TRADE LEDGER

BUSINESS FINANCE PREDICTIONS 2022

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THANK YOU TO THE ORGANISATIONS THAT CONTRIBUTED TO THIS REPORT.

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ULTIMATE FINANCE

INTRODUCTION

A better customer experience, and how new sources and usage of data can deliver this, are the key themes to emerge from the experts who contributed their 2022 predictions.

Customers will benefit from easier, faster application processes, personalised loan products, and embedded finance (buy now, pay later – BNPL – for businesses). Some experts describe this as 'instant gratification' for borrowers.

These improvements depend on more sophisticated use of data. Lenders can no longer rely on historical data for risk assessments, and need to pivot to using near-term and forward-looking indicators. Open banking data will be a key part of this, and the new data ecosystems and partnerships it enables will give greater insights into business health, for both lenders and borrowers. Dynamic segmentation will better assess borrowers, according to Janet Jones of Microsoft.

The true impact of the pandemic will start to emerge. Government-backed loans are winding down. The major banks will be occupied with unwinding these loans and dealing with a wave of defaults and insolvencies, says Conrad Ford of Allica Bank. Lucy Hasson of Esme Loans says tightening of credit and rising interest rates will impact the pricing, affordability and availability of money to SMEs, and, together with insolvencies, she warns of a significant human cost. But she also points out that many debt-averse SMEs took on finance for the first time – and discovered its benefits.

2022 could be the year that banks start to monetise open banking, with the first premium API services used to provide variable recurring payments (VRPs), as Ghela Boskovich of the Financial Data and Technology Association points out.

There are many choices ahead for lenders. Both Anna Jones of Financial Supply Chain Strategic Advisory and James Varga of DirectID say banks will deepen their relationships with fintechs. Digital capabilities must be the cornerstone of a bank's strategy, says Leda Glyptis of 10x Banking, and not a nice-to-have layer on top of legacy systems.

> Banks and alternative lenders will need to adjust their business models for a world where the last few years of data can't be relied on to make lending decisions

> “In 12-18 months, we’ll see more openness to lenders sharing data – and then a demand for it”

THE CUSTOMER EXPERIENCE

Want cash in a few hours? Rapid access to funds can make all the difference to businesses, and lenders have big ambitions for 2022. Aprila Bank’s Halvor Lande is aiming to deliver money to customers’ accounts in a couple of hours, using straight-through processing (STP) – a fully digital loan application process, aided by machine learning.

Pay by Loan, the business equivalent of BNPL, will remove swathes of friction from the borrowing process and make credit cheaper. Simon Torrance of Embedded Finance & Super App Strategies says that merchants and retailers should see big benefits from embedded finance as it helps them secure sales and deepen relationships. Helene Panzarino of Vacuumlabs sets out how partnerships between lenders, merchants and BNPL organisations will deliver on embedding finance.

Reusable services will give banks a lot more flexibility to deliver, says Accenture’s Chris Jaggard. He also points to the continuing importance of relationship managers.

Better experiences will increasingly be a differentiator. RedZed’s Stephen Gorman says customers want to be able to send documents electronically and get help outside normal working hours. And they’re increasingly savvy about how their risk profile is viewed by lenders, factoring this into their decision about where to apply for finance. Lucile Knight of Bibby Financial Services foresees demand for a customer-led approach and increasing personalisation.

DATA IS THE FOUNDATION

Data enrichment – combining information from multiple sources – will be key to better insights, according to Klaus-Michael Vogelberg and colleagues at Sage. They foresee new approaches to data having an impact on the nature of products.

Open banking will be an enabler, and borrowers will become increasingly comfortable with sharing their data in this way because of what they get in return, says DBT’s Alexis Kopylov. Helene Panzarino discusses the benefits of data sharing between Big Tech and banks, and several contributors look ahead to data ecosystems.

The need for data that supports forward-looking risk assessments is great, and immediate, as Conrad Ford and Alexis Kopylov describe. The pandemic years stopped good businesses in their tracks. Lenders must identify which have recovered and which have been mortally wounded, and leveraging new data sources is the only way to scale more tailored underwriting.

ESG – environmental, social and governance – is a big theme for 2022. Pete Murray of Amazon Web Services points to energy savings of 76% with the cloud. Ultimate Finance’s Yvonne Balfour calls for a green finance guarantee to mitigate uncertain residuals. And she and Lucy Hasson highlight the risks and challenges faced by employees and customers in 2022.

We hope you’ll enjoy reading the report. Do let us know your opinions – contact us via our website or on LinkedIn.

CUSTOMER EXPERIENCE STILL NO. 1

Financial institution leaders indicate the top two business priorities are:

29% focused on improving customer satisfaction

28% focused on improving product or service quality

Source: Gartner - Automation Use Cases to Modernize Loan Origination and Improve Lending Processes

33%
OF NEW REVENUE

in the SME segment is taken by the new entrants utilising modern technology and adapting to customers' needs

Source: Moody's Analytics – How banks can raise their game in small business lending

TOP THREE STRATEGIC INITIATIVES TO IMPROVE CUSTOMER SATISFACTION AND PRODUCT AND SERVICE QUALITY:

