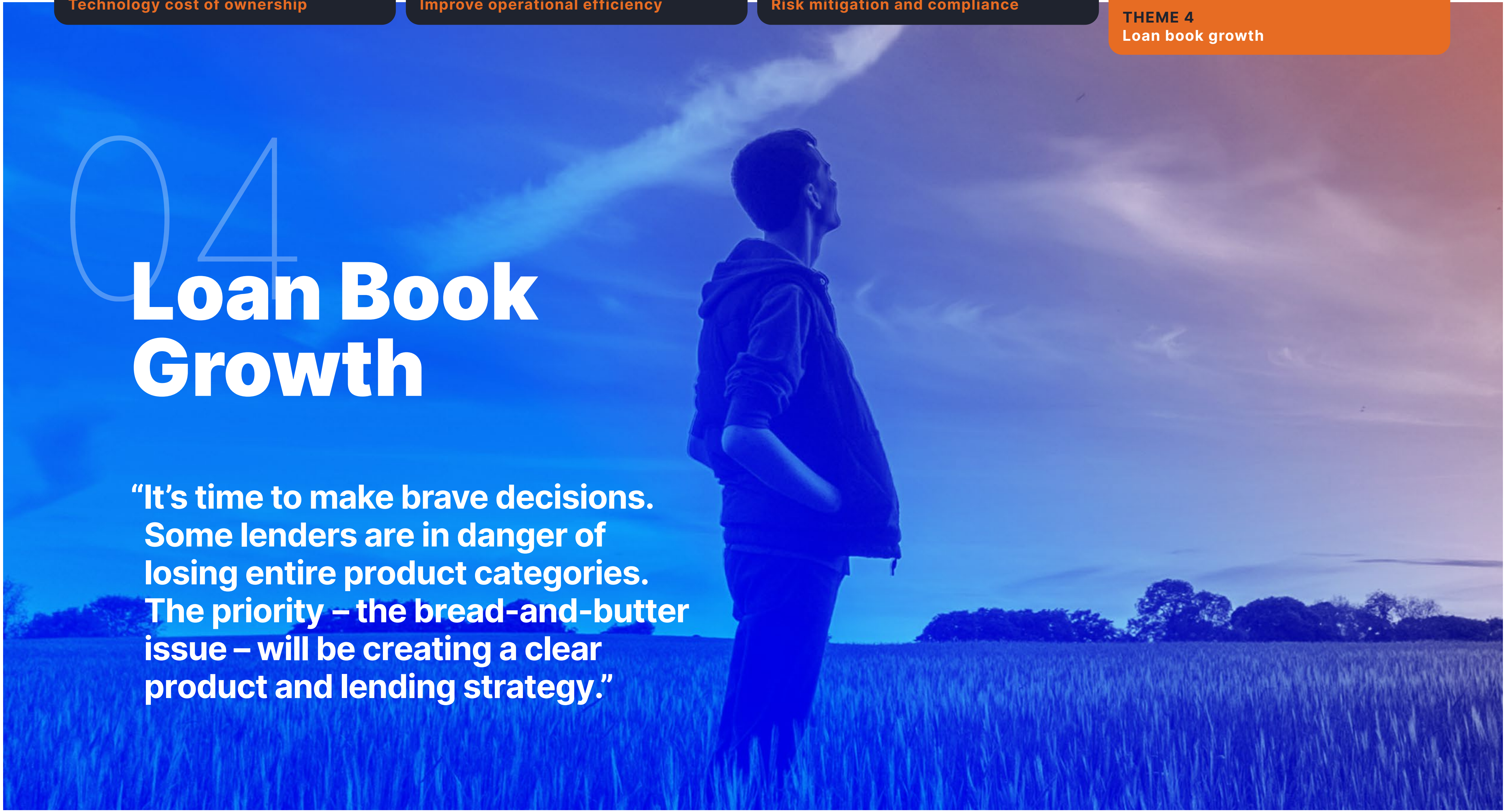
I see this as a great opportunity for risk to democratise its expertise across their organisation. With the right approach, technology and drive, risk managers can help their lenders succeed in the expanding competitive landscape that no longer includes only banks.

