

# LENDING & PFM

Contradictory or Complimentary?



On the surface, the concept of “lending” seems contradictory to PFM. For an app or platform that primarily focuses on helping people save and manage money, lending seems like a slippery slope.

But we must acknowledge the fact that the overarching aim of a PFM is not so much budgeting, as it is helping people to effectively manage their money. Using a PFM shouldn't feel restrictive, rather the opposite, it should feel like an enabler. That's where “lending” comes in.

Lending in the context of a PFM would mean that users may send a request for a “funds top-up” via their app. While this can mean taking on debt, there are certain use cases as to why this may not be such a bad thing.

Consider this; you are going about your routine until a medical emergency comes up, which unfortunately exhausts a large amount of your existing funds. You have bills and other payments due that must be paid on time, in this case a loan top-up will help you clear your dues and limit any further cyclical effects.

Or you have been saving up for a particular item and a limited time discount is announced. Just a small addition to your savings goal would help you obtain it.

In 2019, the value of the global market of digital lending platforms (DLP) was estimated to be

# \$5.58

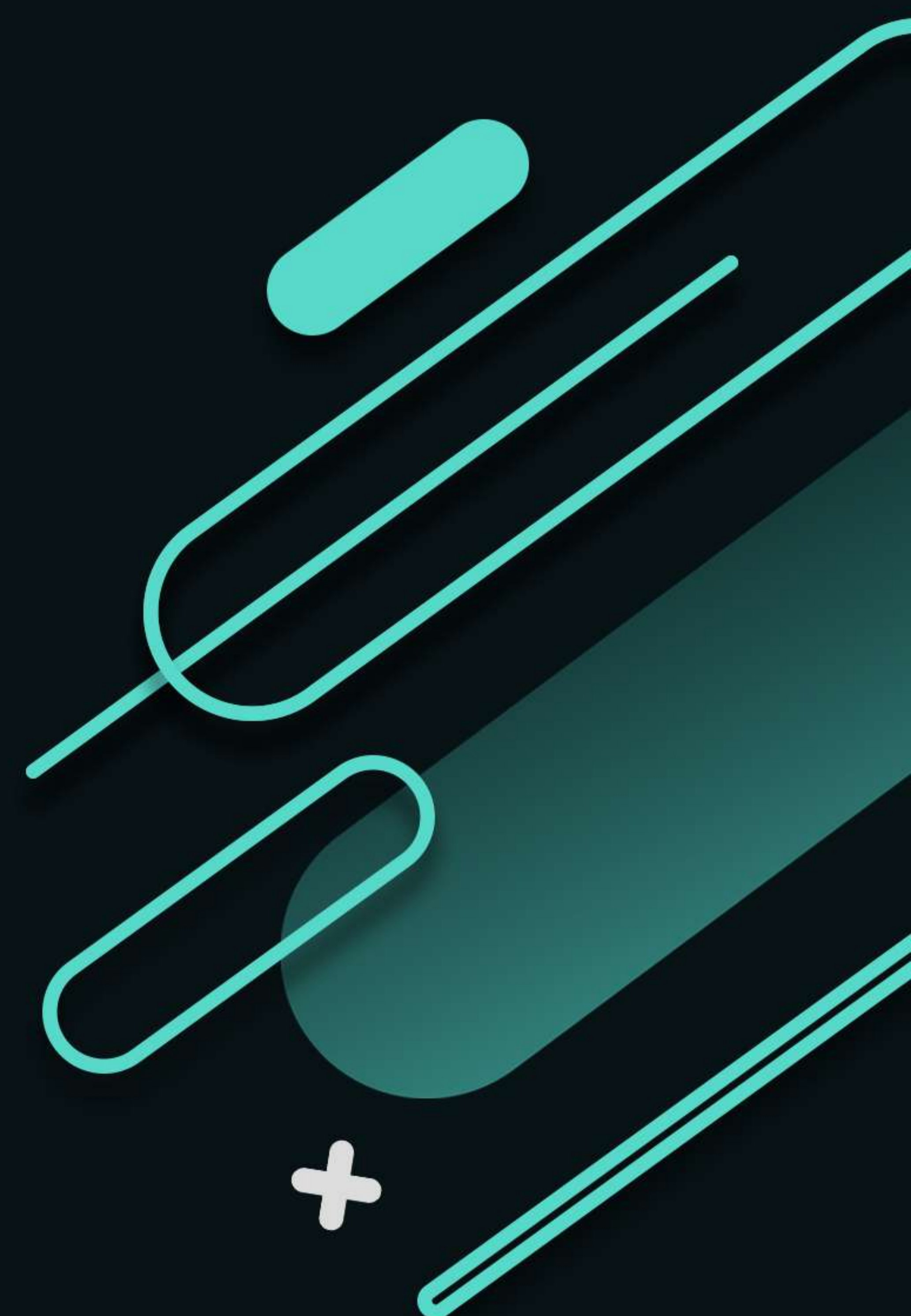
## Billion

According to Allied Market Research, it is expected to grow at a CAGR of

# 16.7%

between 2020-2027, and reach a value of over \$20 billion.