1. Modernising credit processes
2. Automating processes
3. Modernising core systems

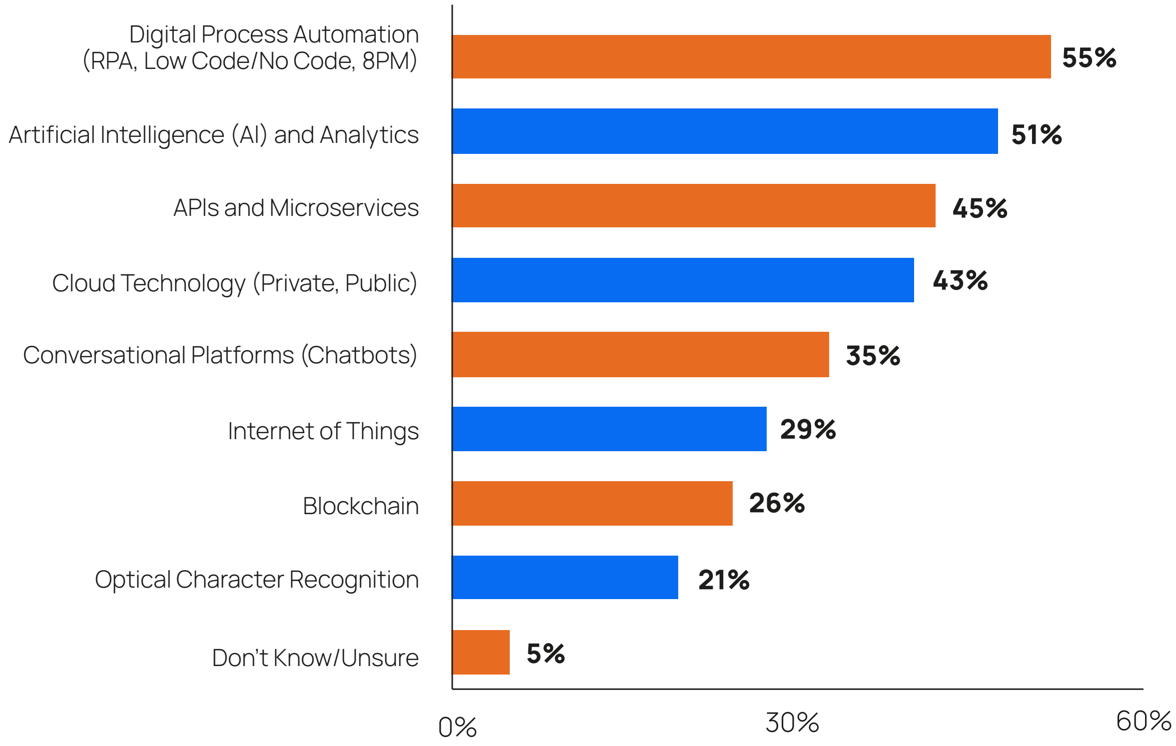
Source: Gartner - Automation Use Cases to Modernise Loan Origination and Improve Lending Processes

52%
OF CUSTOMERS

that are dissatisfied with their banks quote a difficult application process as the main reason

Source: Moody's Analytics – How banks can raise their game in small business lending

Technologies used to automate lending processes



n =334

Q: Which of these technologies have you used to automate the following process(es) in your organization/business unit? Mortgage processing, consumer loan application, commercial loan application, credit analysis and underwriter support

Source: 2021 Gartner Business Impact of Automation Initiatives Using KP1s Survey

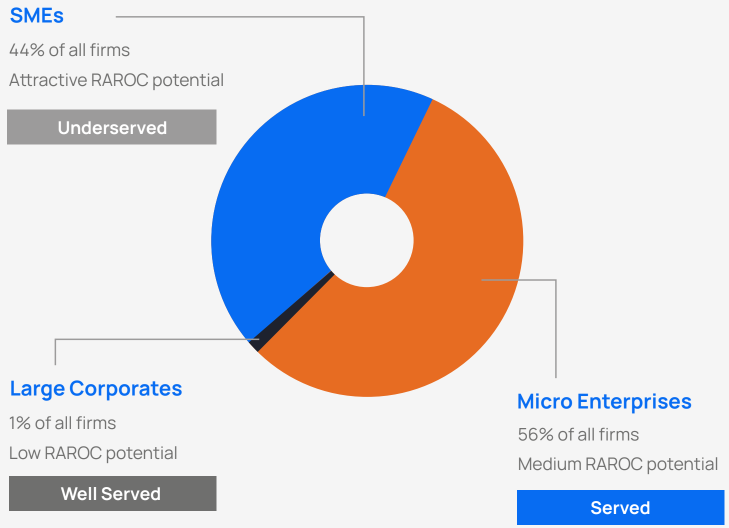
754188 C

SME funding gap US$5.2 trillion

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.

World Bank

Global businesses split by size*



Moody's Analytics How banks can raise their game in small business lending

THE AVERAGE COMPOUND ANNUAL REVENUE GROWTH OF BANKS AND COMPETING PLAYERS IN OUR STUDY THAT UTILISE DIFFERENT BUSINESS MODELS (BETWEEN 2018 AND 2020):

76%

digital-only players with non-linear models.

44%

digital-only players emulating traditional vertically integrated models.

<2%

traditional banks with vertically integrated models.

Source: Accenture - The future of banking: Time to rethink business models

4%

increase in revenue could be achieved by banks by rethinking their business models and embracing the innovative strategies of digital-only banking and financial services new entrants.

Source: Accenture - The future of banking: Time to rethink business models

20%

of traditional lenders will embed loan products or discrete credit services into external platforms and ecosystems, by year end 2025.

Source: Gartner - Automation Use Cases to Modernize Loan Origination and Improve Lending Processes

NO. 1 CLIMATE RISK CHALLENGE

Responses from more than 100 banks, insurers and wealth management companies found they regarded the lack of available relevant data as the single greatest challenge preventing them from adequately addressing climate risk.

Source: Willis Towers Watson - Lack of data is single greatest challenge for UK financial sector

33%

of banking executives report the "re-bundling the unbundled" trend is essential to their organisation's success, while **48%** see it as somewhat important.

44%

believe that this trend will mature in the next 12 months and **47%** believe it will mature in the next one to three years.

92%

of banking executives say that to succeed in the future they are willing to operate more like broad federations of businesses in response to market fragmentation.

Source: Accenture - The future of banking: Time to rethink business models

The Predictions 2022

STAYING RELEVANT THROUGH DIGITAL TRANSFORMATION AND TECH PARTNERSHIPS

"This technology may not be visible to customers, but its benefits are. The world is digital-first and therefore our solutions must be cloud-native, API-first, built for robustness and scale, from the ground up"

DIGITAL PLUMBING WILL CHANGE OUR RELATIONSHIP WITH MONEY: YOU HEARD IT HERE FIRST!

If the last 15 years taught us anything, it's that new technologies don't move in leaps and bounds. Change is slow, gradual, often imperceptible. Yet you look back and see that things move on cumulatively, making change both profound and irreversible.

Today we discuss embedded finance, for instance, as a new trend. But its constituent parts have taken years to mature: API-first infrastructure, coherent data schemas, regulatory parameters on messaging and data ownership, not to mention making platform economics work for each participant.