Key takeaways:

01 **Fast lending doesn't mean compromise. Real-time data lets you make quick decisions based on the nuances of individual businesses – as they change**

02 **For money to flow, data must flow. Partner up and get comfortable sharing**

03 **Prioritise technology that allows you to see the financial flow of companies, to spot growth opportunities, and predict when a customer is headed for turbulence**



04

Loan Book Growth

“It’s time to make brave decisions. Some lenders are in danger of losing entire product categories. The priority – the bread-and-butter issue – will be creating a clear product and lending strategy.”

Oxbury///

Pick your sectors, put eggs in those baskets

Simon Featherstone

Chairman
Clear Factor

INED and Chair Risk
Oxbury Bank plc

#INDUSTRYSPECIFICPRODUCT

#NEWTECHNOLOGY

#CUSTOMEREXPERIENCE

#WORKINGCAPITAL

This year, lenders who have capital and stable liquidity will see reasonable growth. Profit margins should improve.

The risk lies in being a Jack of all trades. My advice to financial institutions is: pick the sectors you're going to play in. Focus on knowing your niche, and the problems you're helping to solve. In farming, for example, that could be anything from growing chickens to energy supply to managing a tangled supply chain.

Many lenders focus on product categories, like asset or invoice finance. Having sector specialists means you can get better at spotting risk and offering new, industry specific products (lending more).

The tech snowball is rolling

With sector specialists, lenders can connect products to the latest technology, which gives businesses better access to finance. And for SMEs, that's crucial.

We've talked about the role of technology in lending for years. But now, genuinely, we're seeing it pick up. Small businesses are starting to do everything online. The tech snowball has been pushed over the hill.

Focus, listen and adapt

To take advantage of new technology, lenders must focus on user experiences, hear what their customers are saying and adapt at pace. This will help them navigate a year dominated by bad debt, higher interest rates, supply chain problems and unexpected world events. There's no space for egos in 2023. Solving problems takes working together.

You'll also want to get ahead of the curve on the new Consumer Duty regulations from the Financial Conduct Authority.

There'll be plenty of opportunities for anyone offering working capital loans, especially small, short-term finance solutions. Brokers will benefit too. The key will be to know the playing field, and use the right technology to get money flowing faster.

It's time to make brave decisions

Priya Raju

Cloud Transformation Director, Financial Services
KPMG, UK

#CLEARPRODUCTSTRATEGY

#DIGITALTOOLS

#THINKINGOUTSIDEOFTHEBOX

#CUSTOMERINSIGHTS

This is the year to think creatively. To sculpt a clear product strategy and transform the way you lend. Wedged between a pandemic and a global economic crisis, lies a golden opportunity. A chance to use technology to move faster, manage risk smarter and know your customers better.

From paper to the Netflix experience

Because of the pandemic businesses need working capital. But we're seeing loan books shrink by up to 40%. Some lenders are in danger of losing entire product categories. Lenders have a responsibility to make finance widely accessible and to manage risk. They need to predict behaviour and offer ideas to companies that are under too much pressure to watch the horizon.

Lending has become a key part of everyone's life. To meet the moment and grow loan books, you must:

- understand how customers behave, and what experiences they want
- explain products clearly and make money accessible, within hours, not weeks
- use digital tools to make decisions and monitor clients' financial health (lifecycle management).

Consume it, integrate it, make it work for you

Investment is flowing into off-the-shelf fintech products and services. Using them (and the data they unlock) helps lenders say no if they must, and focus on building relationships with their "yes" clients. With the right insights, lenders can sell more products, offer pre-approved loans and persuade customers to switch.

Higher interest rates will help lenders this year. But the priority – the bread-and-butter issue – will be creating a clear product and lending strategy. If you wrap up one thing in 2023, let it be that.

If you miss this chance to transform and digitise, to take brave strategic decisions, the appetite may not be there in the years to come.

shawbrook

For a smooth customer journey, take the open banking motorway

Philippa Pykett

Head of Digital SME Growth
Shawbrook Bank

Small business owners are juggling many different funding needs. To help them, lenders need access to insights about their clients' specific requirements. This is where data and smart use of technology can make a real difference.

Effective technology (used alongside sector expertise) plays a central part in helping lenders grow their loan books. It enables them to identify suitable customers, speed through automated approvals, and make other valuable decisions.