(Finextra)



Or you are on holiday and run out of funds. An emergency top-up would then help cover costs for the remainder of the trip.

There are many use cases for lending, but for now it's reasonable to state that it could help PFM users in financial wellness.

## But, what if I go overdraft?

Just as with any other financial transaction, AI can help manage re-payments by integrating it into the overall financial planning for the user. For example- if a person is at risk of spending too much, apps can issue alerts or notifications to help control spending. Users may even opt for pre-determined lending top-up slabs (USD 100, 500 and so on).

And if a customer's financial history is not sound, the PFM can advise on a better loan to suit them.

## The Future

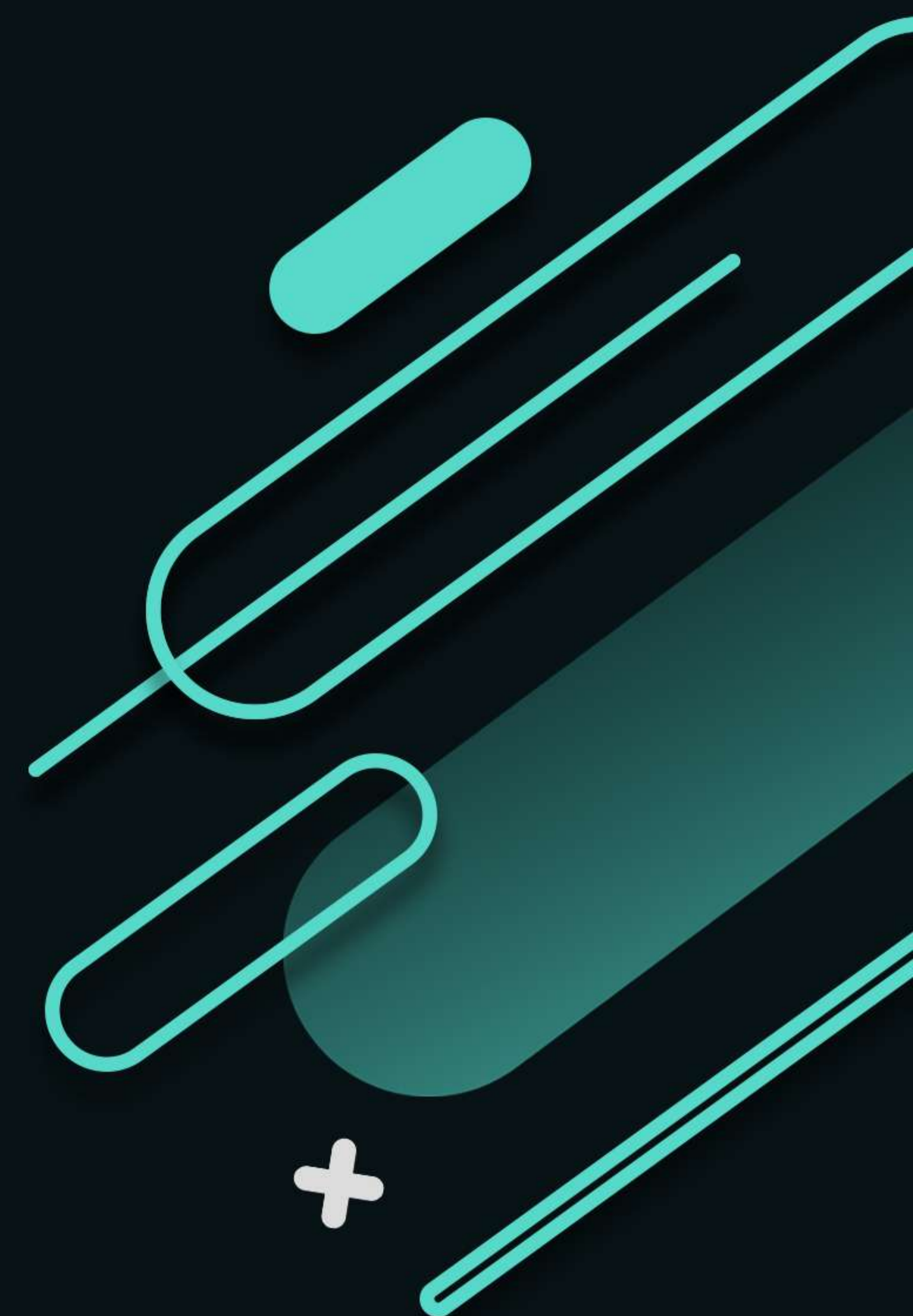
A study by PWC on consumer expectations from lending raises some interesting aspects

- Even outside the lending sector, consumer expectations are putting a focus on customer experience and strategic collaborations.