One of those slow yet irreversible trends is the realisation that digital capabilities must be the cornerstone of a bank's strategy, not a nice-to-have layer on top of legacy systems. The world is digital-first and therefore our solutions must be cloud-native, API-first, built for robustness and scale, from the ground up. This technology may not be visible to customers, but its benefits are. It enhances security, stability and identity protection. It enables scalability, hyper-personalisation and reduces cost. It's good for the customer, it's good for the bank (once the journey of getting there is completed), and good for the ecosystem, as it supercharges partnerships. But the journey there is challenging. It requires vision, the right partners, a clear sense of purpose and how technology will serve it.

My prediction is that, in 2022, 'deep technology' will become more widely understood and spoken of. Not esoteric quantum computing use cases and a desperate search for AI implementations. I mean FIs actually understanding how the guts of their systems work today and how they should work tomorrow to serve their customers.

We have a duty to help along that journey: educate, evangelise, accelerate a transition that is not about technology or business model transformation anymore, but rather an opportunity to transform our relationship with money.

Leda Glyptis
Chief Client Officer,
10x Banking

10x is the most comprehensive cloud-native core banking platform, with offices in London and Leeds (UK) and Sydney.

HOW TECH WILL INCREASE FINANCIAL INCLUSION AND CONTRIBUTE TO SUSTAINABILITY OBJECTIVES IN FINANCIAL SERVICES

The proliferation of digital native unicorns and large engineering companies in the regulated financial services industry is creating new competition for heritage banks in 2022, and generating more choice for consumers. While this may create cost-of-acquisition dilemmas for our banking customers, it is also an opportunity for them to foster innovation.

Super apps like Grab give an example of how the traditional banking ecosystem is evolving. What started as a ride-hailing app across ASEAN now provides services like GrabPay for consumers and SMEs, and GrabInsure. They are launching a fully regulated bank in Singapore in 2022. Digital native organisations like Grab are able to scale their reach effectively across countries because they're already embedded in customers' lives.

Despite the competition, many heritage banks are welcoming the disruption, saying, "This is great, we like that it's going to raise the bar, we'll see new ideas and more choice for consumers". AWS is working with many banks to innovate the way they provide loans and payments, as well as improve the overall customer experience.

In Thailand, Thai Credit Retail Bank (TCRB) has worked with AWS to deliver an application for SME customers, ensuring they can access the financial services. Up to 60% of customers previously accessed finance through informal channels, for example loan sharks. TCRB created a service enabling payments and nanoloans via an e-wallet. Our experiences with TNEX (Vietnam) and UnionBank (Philippines) are further examples of what banks can do in the years ahead.

We see cloud contributing to sustainability objectives of boards and founders in financial services. A recent report from 451 Research shows how moving compute workloads from on-premises data centres to the cloud can improve energy efficiency and reduce carbon footprint by more than 78% for customers in APAC. That's a conversation we are having with boards and leadership teams in 2022, ensuring they're acting in a long-term sustainable way. The discussion is turning to how cloud is helping them meet their sustainability objectives and this is hugely exciting as we look forward to the continued innovation this will release.

Pete Murray
ASEAN Head of Financial Services,
Amazon Web Services

Amazon Web Services provides cloud infrastructure that powers hundreds of thousands of businesses in 190 countries around the world.

BANKS WILL FOCUS ON FINTECH RELATIONSHIPS AND DIGITISATION

Australia is subject to the usual pressures and demands you see across global markets: disruption to global supply chains due to COVID 19, trade wars and climate change. These factors contribute to pressure on access to working capital across global supply chains, and a renewed focus on improving oversight and operating efficiency.

For 2022, I predict a continued focus of banks on the SME segment, which is still experiencing a significant funding gap of A$213.5B, late payments (50% of invoices are paid 23 days late) and cash flow issues. I believe banks will invest in the following areas:

1. Digital application, assessment and fulfilment. Banks can take up to 3 months to access, decision and fulfil most of their lending products, which is the likely cause of 40% of SMEs using brokers. In 2022, banks will expand their digital capability to new products, larger credits and new-to-bank clients. They will need authenticated data sources from open banking, cloud accounting systems and other third parties. They will work towards service levels of 24-hours-to-yes and next-day funding, which will be a long process requiring continued focus.
2. We will see established banks either re-entering the invoice discounting market with new platforms and processes, or exiting altogether.
3. Banks will own or invest in working-capital fintechs to support an advanced user experience for their clients.
4. One or two banks, and some notable working-capital fintechs, will announce integrations with digital supply-chain networks. The funders will look for platforms with large numbers of loyal clients who want finance. The platforms will look for funders that can fulfil digital finance offerings rapidly – the ones who've succeeded with my first prediction.

Global financiers will likely enter the Australian market, offering corporate clients an integrated view of their multiple ERP systems. These will create value from oversight and advanced analytics. Clients who share data with the financier can be offered solutions aligned to their working-capital objectives, which may include the liquidity needs of their global supply chain partners.

Anna Jones
Chief of Product,
Managing Director,
Financial Supply Chain Strategic Advisory

Financial Supply Chain Strategic Advisory provides consultancy on working capital strategy across the supply chain.

Aprila Bank

INSTANT GRATIFICATION IS A GREAT VALUE PROPOSITION

Data-driven, digital, automated business lending, using machine learning to predict risk, is a massive opportunity and need, because the SME sector is very much underserved.

In 2022, I think there will be an increased emphasis on KYC and AML regulations. That will make it more difficult for businesses to be served by their banks, and more expensive for banks to serve their customers.

At the same time, I believe that evolution in open banking, with more banks offering effective PSD2 APIs, makes it easier, especially for new entrants – challenger banks and alternative lenders – to use the data to do better risk assessments and thereby offer credit more effectively.

Offering banking products through APIs means that they can be integrated and made available in accounting systems, ecommerce sites and so on. But that evolution is going slowly. We've offered this inside ERP systems and accounting systems for 3-4 years. But 98% of businesses still prefer to go to the bank for a loan rather than getting it inside their accounting system. It'll take a long time – habit and perception take a long time to change.

