SME LENDING:

THE ROAD TO REAL-TIME APPROVALS

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SMEs are the foundation of the economy, they drive growth, build competition, and create jobs, but they're also at the back of the line when it comes to getting fast access to credit. For the most part, securing business loans from traditional financial institutions is a slow and arduous process. It's paperwork heavy, progresses at snail speed, and often results in low approval rates. Why? Because lenders find it difficult and expensive to assess a business' default risk without human intervention.

If we were to compare SME lending to a car, it would be a stretch limo from the 80s, still chugging along and capable of hitting 60mph in just over 60 seconds… if you're lucky. Hardly what you'd call life in the fast lane.

But it wouldn't be fair to put the blame on lenders. It's hard to win the speed race when you're navigating a notoriously difficult track in a vintage 'lending' vehicle. Especially when that car was built to carry consumers, not businesses, corners like a bus, and still needs to follow strict (risk tolerance) rules of the road.

For many SME lenders, success in its current form looks like making it from the starting flag to the approval finish line in days, weeks, or even months, same day funding is a distant dream. But where does that leave the small and medium sized businesses who need funds today?

Research shows that 44% of SMEs look to funding to meet operating expenses, and we can expect this number to grow considerably during emergencies and times of economic uncertainty. The same research found that 56% want funds to expand the business or pursue new opportunities. For SMEs, waiting weeks or months for approval means significant delays in exploring growth opportunities, or, worst case scenario, business closure.

But SMEs are not without options when they need credit, in fact:

SMEs Contact 2.7 Institutions and Submit 3 Applications on Average during their hunt for funding.

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Global Snapshot: SME Lenders Driving Innovation Around the World

Fundbox (US):
Fundbox can make lending decisions in under three minutes without requiring paperwork or a credit check. If approved, businesses typically get the funds within 24 hours.

OnDeck (US):
OnDeck has lent $10 billion to businesses across the world. It only takes 7.2 minutes on average to complete a loan application and the lending decision is based on the business's overall health.

Clearbanc (Canada):
Clearbanc analyze revenue data and evaluate the health of the business directly from an SME's bank account. Instead of looking at past performance, like many other lenders, Clearbanc use banking data to predict future business success.

Funding Circle (UK):
Funding Circle has originated over £5billion of loans through their P2P platform and is able to provide a decision on an application in only a few seconds.

Novicap (Spain):
Invoice factoring is traditionally a lengthy and manual process but Novicap has developed an application and funding platform that is 100% online application process and can deliver finance within 48hrs.

iZettle (Germany):
iZettle offer their POS customers short-term business loans. They use the real-time transaction data captured on their platform to predict business performance and credit risk.

Penta (Germany)
Online business account platforms like Penta are now expanding their services to include short-term business loans, through a fully digital application journey, with pay-outs available within 48hrs.

Validus (Singapore):
Validus Is a P2P lending platform that typically funds loans within 4 days. Its credit risk model analyzes information from invoices, contracts and cash flow. They use many data points and machine learning to identify high potential SMEs.

Multiply (Singapore):
Multiply is an online provider of invoice factoring and unsecured business loans. With a fully online application process and digital documentation facility, business loans can be funded within 24 hours.

Konfio (Mexico):
Konfio provides a fast alternative loan option for SMEs. Decisioning is based on electronic invoice data and they can typically fund loans within a one-day turnaround period.

Omni Latam (Chile & Colombia)
Omni Latam is Latin America's first neobank for SMEs. Omni uses big data, machine learning, and automated invoice analysis to provide SMEs with accurate factoring services and funding in 24 hours.

Capital Float (India):
Alongside credit scoring, Capital Float's decisioning process also includes a psychometric assessment. Businesses can apply online in 10 minutes and get a decision instantly, and they'll typically have the funds in hand within 72 hours.

Prospa (Australia):
Applications with Prospa, can take as little as ten minutes and funds can be drawn in less than 24 hours. A key innovation they have adopted is linking applicants' bank accounts to their platform, speeding up the verification process and attaining business MI in real-time.