A Greenwich Associates survey made in October 2020 shows that about

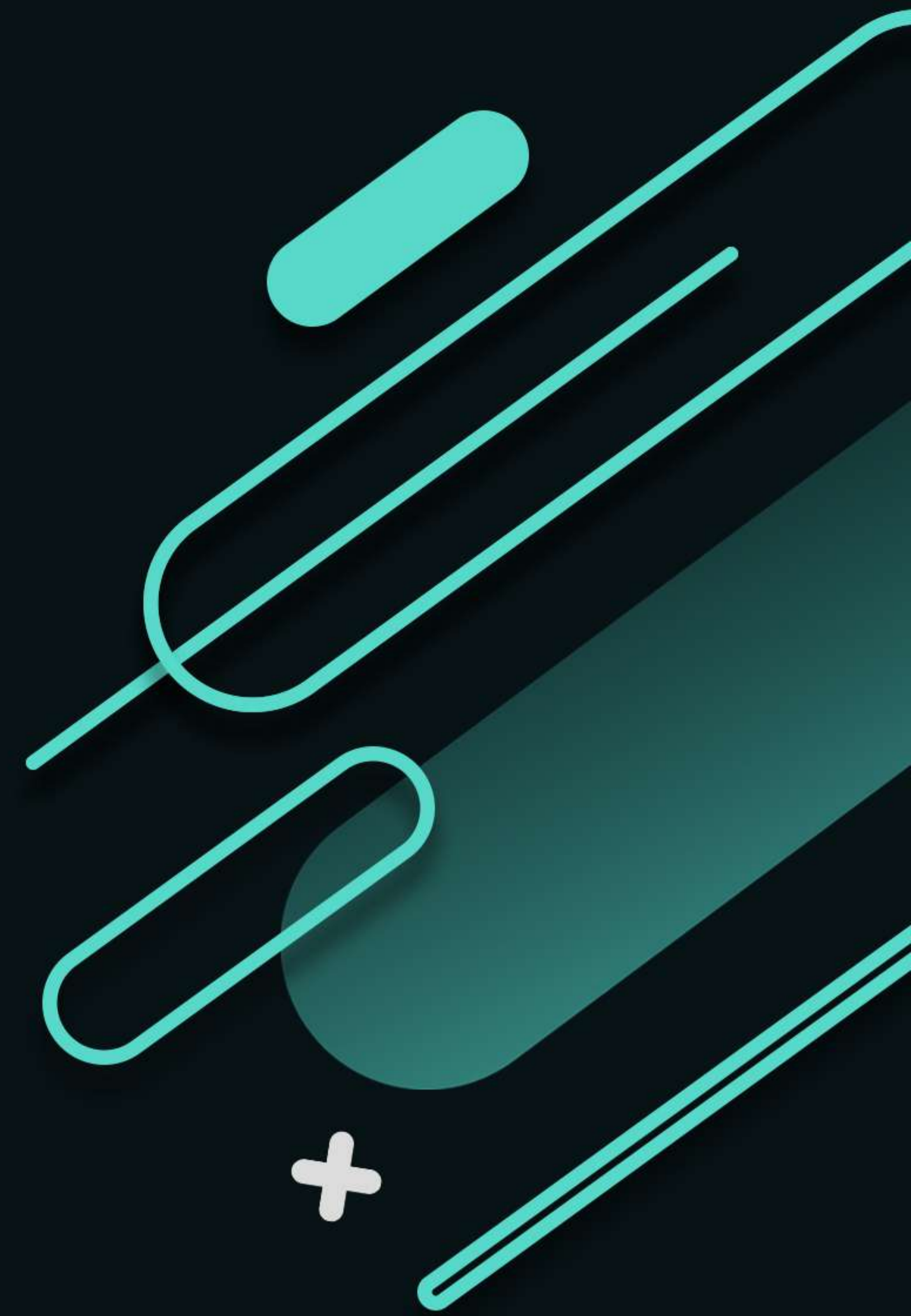
# 16%

of SMEs switched banks over the previous 12 months, which exceeds the industry's historic average of **10-11%**. This is primarily due to the lenders inability to provide timely funding to business owners.



- Majority of consumers preferred applying for loans online-especially younger borrowers.
- “Speed of the process” was one of the most important factors with a focus on keeping things simple.
- Younger borrowers were more dissatisfied with their current loan providers.
- Cross-selling works for existing customers with the same company.