Increasing adoption and maturity of machine learning also makes it easier and more cost effective to offer credit to SMEs. We've had cases of money in customers' accounts 2 hours after they started the application process, though that's more the exception than the rule, and there's still manual handling. Our ambition is to fully automate a proportion of lending applications – with full STP (straight-through processing) – and we hope to get to that in Q1 of 2022.

For many years to come, human brains and experience will be better at identifying irregularities, for instance in accounting data, so automation will be used for only a portion of the applications – but at the portfolio level, it's worth the risk. And for the customer experience, instant gratification is a great value proposition.

Halvor Lande

Chief Executive Officer,
Aprila Bank

Aprila Bank is a Norwegian bank offering flexible loans, overdrafts and invoice finance to businesses.

DirectID

OPEN BANKING GOES MAINSTREAM

Fintech has been a niche industry in a lot of ways, but people will be surprised this year at the overall acceptance of using open banking and open finance.

By the end of 2022, 20% of the UK, maybe even 20% of Europe, and in a couple of years 20% of the world, will be using open banking - and that's a critical mass. The key to this will be deeper engagement between lenders and fintechs, and the emergence of compelling use cases to drive demand.

The speed of digitisation the pandemic sparked had a huge impact on fintech, financial services and lending. It was horrible for a lot of people, but the industry benefited from a long overdue shake-up. Banks have historically been fairly slow at innovating, building in-house is costly, and reliance on third parties always seemed too much of a risk. Covid changed all of that. Larger institutions now know they need to look outwards to adapt, and fintechs are stepping up to fill that gap.

Fintechs and lenders working together is only half the battle – it's what you do with the data that counts. Clear and compelling use cases will help people see the value in open banking – for businesses, that's reduced costs, fraud reduction, and increased underwriting; for consumers, it's convenience, better journeys, and faster funds. If I can prove my income or the cashflow of my business with just a few clicks, to get a loan in 30 seconds, I'd be a pretty happy person. This speed and convenience will become routine.

Now that the pandemic has forced lenders' hands to digitise, I think 2022 will be the year that we get to see the real value of open banking. And that's what will get us to critical mass in adoption. I've always seen financial services as a global trust network. The really exciting bit for me is to see what we can build from that – what pains we fintechs can solve for customers by leveraging the network.

James Varga
CEO and Founder,
DirectID

DirectID provides global credit and risk insights that leverage real-time bank statement data to power the world's leading brands.

The Predictions 2022

CUSTOMER-FIRST LENDING JOURNEYS

"A lot of digital infrastructure is in place to make this go very fast"

AUTOMATED DATA COLLECTION IS THE ONLY WAY TO MAKE TAILORED UNDERWRITING SCALABLE

The main trends for 2022 are related to the obvious: the customer experience.

Just as in all industries, there's an expectation of digital-enabled services and customer experiences in lending. Tailored SME lending needs a more digital approach – for example, using video calls means that physical meetings are less important, and access to on-demand data facilitates the onboarding and underwriting process.

We'll see an increase in automated data collection. More borrowers will exchange their data for simplified and faster application processes. This will happen for larger loans as well as smaller ones.

A test of innovation will be how forward-looking lenders can be in their analysis. Underwriters used to look at past, outdated data to decide whether to lend, using the borrower's history and information on hard assets. Now, lenders will be able to leverage new data sources, including transaction data, thanks to PSD2/open banking, and accounting data, with automated collection in real time.

It's very different from depending on old annual reports – and it's the only way to make tailored underwriting scalable.

We will also see the rise of new collateral types supporting new lending models, revenue-based lending being an example.

In 12-18 months, we'll see more openness to sharing data – and then a demand for it. If borrowers are getting a better service and access to funding which enables them to grow, by sharing data, they'll be keen to share their data even more. We've come further than we think. In the Nordics, a lot of digital infrastructure is in place to make this go very fast, such as a digital ID system that has an impact on KYC, digital signatures, and so on.

Many SMEs had a tough 2021 at the macro level. In 2022, across the SME landscape, we'll see a larger investment incentive. Coming out of the Covid years, many have transformed and pivoted. They've accelerated digitisation, and compressed their development cycles, which has led to more opportunities. This means that the demand for growth-oriented capital will increase. There's already a huge SME funding gap, with our market [Sweden] dominated by 4 high-street banks. We'll see a huge difference in the market, with the rise of new players. 2022 will be a pivot year.

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Alexis Kopylov
Co-founder and Chief Executive Officer, DBT

DBT provides tailored digital financing for Sweden's growth companies.

PERSONALISED EXPERIENCES FOR CUSTOMERS WILL SHOW UP IN NUMEROUS WAYS

A key difference between the start of 2021 and 2022 is that government fiscal support has now largely ceased. Cashflow, supply chain pressure, fluctuating demand and staffing levels are significant challenges that SMEs face in 2022, and must incorporate into their future plans so they can weather the storm.

Governments shouldn't be afraid to reintroduce support as and when required to avoid the failure of SMEs. This should be bolstered by support on offer by the private sector. We're all in this together, after all.

Changing customer expectations mean that SMEs that can quickly adapt can steal a march on the competition. This may be through launching new, ecommerce-focused propositions, by leveraging the power of partnerships, or through entering new markets. All are genuine opportunities for SMEs to explore in 2022 and beyond.

The past two years have forced businesses to become much more agile in their approach, and with this, their expectations of the organisations they partner with has changed. We anticipate demand for a customer-led approach with personal service. We will take a longer-term view of building partnerships with our customers, so we don't only look at the trading history, we also look at the future potential.

In last year's Trade Ledger predictions report, our global CEO, Jonathan Andrew, called for a truly personalised, digital experience for our SME clients. In 2022, personalised experiences for customers will show up in numerous ways: through more targeted and relevant messages, the launch of new propositions, and the creation of new channels to access our services, either directly or via our partners and introducers. The company-wide digital platform that we launched recently is the backbone of our digital ecosystem, enabling personalised solutions this year.

Lucile Knight
Chief Strategic Development Officer,
Bibby Financial Services

Bibby Financial Services supports SMEs across 9 countries in Europe and Asia.