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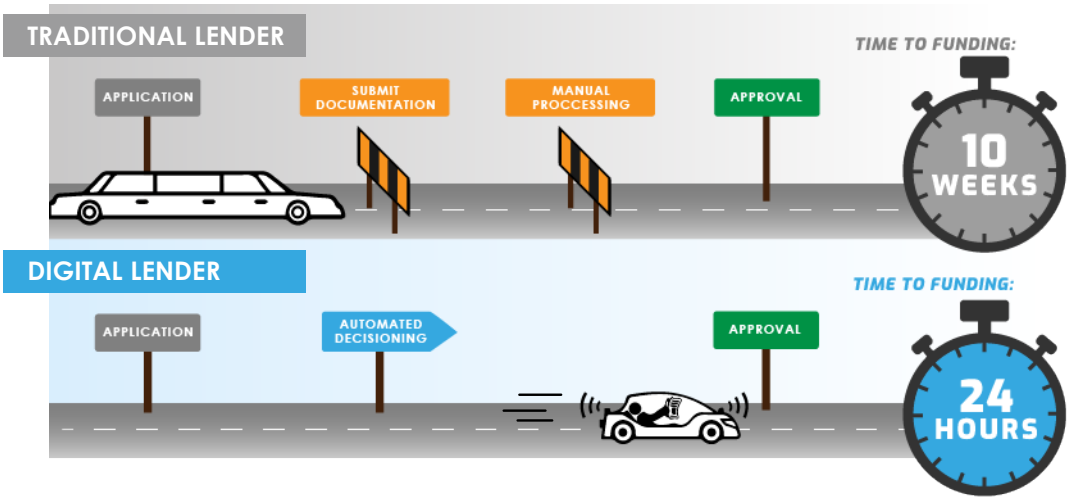
The Lure of The Fast Lane: Why SMEs Turn to Online Alternatives

32% of SMEs now work with online lenders for business credit.

Lenders lure SMEs away from traditional credit options with simple application processes, rapid decisions, and high approval rates.

Over the last few years leading fintechs have driven major innovation in the SME lending industry, with digital lenders using technology to decrease approval times from months to minutes, without exposing themselves to undue risk. This increased competition for SME business poses a significant threat to lenders who delay innovation strategies. Not only do they risk losing potential new clients, but existing customers are also drawn away by the convenience offered by digital alternatives.

COMPARING THE APPROVAL EXPERIENCE



From the graphic above it's easy to see why online lenders are so appealing to SMEs looking for funds. But, how do alternative lenders manage to compress what has traditionally been a long, paper heavy, and manual process into a slick and quick online application experience?

Innovative fintechs and banks have found ways to use technology to break down the barriers that prevent loan applications moving swiftly and efficiently through the decisioning and underwriting process.

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Breaking Down Barriers: Building the Self-Driving SME Loan

Traditional SME lending processes have one major problem: they were designed to assess consumer credit risk, not business credit risk. It's like trying to determine how reliable a vehicle is based on the driver, while this may have an impact, there are a ton of other factors that determine how likely a car is to break down.

To support SMEs with faster access to funds, lenders need to build lending processes specifically designed to quickly understand a business' financial position and possible default risk. This means focusing on and fixing 3 key areas that prevent SMEs from experiencing a high speed, 'self-driving' loan application experience:

1. SIMPLIFYING THE APPLICATION PROCESS

One of the key benefits digital lenders offer to SMEs is a simple application process. Business owners complete their applications online without the need for long forms, in-person visits, phone calls, or large amounts of paperwork. And it doesn't stop there, applicants can track progress, submit supporting information, and get loan repayment terms all through online portals. As a lender, it's like you're opening the door to a self-driven lending journey that gets your customers to their destination at record speed!

To power a cohesive lending experience, lenders use powerful decisioning technology to automate the arduous tasks that would have fallen on both the business-owner and the lender to complete. These tasks include automatically gathering and pulling relevant information from business documents, accounting data, and tax forms, completing fraud checks, assessing risk, and determining pricing.

Surveys have shown that on average a business owner spends over 33-hours completing loan applications. With the right technology lenders can significantly reduce the amount of time businesses spend submitting applications and providing supporting documentation, simplifying the entire application process.

2. POWERING REAL-TIME RISK ANALYTICS

Since the first loans to buy grain were issued in 2000 BC, lenders have understood that knowing as much about the applicant's business as possible is the best way to understand risk and predict the likelihood of default. Fast forward a few thousand years and the amount of data available has grown by infinite proportions, but just because the data is available doesn't guarantee that it's either easily accessible or in a useable form.

Sticking with the car analogy, your old school lending processes have serious problems when it comes to data integration and real-time risk analytics. Think of manual decisioning like your 80's limo, need to gather information? Data access and orchestration means making regular pitstops at data sources to manually collect the information you need, and often asking your passengers to do some of the work for you. For them it's like hiring a taxi then being expected to take on a significant share of the driving. If this happened in any other industry, a one-star Yelp review would be considered generous.

