6 emerging trends shaping the lending technology landscape

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introduction

The COVID-19 pandemic has been unlike anything we've experienced in modern times, and it will change the way we function for years – if not decades – into the future. These changes will offer both challenges and opportunities to lenders across the country and will influence the preferences of the consumers and business owners they serve. The process of lending, having already changed so much since the Great Recession, is entering a phase of evolution that will redefine borrower relationships as we've known them.

There's been a change in virtually all areas of life for individuals and business around the globe, and that change is undeniable in the field of consumer and commercial lending. So how has the pandemic changed the way financial services are delivered? How are financial institutions across the country responding to the needs of their customers and members? What does lending look like in 2022 and beyond?

Dozens of interesting trends have played out in the financial services industry over the past few years, and as the U.S. continues to rebound and rebuild in the wake of the pandemic, the following six key trends have emerged as the ones with the greatest potential to influence or alter the lending technology landscape now and well into the future.

1. acceleration in digital delivery of financial services

Widespread closures of bank and credit union branch offices in March 2020 sparked an immediate acceleration in digital delivery of financial services. It was imperative for financial institutions to continue delivering financial services to their accountholders, even in the middle of a government-mandated shutdown, which caused a spike in digital activity. While all financial services were impacted, the pandemic likely accelerated digital lending by at least five years from the trajectory it was on prior to March 2020. That step-jump acceleration was due, in part, to the need for financial institutions to support CARES Act initiatives such as the Paycheck Protection Program (PPP).

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While financial institutions' branches were closed, digital banking app installs in the U.S. increased by 60%, according to data from AppsFlyer. It's interesting to note that in a survey conducted by remotedepositcapture.com, 56% of respondents reported at least a 20% increase in the use of remote deposit services in March 2020[1]. We've all heard personal stories about grandparents taking a picture of a check to make their first deposit on a mobile app. But during the shutdown, it was a reality. The question then became, Will these become long-term consumer behaviors? Will consumers and business owners continue to utilize mobile banking at the same levels as branches reopen? In other words, is this a sea change moment or just a momentary shift?

Currently, all signs indicate that there will be a significant shift toward digital lending experiences for both consumers and businesses. The pandemic provided a wake-up call to traditional financial institutions, and they responded. COVID and its widespread, economically damaging aftereffects highlighted the inadequacy of existing lending solutions in a world that was temporarily unable to transact in a physical environment, prompting many institutions to prioritize investments and other matters that had been dormant for years.

2. increase in consumer spending

As the U.S. recovers from the economic disruption of 2020 and 2021, we're seeing improvements in many financial segments. As of March 6, 2022, for example, total spending by all consumers increased by 15.4% compared to January 2020.[2]

While spending trends have increased steadily and 14% of consumers say they've recovered financially after suffering setbacks at the start of the pandemic, approximately one of every five consumers has not yet recovered economically from the fallout.[4] This segment of the population may be the most likely to need interventions such as short-term credit to help them negotiate temporary financial obstacles.

The way that consumers resolve these temporary financial obstacles will vary from one person to the next. Some may moonlight at a second job, others might negotiate new terms with creditors, and someone else might decide that a short-term loan would best help them persevere. By seeking out new product offerings, lenders can help meet the evolving needs of both consumers and businesses.

3. resurgence of small businesses

It's no secret that pandemic-fueled shutdowns resulted in severe financial losses for small businesses. But the good news is that resilient entrepreneurs often bounce back stronger after being tested by significant challenges.

In fact …

The number of small businesses open **increased 2.9% from January 2020 to January 2022.**[2]

Small business revenue **was up 6.9% from January 2020 to January 2022.**[2]

Nearly 5.4 million new business applications were filed in 2021 – a new record – up from 4.3 million in 2020.[3]

These promising numbers demonstrate the resiliency of small and midsize businesses, which are critical players in the U.S. economic ecosystem. When considering business loan demand for 2022 and beyond, businesses that want to reopen – and stay open – will need access to short-term working capital to bridge the gaps in their operating cash cycles.