RedZed
Loans for the self-employed

BORROWERS ARE BECOMING BETTER INFORMED

Businesspeople are increasingly time poor, and they want ease of process when it comes to loan execution. Lenders don't differ too much in the questions they ask, but their service proposition can be very different – whether that's loan applicants being able to talk to someone at 8pm, or being able to send documents electronically rather than by courier. You'll see more businesses seeking this instant gratification – on demand, on your phone.

Aligned to an instant response is customers' knowledge. They can get their credit report, assess whether they're potentially a good or bad risk, and use that to get a better rate, whether through refinance or renegotiating with their current lender. Risk is a two-sided coin – lenders need to evaluate borrowers, and customers are starting to understand more around how their risk profile is viewed by a lender. In Australia, we're seeing comprehensive credit reform and consumer data rights, which means people can consent to their data being shared to get better outcomes. This is good from a risk point of view.

We channel 98% of our business through the broker market, and brokers can help customers with the information they need and how best to approach a lender. We will appear on panels with other lenders, and you get to see the benefits of our products versus others. Those who are declined get a reason – and if it's due to adverse credit they can investigate. Borrowers are getting more informed.

We're finding quite strong growth, for us and other lenders, which is causing challenges for some in their ability to meet SLAs – to approve and settle a file. In 2022, we'll be thinking about whether there are other products that we need to add to our offering to clients in the self-employed space. What are the cross-sell opportunities – not that we have to sell everything to every customer, but is there something that customers need that we can either create or enhance in our offering?

Stephen Gorman
Chief Risk Officer,
RedZed

RedZed is Australia's self-employed loan specialist

The Predictions 2022

BETTER, MORE COST-EFFECTIVE CREDIT DECISIONS

"Banks and alternative lenders will need to adjust their business models for a world where the last few years of data can't be relied on to make lending decisions" sage

ACCOUNTING SYSTEMS BECOME A COCKPIT FOR LENDING

In 2022, we're going to find out how rudimentary open banking actually is. In November 2021, the UK Financial Conduct Authority announced that the 90-day reauthentication requirement for an account information feed is no longer required, recognising a major point of friction. It highlights how mundane many of the problems are that we have to fix.

Open banking is set to play a crucial role in the lending landscape in 2022. It allows any lender to see the same transaction history as the customer's primary banks. Who can help to form the deepest understanding of the business, based on that data? Third parties can enrich the data – an accounting package being a good example. If their technology allows, banks can see their customers' cash flows, but not the details. In contrast, an accounting system knows whether a payment going out is a dividend, a loan repayment or an investment into new capital equipment – which changes the lending perspective.

Our role as accounting providers is to help the conversation, so that businesses that are ripe for growth, or need funds to carry them through a difficult time, are able to understand their position quickly and get access to help. An accounting system could allow a business to have five different lenders look at their books, so that when they need money – which is usually not as planned as they might wish – they're in a better place to get the best offer. Accounting systems can become a cockpit for lending, indicating which lenders are already predisposed to working in your industry.

There is a challenge when applying for invoice finance, because of the lack of information available for credit assessment. As data becomes more available, the nature of products might change. There are many products and solutions available to customers, but they can find it hard to know what information and data can be required for applications.

Klaus-Michael Vogelberg
Chief Architect and Technology Advisor
Sage

Terence Trench
Senior Director, Business Development, Banking and Finance,
Sage

Oli Dallaway
Senior Partner Manager,
Global Payments and Banking,
Sage

Sage's technology provides SMEs with the visibility, flexibility and efficiency to manage finances, operations and people.

Financial Data and Technology Association

VARIABLE RECURRING PAYMENTS WILL TRANSFORM CREDIT AND RISK

Super hot for 2022 is variable recurring payments (VRPs) finally coming to market. This is a massive opportunity to change the way businesses manage their financial data and leverage it. For SMEs, it will transform ecommerce, the way payments happen (both incoming and outgoing), and cash forecasting.

VRPs should be constructed to include analysis of the payment's impact: not just, 'Can we afford it?', but also, 'What is the consequence of making this payment right at this moment, and how does that affect my cash balance, my cash forecasting and my available funding (should I need it)?'

There will be a spillover effect into how we businesspeople analyse credit, because we'll have a better, more accurate real-time way to manage payments that we know are coming. For suppliers and vendors that we have relationships with, we can automatically fine-tune how and when we pay them, knowing the impact on our position. That will transform small businesses' ability to access cash immediately because VRPs are done via Faster Payments, so it's near-instant settlement. For invoice financing, vendors can forecast based on their roster of invoices going out in the days, weeks or months ahead – the same principle as leveraging accounting information, with the added intelligence from open banking data – because they know that the moment an invoice is billed is the moment it's paid, as long as it's within the customer's VRP settings.

For banks, VRPs will enable monetisation of open banking. They are one of the first viable premium API use cases, so banks will be able to recoup the investment in building APIs. The probability of default, and affordability, can be more accurately predicted based on using open banking data on expected and guaranteed income. Borrowers will know what will be allocated to repay debt or run operations, so banks can refine their risk model and risk pricing. The real-time information makes a big difference for credit analysis.

The UK has a technical delivery standard already in place, and the APIs have to be live by July 2022, enabling account-to-account payments, leveraging open banking. For other jurisdictions, VRPs will arrive to market later on, probably late 2022 or 2023.

Ghela Boskovich

Regional Director/Head of Europe, Financial Data and Technology Association

The Financial Data and Technology Association is a not-for-profit representing fintechs operating in open banking and Open Finance.

VRPs AND SWEEPING

Variable recurring payments (VRPs) are fast, simple, account-to-account payments enabled by open banking. They are almost instant and give real-time insight into the cash position for both purchaser and vendor, enabling better forecasting.

A company connects a Payments Initiation Service Provider (PISP) to its bank account and instructs the PISP to initiate payments on its behalf. Compared to payments by direct debit or continuous payment authority (CPA), using a PISP is more transparent, secure and flexible – giving users more control.

The UK's Open Banking Implementation Entity (OBIE) expects VRPs to reduce late invoice payments; reduce the cost and friction of international payments; collect tax at the point of invoicing; and make subscriptions cheaper for SMEs to collect.