The issue is that when you're driving an 80s vehicle, 'connectedness' means a car phone that cuts out at the slightest hint of signal interference. Gathering data isn't a simple or fast task and keeping applicants up-to-date requires extensive communication. When your team enters the decision processing tunnel to assess the loan you may as well have been sucked into a black hole, leaving applicants asking:

"Hello, are you still there?"

To deliver real-time decisions that support world-class SME lending experiences, you need to upgrade to a solution that makes it quick and easy to pull in the right data exactly when it's needed. This means no longer relying on personal credit scores to decision business loans, but instead looking to business financial data, such as accounting documents and tax returns, to get a deeper understanding of business health and decisioning loans based on a prediction of future business success. When you have this volume of data and the technology to access, orchestrate and process it, you can implement risk decisioning tools that can accurately take an application from data to decision in under a second.

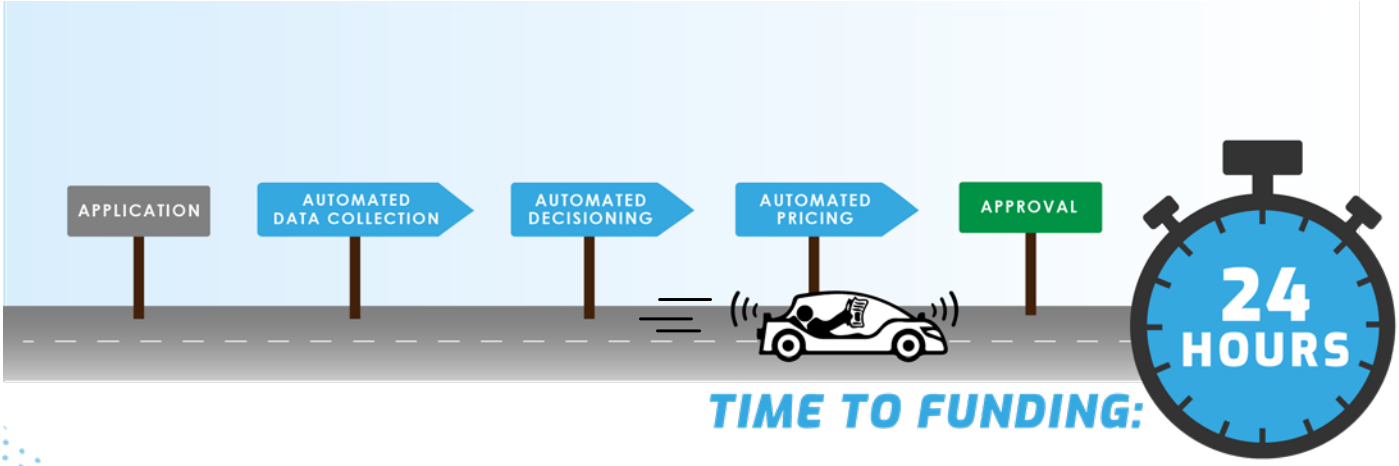
We'll cover this more in the "choosing the right technology" section that follows.

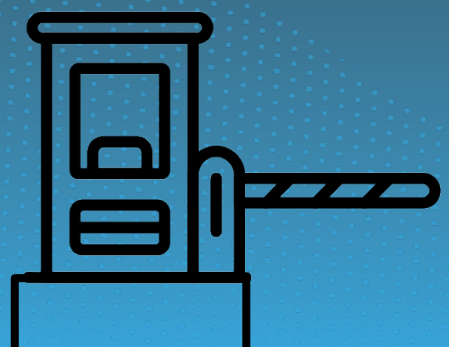
3. LOWERING COST OF APPROVAL

SME loans are notoriously expensive to approve, in fact a study by Deloitte found that large US banks spend between $2,000 and $10,000 to process a loan application. Why? Because it's incredibly time-consuming to manually move a loan through the application process, which in the case of big banks can spread over a 10-week timeframe. To give this some context it's important to look at the wider implications of manual processing on performance: Picture each member of your lending team running a booth on a toll road, every time a car wants to pass through the toll your officer needs to ask multiple questions, check for insurance, ownership, service history, etcetera. This creates two problems, one it increases the time a car has to wait before it continues on its journey, and two it significantly limits the number of cars your team can process in a specific timeframe. Now compare that to traditional lending processes where your loan officers stop each application to tick all of the data boxes, and it sheds some light on why SME lending costs are so high and business efficiency is a challenge.