Let's talk more about open banking

In 2023, with technology in mind, you need to:

- polish up your proposition, and be sure about your role in the market
- find valuable customers and meet their needs
- make sure you've got the right financial products to service those needs.

Open banking is a gamechanger for the entire lending process. We need to talk more about it, and make it easier for people to share data. Earning trust means being open about what the data is used for, what the benefits are and how it speeds up the process.

We practice what we preach

We've just won an award for a piece of tech we co-developed with FXE Technologies. Portfolio Monitoring helps us assess new customers and monitor our relationship with them. It provides the data we need, quickly and easily, and enables us to understand and support our clients in the least intrusive way.

Look for ways to stay flexible and efficient. To innovate and grow. At Shawbrook, we're developing an automated term loan product so SMEs that need funds can get a faster response and get paid out quickly.

In a year like this, don't make knee-jerk reactions. Use different tools. Automate where you can. And make each customer's journey as smooth as possible.

#STRONGVALUEPROPOSITION

#OPENBANKING

#EFFECTIVEFTECHNOLOGY

#MEETCUSTOMERNEEDS

tide

Ruth Radford

Head of Underwriting and Portfolio Management
Tide

#LENDRESPONSIBILY

#REALTIMEDATA

#SEAMLESSDIGITALJOURNEY

#OPENBANKING

From seeds to shoots: Use technology to grow*

Growing loan books will be a top priority for many lenders this year. They're starting to refocus and return to some form of business as usual. Lenders have learnt to manage government loan schemes, which flooded in during the pandemic, and are turning their attention to supporting customers and beefing up portfolios.

But it's a fine balance. The economic position in 2023 is, to put it mildly, challenging. We must make sure we're lending responsibly. The way I frame it is: responsible growth, with caution.

To strike the balance, you'll need to match products to needs, watch the economic and political landscapes, and monitor how your lending performs. You'll have strong processes to understand and manage customers. And you'll be thinking around corners, keeping one hand on the risk counterweight.

A triangle of priorities

To grow your loan book, pay attention to the other two corners of the triangle: strong risk management and clear product offerings. This year, I'll be focussing on managing credit underwriting and portfolio management strategies. Out in the industry, I'm hoping to see lenders return to a growth mindset.

Technology plays a big role in all our plans. We live in what feels like a cashless society now. Think about the scramble for coins whenever there's a school raffle on. We need to create seamless digital journeys for our customers. And connect them to services that meet their needs, at exactly the right time.

Let's get our arms around the data

Potentially, 2023 is the year we really start to see some exciting technology take off. There's huge opportunity in real-time data. From offering a loan to a small business when there's an unusually high invoice to pay, to introducing accounting software that makes life easier.

I'd like to see more lenders encourage customers to use tools like open banking. That way, we can unlock their power and make sure the financial rug isn't pulled from under the feet of passionate business owners.

* with caution.

Key takeaways:

01 Pick the sectors you're going to play in. Focus on your niche, and the problems you're helping to solve

02 Polish up your proposition, and be sure about your role in the market – who you partner with and where businesses will engage with you

03 With off-the-shelf fintech products and services, lenders can keep pace with industry change, say no quickly, and focus on building relationships with their "yes" clients

With embedded lending, we'll go from fragments of change to a flow of innovation

Martin McCann
CEO and Co-founder
Trade Ledger™

Technology is eating our industry's business models. Every contributor you've met in our report has a slightly different take on change. But there's one prediction we can all comfortably make: when it comes to the way we provide working capital, we're approaching an inflection point.

Fast-forward three years, and the way the working capital market has operated for 30 years will be redundant. By that time, the target market for existing products will be less than half of what it is today. The other half, and the unaddressed market, will be serviced by brand new digital products that didn't exist at the start of last year.

What worked yesterday won't work tomorrow

Established players have been relying on their expertise, reputation and customer relationships to keep up. But it's not enough anymore. Digitisation in the next few years will require all participants to learn new skills. They'll have to develop new operating models and go-to-market strategies.

Compare a once-a-year update to an always-on, real-time connection with your customers. It's the difference between flashing a torch and switching on the house lights. With that kind of view, the entire lending value chain must change. And it will.

Business lenders are starting to realise that once you take away the constraints of how you've thought about the acquisition, quality, frequency and interpretation of data, your eyes open to its new capabilities.