For businesses, VRPs are cheaper, faster and more secure than any other payment method, and don't attract the interchange and insurance fees that cards do, which can be costly for SMEs and their end customers. VRPs are good for fixed or variable subscription payments – you can set up limits, with notifications when a variable payment falls outside the limits. They are convenient and provide perfect control and oversight. Businesses will know in more detail what their real-time liquidity position is, and if they have a huge spread, that's where credit comes in. This allows them to get really fine-grain liquidity management and coverage, so their credit covers exactly what they need, again reducing the risk – so credit becomes less expensive.

VRPs can also be used for sweeping, which automatically moves funds between a company's accounts. It's typically used to move excess funds into a savings, loan, overdraft or pension account, thereby maximising earned interest and minimising paid interest. Unlike other VRP use cases, UK banks can't charge for sweeping. The OBIE estimates UK benefits of sweeping at as much as £1.8 bn a year for consumers and SMEs.

"VRPs are going to be something quite revolutionary for innovation in revolving credit products."

Roger Vincent,
Managing Director,
UK and Ireland,
Trade Ledger

Allica Bank

CROSSING THE CHASMS IN THE LENDING MARKET WITH A PIVOT TO FORWARD-LOOKING DATA

The enormous scale of government intervention over the last couple of years has papered over not just cracks but chasms in the SME lending market. Many lenders pivoted almost entirely to rely on government lending schemes to get money out of the door during the pandemic.

By their nature, these were essentially emergency schemes that pumped money into businesses in a way that wasn't massively discriminating.

As the government begins to wind back emergency support in favour of a more measured long-term approach, we will begin to see the true impact of Covid on the economy, which unfortunately points to a wave of defaults and insolvencies. And banks and alternative lenders will need to adjust their business models for a post-Covid world, where the last few years of data can no longer be relied upon to make lending decisions.

For reasons completely beyond the control of many perfectly good businesses, their performance has just been stopped dead by Covid lockdowns. So when we look at their finances, everything gets reset to zero. What we need from a lending perspective is a way of identifying which businesses have gone right back to pre-Covid performance levels, and those which seem to have been mortally wounded by the pandemic.

Pre-Covid, there was growing experimentation with new technologies and data sources by SME lenders seeking competitive advantage. Post-Covid, it's now an imperative to restart the market, because it's the only way it's going to work.

So, we are going to see a business model pivot towards tools that get under the granular skin of a business' receivables and other live trading data, so that lenders can see the very near-term indicators of performance and forward-looking revenues. Which means SMEs will have to be more receptive to being told to do stuff like open banking. They're going to be given less choice.

It's going to be harder for SMEs to find lending sources too. In particular, the major banks will be reluctant to charge back into the market as they will be bogged down with unwinding the unprecedented volumes of government lending schemes.

Read Conrad's guest blog 'A golden age for invoice finance' as he delves deeper into how technology enables lenders to tap into this significant opportunity

Conrad Ford
Chief Product and Strategy Officer,
Allica Bank

Allica Bank is a UK relationship bank, empowering established SMEs to succeed.

FORWARD-LOOKING BUSINESS MODELS

"Pay By Loan will remove huge swathes of friction. Banks will need to make their products really easily embeddable by others"

Microsoft

MOVING TO DYNAMIC SEGMENTATION AND A MORE PURPOSEFUL INDUSTRY

There's a pressing need for banks to change their business models to meet the evolving needs of customers and compete with new digital native challengers and fintechs. This change will, in part, be powered by the use of technology and data from broader sources, combined with deeper collaboration and partnerships.

Currently, banks are siloed, somewhat artificially, based on demographic and financial indicators. Better use of data will ultimately achieve more intelligent, or dynamic, segmentation, enabling banks to understand and serve businesses based on a much deeper and real-time understanding of their requirements. This will also allow relaxation of rigidity in what products are available to which segments. A good example of this is how banks can spot and service fast growth companies. Their lending and facility requirements may evolve rapidly and exceed the complexity of some established corporates. With better data and dynamic segmentation, these businesses, which are often the ones that banks lose during a growth phase, could be easier to spot and serve, and wallet share increased.

Through better use of data and technology, this intelligence could also translate to the workforce, where historically, specific skill sets and specialisms have seen people fixed to one service, or product, line. With the right use of technology to support colleagues in providing a broader range of services – serving up the information to ensure they are able to provide advice and information in a compliant way – banks can improve customer service and remove the need to meet multiple advisors, also enabling the bank to dynamically respond to fluctuations in demand. If we couple this with the move to digital and remote working, we can envision a truly different, distributed financial services workforce into the future.

Current trends suggest that we will continue to see an increase in embedded lending and BNPL. These put customer convenience at the fore, providing very simple and quick access to short-term funding. As this market grows, we will likely see tighter regulation and a focus on responsible lending. Being able to evidence how lending decisions are made, even for these shorter term propositions, will be important. Again, more intelligent use of data for credit assessments will play a part.

Brands that put the customer at the centre of propositions through the intelligent use of data and technology will gain market share from those that remain focused only on "digitising" an old process.

Janet Jones
Strategic Client Director
Microsoft

Microsoft helps people and organisations use technology to transform how they work, live and play.

OPPORTUNITY LIES IN EMBEDDED FINANCE AND REUSABLE SERVICES

In 2022, commercial banks are set to embrace opportunities in embedded finance, plus different means of distributing their products resulting in additional revenue streams and higher growth rates.

On balance, Australia probably lags behind the rest of the world on embedded finance. However, organisations outside the financial services ecosystem are ready to tap into embedded finance propositions and start bundling financial services within their own products. What they need from the commercial banks are the APIs and products to bundle with.

It's not only about partnerships in 2022. Reusable micro services will perform specific functions such as balance retrieval, customer onboarding and payments. These are key to creating flexibility within distribution channels and optimising costs. Driving towards simplified business processes and standardised technology services will enable next generation commercial banking that is truly customer-centric, with distribution embedded in multiple channels.