Enter the automated toll booth. These booths use technology to pull in information about each car that passes through the sensor and then automatically charges the owner the toll fee. Cars flow smoothly through the tolls, payments are automated, and, in a major improvement to efficiency, one person can provide support for multiple booths. Digitization and automation have both streamlined the user experience and massively improved efficiency, and technology can do exactly the same for SME lending.

In the next section we'll focus in on what digitization of SME lending will look like for financial services organizations when they select the right technology.





Not Just Any Technology, but the Right Technology: Your Risk Solution Checklist

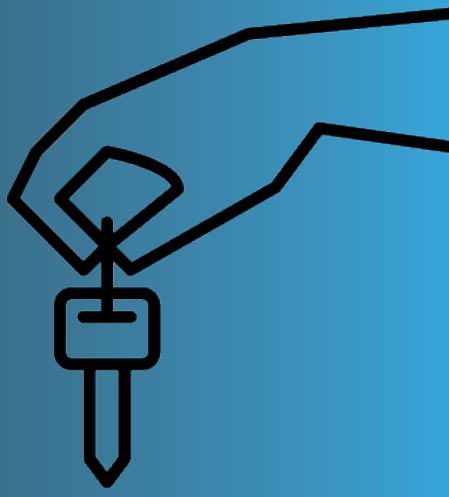
Technology is obviously essential to digitizing lending processes, but to really support future business success your chosen tech solution needs to power agility, flexibility, and scalability. For financial services organization this means that it needs to do the following things:

SIMPLIFY DATA ACCESS

Data is the key to making smart decisions, would you buy a car without knowing service history, number of miles, number of owners, etcetera? To pull information into your digital decisioning solution you need to integrate to key data sources. But hard coding API integrations makes your risk team reliant on your IT department to build and update integrations as you need them. This slows down your risk team and limits prevents you from rapidly implementing your risk strategy.

Instead, you need a solution that empowers your risk team to quickly create connections to data sources that help you understand the health and potential of an SME, including accounting software, tax information, and bank accounts. For example, risk platforms like Provenir provide integration wizards that make it quick and easy to create new integrations and normalize data so it's available to your team in a usable form. With low-code technology, business users have access to a drag-and-drop user interface that empowers your risk team to easily map data from the source into your risk analytics tool.

With simple integrations your team can also easily explore the use of alternative data in the decisioning process, making it easier to expand the approval criteria needed to power your loan decisions.



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POWER ADVANCED ANALYTICS

Your risk analytics platform should empower your risk team to use the latest predictive analytics tools to not just decision loans, but also improve the speed and accuracy of the decisioning process.

The right technology lets you quickly deploy advanced analytics tools such as machine learning, artificial intelligence, and other data science techniques.

One of the biggest obstacles financial services organizations face when it comes to predictive analytics is model deployment delays, in fact some companies report that they're team only deploy a very small percentage of models they build. But why? Many businesses find that their risk team and their risk decisioning technology, whether a platform or in-house built solution, speak different languages. For example, your risk team may prefer to create risk models in python, but your technology only supports excel, which means that models need to get 'translated' before they can be put into production. This model recoding process can be extremely time consuming, even for small changes. So, your risk team can't respond quickly to market threats or opportunities.

To solve this problem, lenders should choose technology that is model agnostic, meaning models can be uploaded in any language. This eliminates delays and empowers your risk team to deploy their own models so they can quickly implement changes when they're needed.

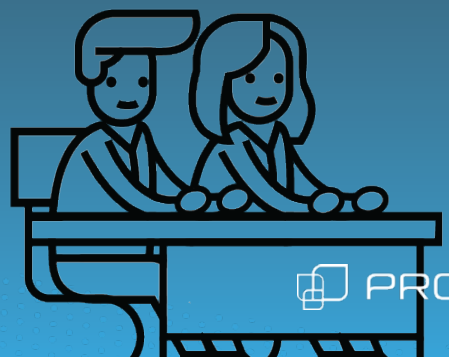
BRIDGE THE GAP BETWEEN RISK AND DEV TEAMS

In an ideal situation your risk and dev teams should work in tandem, when knowledge gaps prevent this from happening it's like expecting your team to perform at full power when only one cylinder is firing. Your risk and dev teams have an immense amount of knowledge between them, but while there may be some overlap there are huge areas that are specialized know how.