Community financial institutions, having outperformed megabanks in distributing PPP funds, are in a strong position to provide the assistance businesses need. Around 45% of PPP funds were distributed by banks with less than $10 billion in assets, which created goodwill from businesses that appreciate how their local bankers supported them when they needed it most.

Nearly 86% of small businesses that applied for a loan with a credit union or community bank in 2020 said they were satisfied, according to the Fed's Small Business Credit Survey. Satisfaction rates were 68% for larger banks and 60% for finance companies, while just 43% were satisfied with online lenders.[5]

4. concerns about inflation and rising costs

Eighty-one percent of consumers say they are highly concerned about inflation and are bothered by rising costs, regardless of their financial status.

The inflation spike that is weighing on consumers' minds underscores the needs they will have, which may include accumulating disposable cash and available credit. In addition, higher prices mean that more people want credit to buy big-ticket items, especially if their wages haven't increased. This equates to new customers for financial institutions.

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Rising costs impact all segments of the economy, but small businesses (particularly those who operate on slim margins) are also feeling the pinch. According to the QuickBooks Small Business Insights Report, 97% of small business owners are worried about inflation and say rising costs are the most significant threat their businesses face. In response, 63% plan to raise prices in the next three months. Some have taken out loans or decreased staff to manage higher costs brought on by inflation.[6]

Organizations that understand this reality will be best positioned to thrive going forward.

5. heightened digital demand

The past two years have been a crisis-induced stress test for how we use technology, and more importantly, for how we can improve that technology in the months and years ahead. Whether we're talking about more consumers engaging digitally with our institutions or more employees working remotely, people have raised the bar on creating meaningful experiences.

The combination of changed borrower expectations and fintech pressure means banks and credit unions can no longer take days or weeks to get an application, process it, and disburse funds. Today's borrower expects simplicity in applying for a loan, immediacy in loan decisioning, and seamless delivery of funds. They want an application process that can be completed with a few taps on a computer or swipes on a mobile phone. Having to enter data into dozens of fields that could have been pre-filled by a financial institution can be a deal-breaker for today's borrower. Speed and simplicity win the day, and banks and credit unions must improve the overall user experience to stay ahead of the competition.

Lenders should seek out ways to consolidate tasks and eliminate redundancies in the origination process, as well as reduce manual activities that can be automated without negatively affecting the borrower experience. Back-end processes must be transformed to allow for fast origination and seamless onboarding.

To achieve this, banks and credit unions must first accept that they can't always do it on their own and should consider an open banking application programming interface (API)-based platform that allows them to "open up" their APIs. This will allow third parties to access the information they need to develop new services and provide accountholders greater financial transparency options. This approach has also been proven to offer flexibility, agility, speed on go-to-market time, and an increase in user engagement.[7]

Digital strategies are essential to making loan originations more efficient, as they're less costly to scale and make the lender a more attractive destination for top performing loan sales and underwriting staffers. This is especially important right now, given the large number of workers displaced at the onset of the pandemic and the subsequent labor shortage caused by the Great Resignation phenomena that emerged in 2021 and will likely continue into 2022.

Small business lenders face the added challenge of managing rates given that the **smaller-dollar loans in greatest demand do not generate sufficient revenues to cover their costs** – even at pre-pandemic interest rates.

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6. dramatic changes in consumer and commercial underwriting

Underwriting for both consumer and commercial loans has changed dramatically, with personal and business credit scores taking a back seat to more immediate measures of financial health.

Lenders have traditionally used a limited variety of data sources to determine a borrower's creditworthiness. While those sources work well with the financially active, they aren't so good at capturing information on underserved segments, and historically end up locking them out.

Credit scores remain a useful metric but can consist of outdated information and lagging data. Access to account information – and for small businesses, management account data – can provide a lender with a broader overview to a more realistic assessment of the applicant's financial health.

facing and embracing the ever-changing future

Lending is changing significantly for community banks and credit unions. Digital will enable a transformation and diversification of the loan portfolio — and the need for digital lending platforms is a top priority for the presidents and lending executives at community banks and credit unions across the country.

Of course, the best financial technology strengthens human interaction during the process of fulfilling transactions. It automates redundant tasks and streamlines workflows. When done right, this practice creates happier employees and satisfied customers.

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sources

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