The relationship manager role is vital in an online world. The challenge for commercial banks is how to blend the digital with the human. Arming relationship managers with data insights and better digital tools to support their clients will be imperative. Analytics insights can translate into more sales: alerting a banker that a client has more cash on hand than usual, leading to a cross-selling opportunity; or that a client has a cashflow problem, predicting they'll be unable to make a loan payment.

We anticipate acceleration in the way that commercial banks measure their sustainability initiatives, using different data sources, such as the carbon footprint ratings of their customers. The data exists; it's just a matter of accessing and correlating it in a meaningful way. There is increasing pressure from the public, governments, regulators, and institutional investors for banks to address sustainability head-on. Research suggests firms with better ESG records than their peers produce higher three-year returns.

When banks look at their talent acquisition strategies in 2022, they will realise that they're losing good talent. Recruitment, tooling, and collaboration strategies will all need to reflect this in 2022.

Chris Jaggard
Managing Director
Commercial Banking,
Accenture Australia

Accenture is a global professional services company with leading capabilities in digital, cloud and security.

BANKS WILL NEED TO MAKE THEIR PRODUCTS REALLY EASILY EMBEDDABLE

Buy Now Pay Later (BNPL) exploded onto the scene in consumer lending in 2021. In 2022, 'Pay by Loan' will be a new thing. It will be an alternative way for SMEs to interact with merchants, to be able to access what they need. It's a couple of clicks and maybe 5 questions, not 500, and it's all done digitally, removing huge swathes of friction from the process.

For merchants and retailers, embedding finance and lending are very attractive, because they help to deepen relationships and secure sales that might be lost if there's an easier option elsewhere. It's new, high-margin revenue, potentially, because they can take a cut of the fee that used to go to a broker. And they have greater visibility of the needs of their customers than a bank or a lender does. We'll probably get to a stage where lending or credit becomes cheaper for customers because we're taking out a lot of the friction in the middle.

Those closest to customers will be in a key position for acting as a gatekeeper for financial and credit solutions. Accounting software providers, for example, are in an ideal position to make a loan offer, because they can see in real time how a small business is doing, and can trigger an offer before the customer may have even thought about it. "We noticed that you've grown 30% this month. Would you like a loan to help you expand further?" The whole notion of risk decisioning will get so much more effective. Banks will need to make their products really easily embeddable by others. That's what Trade Ledger is trying to help them do, which is much needed support.

Banks have a tough decision, though, about whether to stick to being a provider of commodity lending services, in which case, they need to be super-efficient at helping other people consume them; or decide to play a more prominent but more challenging role orchestrating a wider selection of solutions from many more parties. Some people call this becoming a 'Super App'.

Simon Torrance
Founder,
Embedded Finance &
Super App Strategies

Embedded Finance & Super App Strategies advises companies on the use of financial technology to create new growth and value.

BETTER PRODUCTS AND EDUCATION WILL ADDRESS FINANCIAL VULNERABILITY AND MENTAL HEALTH ISSUES

Lucy Hasson
Co-founder and Chief Operating Officer, Esme Loans

We all hope that, post-pandemic, this is the year that open banking breaks through – really accelerating the development and growth of embedded lending, as well as enabling better decisions for lenders and better journeys for time-poor SMEs. The end of paperwork and pdf uploads, which is a dream.

I also wonder whether the impact of the pandemic will be the great rehabilitation of the banking sector post-Financial Crisis. The speed at which money was made available across all entities at the point of crisis/need was unprecedented, transforming digital stacks overnight, which many thought wasn't possible. The government and the industry brought debt-averse SMEs to the lending universe, many for the first time, using technology and open banking. Could this be the new dawn for Financial Services? Maybe.

The case against is that we are all anticipating a wave of insolvencies across 2022, which, together with a tightening of credit and interest rate rises, will impact pricing, affordability and availability of money to SMEs at what, until recently, people had hoped would be a really critical point in their recovery journey.

As I look into 2022, I worry about the human and societal impact of those things colliding, with the potential increase in financial vulnerability impacting the mental health of our entrepreneurs and business owners, and the consequences of that. The FCA estimates that about 53% of UK adults have characteristics of vulnerability, but yet we see a small fraction of that in Financial Services, often manifesting itself in poor credit, which has its own long-term negative impact. And so my 2022 wish is that, as an industry, we respond by building inclusive journeys, products and technology, that are accessible and easy to understand, to help people build sustainable careers, businesses and lives in advancement of better and more sustainable communities. And an end to Covid.

The London Institute of Banking & Finance

PARTNERSHIPS, ISLAMIC FINANCE AND ENVIRONMENTAL MONITORING

Mid-sized traditional banks could be squeezed in 2022. Covid revealed any lack of digital sophistication, and they had a triple whammy of smaller IT departments, lower IT budgets and sometimes restrictive core provider agreements. They're caught in the middle between the large incumbents and the neo or challenger banks. Globally we'll see a lot more mergers and acquisitions in that space.

In SME finance, we'll see growth in Buy Now Pay Later (BNPL) for business. In the UK, there are Liberis and Klarna, and now there's an opportunity for alternative lenders to get more entrenched in this space. They will have to partner with a BNPL organisation that provides the platform and marketplace, and in return they'll get data on how the merchants perform with the finance, and then be able to offer that finance with more confidence.

For the large incumbents, there's a partnership opportunity with Big Tech - Barclays and Amazon are an example. The latter have the data and the relationships, and if the incumbents don't partner with them and take a smaller slice of the market, they could miss out entirely.

Globally, we're going to see a lot of money being diverted into Africa. Investors will start getting behind small businesses, and more money will flow in from Big Tech, including acquisitions of African fintechs. And Islamic finance will now get the recognition it deserves. For those of us who are living with near-zero interest rates, there is much to be learned – Islamic finance business models make perfect sense. [Funding involves shared risk and rewards, not interest, and avoids industries deemed harmful to society, such as gambling and alcohol.]

When it comes to environmental, social and governance (ESG) factors, we'll need a data measuring and monitoring system that's standard and universally accepted. Legislatures including the EU, Australia, US and UK are developing taxonomies that describe what's sustainable, but apart from that, and some of the UN initiatives, we are still lacking clarity around measuring and monitoring, which dulls the teeth of regulators and advocates, in my opinion. It needs to be global and tie back into the UN Sustainable Development Goals (UNSDGs). It won't go anywhere if no-one knows what we're actually measuring – that enables greenwashing. ESG matters to the next generation of financial services consumers who, as we have seen, are not afraid to speak out.