But there's a catch

A little bit of knowledge, as they say, is dangerous. As is investing in technology for technology's sake. Five years ago, I kept hearing that optical character recognition (OCR) and blockchain were the answer to all working capital problems. Neither turned out to be (even if one's still got potential).

Now, everyone's talking about APIs and open banking. These are the right technologies to meet the moment, but too many people don't understand their true impact. Not all APIs are equal.

Anyone can claim to be an API provider. But not all APIs will have the same capabilities. Not all will help you reinvent your business model. Or take advantage of things like embedded lending, which lets financial institutions reach customers at the moment finance is needed.

Technology is just one dimension of deep change

There are going to be major shifts in market share in our industry. Future winners are drawing their roadmaps today. They're asking: What business model do I want to get to? Why am I convinced that the market is going to change that way? Where are the gaps between where I am today and the capabilities to drive the future ecosystem?

There's another catch

2023 is shaping up to be the most brutal business year that most of us will have ever experienced. We're going to see a return to business fundamentals and a re-emergence of a cash is king mentality. Organisational designs will flip, supply chain management will tighten, and many people will overreact.

But the most difficult part will be driving innovation while purse strings are pulled. Leaders who juggle short-term business environment challenges, and layer in long-term changes (involving data, technology and new operating models) will emerge from this cycle as the most competitive and aggressive industry movers.

There's one more catch

Nine out of 10 organisational change initiatives fail. Large lenders have commitments and constraints to service existing markets. The bigger your company is, the less likely it is that you can transform in time to be a winner in next generation working capital.

Business as usual kills innovation. The solution is to give innovation the space it needs. To free up resources to try something unencumbered, on a blank canvas. Down the road, you might fold this innovation into your existing business. Or not. But how you think about and approach change will determine your level of success.

If you're still using long, rigid request for proposal forms to find a technology partner, you're guaranteed to fail. If you're looking at change though a one-dimensional lens (say process re-engineering, or technology), your efforts are doomed.

It's like Ben Horowitz wrote in *The Hard Thing About Hard Things*: in the face of great adversity, we must stay calm, keep the business engines running and find ways to innovate. That message feels more relevant than ever as we head into a hard year.

But if we can get capital flowing to the right places, if we can fuel the businesses that innovate, there's no challenge we can't solve.

We're bursting with ideas for 2023. Here's what you can expect...

Innovation happens where capital flows. And the world needs innovation right now.

We're trying to solve colossal, systematic challenges like planetary destruction and geopolitical instability. Through innovation, businesses unlock the solutions we're after. They have a responsibility to be a force for good. Just like lenders have a responsibility to support them.

At Trade Ledger™, our purpose is to help make sure that businesses have the financial fuel they need. There's no problem of principles here. Lenders want to provide capital to growth businesses. They just don't have all the capabilities.

Our platform has already helped many working capital lenders cut their time-to-cash from months to days. This year, we're going to speed up the distribution of working capital into the market.

The way we see it, embedded lending is how we get there.

We're launching a set of open APIs that let companies we work with become lending-as-a-service providers, overnight. A Trade Ledger™ lender will be able to embed complex working capital credit solutions into the Amazon, Etsy and SAPs of the world. And here's the best part, they'll be able to do that in two weeks, not two years.

Working with partners like HSBC, NORD/LB, ScotPac and Virgin Money we are sending ripples of change around the globe. We can help all businesses get working capital solutions that, in the past, would have been locked behind doors of complexity.

We're meeting innovative and like-minded people.

Passionate people who care about the things we care about. In 2023, we're going to turn more of these friendships into strategic partnerships.

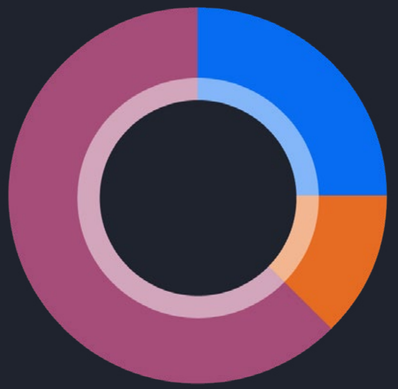
We're teaming up with open finance, CRM and core banking experts to make it faster and easier for lenders to launch modern digital working capital products. We're delving deeper into speed, data flow and the innerworkings of a connected ecosystem.