To gain increased efficiency and put their joint knowledge to use you need decisioning technology that can be understood by both teams. Low-code platforms, where a deep understanding of IT development isn't required, provide an interface that both teams can use.

With a visual interface it's easy to understand exactly your workflows, integrations, and risk analytics processes.

It lets your head of risk sit next to your chief technology officer and work side-by-side on a project.



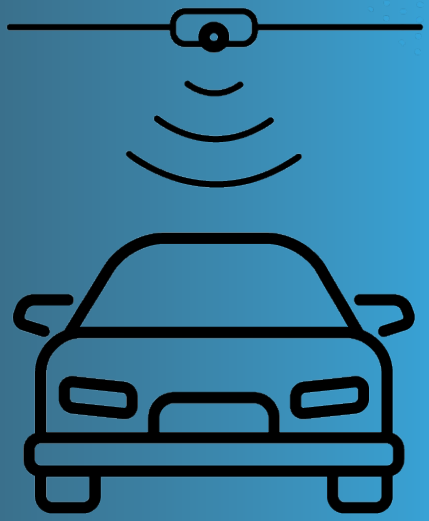
MAKE FASTER DECISIONS

Automation is king/queen when it comes to decisioning loans quickly.

Your loan technology should support full automation of the decisioning process to highlight potential fraud, risk, or the need for deeper checks.

With the right automation tools, you can rapidly provide risk-based pricing to low risk applications, push higher risk loans through additional checks to expand approvals without compromising your risk tolerance levels, and tag applications that need manual review.

Coming back to the toll booth analogy, when you allow technology to handle the majority of applications you can focus your loan officers on the applications that need additional support. So, instead of holding up each car that wants to pass through the booth, you simply pull aside those that may pose a higher risk.



REDUCE TIME TO MARKET

Being able to quickly launch new products and rapidly make changes to existing processes is essential in today's economy. The amount of companies competing for an SMEs business is increasing faster than ever. To thrive, not just survive in this challenging market you need to be able to offer new and innovative products at record speed.

To do this your risk team needs to be able to implement the entire onboarding and decisioning process, complete with new predictive analytics models, data integrations, and decisioning workflows. This means having the power to make and test processes without relying on IT. As mentioned before, low-code technology is a solution that puts the power of the process in your risk team's hands.

So, instead of waiting months to launch new products or make simple changes your risk team can get new products to market in hours.

FUTURE PROOF DECISIONING TECHNOLOGY

Your risk technology should be able to support your current needs and have the features and functionality to drive business growth. However, it's also essential to look at your future needs when you choose or build technology. Some key areas to consider include:

- Whether the technology can scale both vertically and horizontally as your business expands
- Whether it's flexible enough to work with new technology as it emerges
- If it's a partner solution, is it regularly updated
- Again, if it's a partner solution, how often are new features added and is it ahead of or behind the curve when it comes to developing new functionality

Replacing or rebuilding the foundation of your lending solution should be a one-time event, as it can be both time-consuming and costly. For these reasons you should look to technology that can adapt and evolve with your business. But, to really define yourself as an industry leader, you need technology that drives advances in technology that help you stay ahead of your competition.

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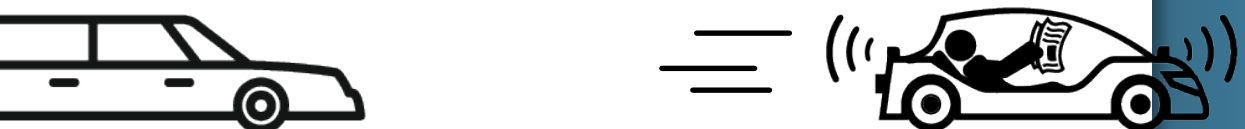
From Lending Limo to Industry Leading Lending Solution

Whatever technology you choose to power the digitization of your lending processes, it's important that you don't forget the biggest asset within your business: your team. The people in your organization, with their knowledge and creativity, are what sets you apart from the competition. Any solution you choose should help them:

- improve the user experience by providing SMEs with rapid access to resources, help at the right time, offer support for self-service products, and simplify every interaction.
- focus on the things that really matter. It should give them the opportunity to use their knowledge and experience to make improvements, identify opportunities, and, create relationships with clients.

With the technology to rapidly test and implement decisioning processes and the ability to quickly respond to market threats and opportunities, you and your team can power innovation not just within your business, but across the SME lending industry as a whole.

Revolutionize your risk strategy and support SME growth with Provenir.



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