Helene Panzarino
Innovation pioneer, Fintech and Banking Subject Matter Expert for Vacuumlabs and Fintech Partnerships Lead for London Institute of Banking and Finance.

The Predictions 2022

BUILDING A SUSTAINABLE FUTURE

"When banks provide funding to something that has a positive climate impact, they need reduced risk weights"

MAKING GREEN FUNDING WORK

How will asset-based lenders like us adapt to funding the transition to net zero? Funding more sustainable products like solar panels, onshore wind power turbines, electric charging infrastructure or alternative fuel vehicles is challenging because it's hard to predict their residual value, which makes them fundable, or not.

That said, these sustainable businesses should be able to access funding in the same way as any other business.

Government support of a 'green finance guarantee', to help mitigate the elevated risk of products with uncertain lifespans of depreciation and obsolescence, particularly on the back of the COP26 Glasgow Climate Pact in 2021, would be the best way to encourage lenders to back these businesses.

Business groups such as the Finance & Leasing Association (FLA) are lobbying the government to put this in place. Once the high street banks offer products to fund the transition to net zero, it paves the way for all lenders – so it becomes the norm.

COP26: The 2021 Glasgow Climate Pact

The Glasgow Climate Pact drives action on Mitigation; Adaptation; Finance; and Collaboration. For finance, the signatories agreed to reducing finance for fossil fuel energy, aligning investment to global net zero and adaptation, and increased funding for Least Developed Countries.

Another very important part of ESG is the social aspect. We need to be much more supportive of employees and increasingly flexible around working patterns. Moving to hybrid working, that works for both the business and employee, is going to be the new normal, and I see that coming together in 2022.

Yvonne Balfour
Chief Marketing Officer,
Ultimate Finance

Ultimate Finance is a specialist asset-based lender in the UK.

The Predictions 2022

CREATING VALUE BEYOND VERTICAL BUSINESS MODELS

“No business owner ever woke up in the morning and said that they’re excited about applying for a forfaiting product”

BUSINESS BANKING IS ABOUT TO BE UP-ENDED

Customers are not at the centre of business banking today. Products are. But things are about to be up-ended.

It's been like this for about the last 30 years, mainly because of the regulatory constraints of the industry. Commercial banking has adopted a consistent and basic model: manufacture the product, distribute the product, and service the product. Retail banking, on the other hand, has been pretty much digitised, and people want to do their business banking in the same way – on their phone or laptop.

Business banking is at least a decade behind. And business banking revenues have been falling steadily, when looked at as a percentage of GDP and GDP growth over the past decade. Clearly, the value of business finance is coming from places other than banks.

How do you reinvent business models to be more relevant? The concept of modular banking - also known as the componentised or non-linear model - is a good place to start.

HOW THE CAR INDUSTRY DID IT

The automotive industry did this a long time ago. Most carmakers design cars and provide car services. They don't actually manufacture the cars – they assemble the parts. Gearboxes are typically made by ZF in Germany, and there are two companies that provide airbags to 99% of auto makers. The carmakers differentiate what they sell by how they specify the subassemblies to the subassembly providers. The cost advantages have been huge as each part of the supply chain has optimised its output and costs.

That's what's going to happen with banking services.

For example, KYC, AML and CTF (know your customer, anti-money laundering, and countering financing of terrorism) are all capabilities that banks spend a lot of money on, because of tightening regulations globally. At the moment, they're not seen as products – they're treated as a utility or hygiene factor; a cost of doing business. But we can componentise them, and the bank that specifies the best component as part of the best optimised process will do it better than everybody else. Or we can provide KYC/AML/CTF for an ecosystem or marketplace of partners who then sell to the banks. Specialist capabilities can be created by the people who do it best, and then supplied to the ecosystem. It's the way the automotive industry has gone, and the way that the business banking sector is going.

NOT COST-SENSITIVE – IT'S EXPERIENCE-SENSITIVE

It's not about cost. Business banking isn't a cost-sensitive market – it's an experience-sensitive market. And the experience isn't fit for purpose. A typical commercial loan takes 90 days to process today, and that's if the firm even qualifies to apply.

Businesses, ours included, can't get the credit, treasury and liquidity services they need. For small and medium businesses in particular, the market is not just underserved, it's starved. There just aren't the services that can be used for optimising economic growth in the economy.

THE DISCONTINUITY THAT LENDERS MUST FACE

The bigger the bank, the more likely it is to be trying to address these problems, modernising and digitising their offering. Banks of all sizes know they must think about the next horizon of banking products, which will be discontinuous – a leap from where they are today.

Right now, a business leader who wants to get finance for their company needs to identify what product they want from the bank; then go and ask for information; then figure out how to apply; then go through the process of application, assessment, onboarding and so on. It's a lot of work to do, and they're probably not an expert so there will be a learning curve.

EXCITED ABOUT APPLYING FOR FORFAITING? UNLIKELY.

No business owner ever woke up in the morning and said that they're excited about applying for a forfaiting product. Lots of people have to do it, but they don't even know what it is, and they need third parties to explain what it is and why they need it. In the future, borrowers might get that product without ever hearing about forfaiting or invoice financing.

Within three years, it'll be totally different. The borrower will connect their data to a service which may belong to the bank or to a third party; the service will analyse the information and come back with insights including recommended next actions, and could connect them automatically to application processes, fulfilled directly at the back end of the analysis.

There are many routes for banks and other lenders to get there, as we have seen in this valuable report. New data sources, feeding into better decisioning systems, with deeper insights for both lenders and borrowers, will take our industry towards the experiences we all want, enabling us to create real value for our people, our communities, our companies, and the world around us.

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About Trade Ledger

Trade Ledger is an enterprise software company that puts data and customer experience at the heart of the lending lifecycle. Our platform is cloud native, modular and API/event driven. We streamline and digitise processes so that banks can offer a full range of lending products (including complex products such as invoice finance) to a wider range of businesses more efficiently and with higher-quality risk controls. Visit us at: tradeledger.io

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