Right now, capital isn't flowing into the places where innovation needs to happen. We're going to change that.

Recap of what’s inside

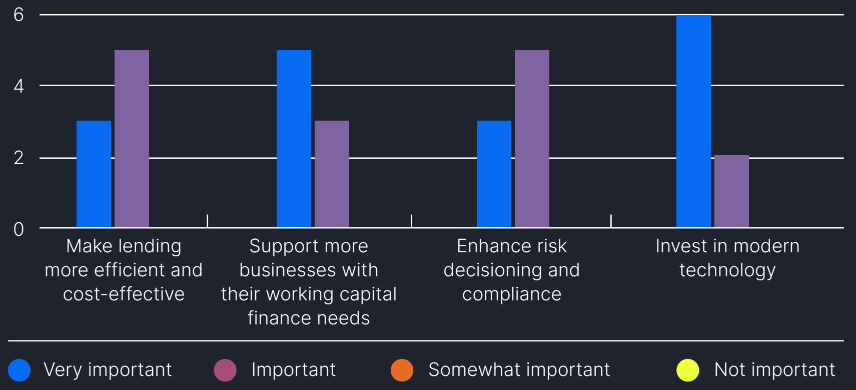
The numbers behind our quick-fire poll

How many years will it take for us to see fast, easy access to business finance become an industry standard?



2 years:	12.5%	5 years:	62.5%
10 years:	25%	15 years:	0%

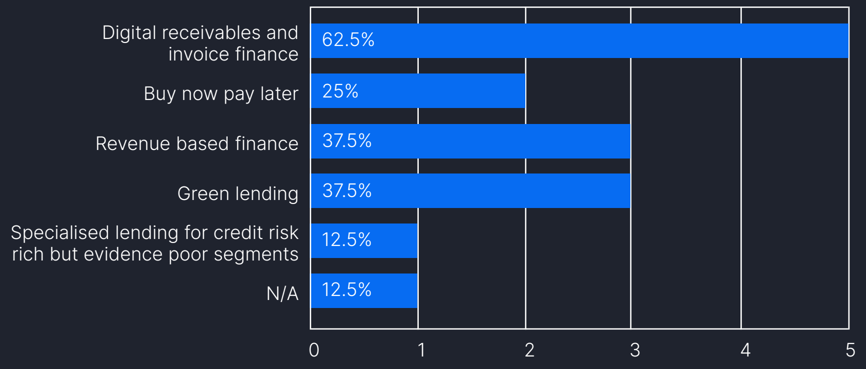
How important are each of the below in order for the industry to reach its objectives in 2023?



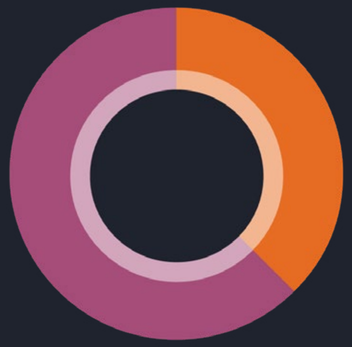
What does next-gen working capital mean to you?

Making existing lending products better	25%
Build brand new products and services	37.5%
Changing your target operating model	0
Completely re-inventing your business model	37.5%

What products are you looking to launch in the next three years?



What technology are you taking advantage of in your business today?



Manual only, eg paper:	0
Owned, built in-house:	37.5%
Ecosystem of Saas and Open API vendors:	62.5%
Emerging technologies:	0

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EMEA

Roger Vincent
VP of Global Sales
roger.vincent@tradeledger.io
+44 7944 364 609
21–33 Great Eastern St, London EC2A 3EH

APAC

Alan Beattie
President Asia Pacific
alan.beattie@tradeledger.io
+61 406 826 806
47, MLC Centre, Martin Pl, Sydney NSW 2000

About Trade Ledger™

Trade Ledger™ helps global multinational banks and niche alternative lenders build great lending experiences - fast. Our platform specialises in delivering next-generation working capital solutions.

We're a team who love problem solving, so get in touch if you want to chat more about how you too can improve your working capital offering or discuss any of the issues raised in this report.