In the context of PFMs, there are a number of ways how this can fit in. The breadth of information and analysis available on a consumer’s financial health can help speed up decision-making and even factor in non-traditional “scoring” methods to grant credit to users. In fact, UK based Fintern aims to do that by focusing more on “affordability” and not credit scores. Using AI and open-banking, the company aims to understand the customer by analyzing their financial history and building a relationship with them based on how much they actually need, what they can afford to take on, and how they could repay.



Gerald Chapell, former partner at McKinsey and CEO at Fintern states

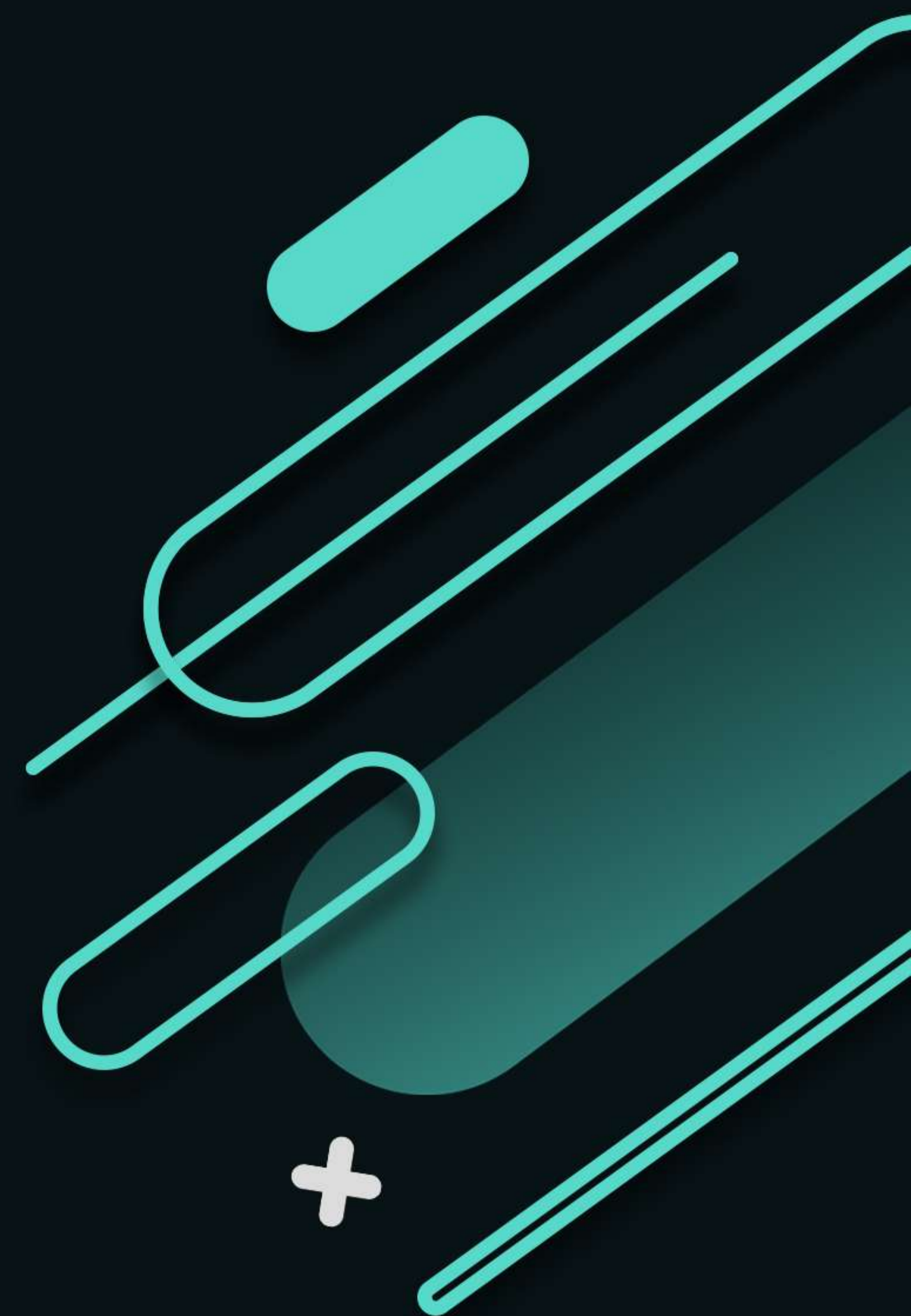
*“Our success as a lender lies in the ability of our customers to repay their loans. Our AI-powered technology helps us and all our customers to understand their finances in a deeper, more hands-on way than ever before. This approach allows us to increase approval rates, lower APRs and empower our customers to make the best and most responsible borrowing decisions for them.”*

Using Account Information Services (AIS), manual processes requiring applicants to provide information such as complex, unstructured income and expenditure data are no longer necessary. This reduces stressors on the borrowers in arranging the necessary information, especially in cases where borrowers don't always meet traditional credit-scoring criteria. On the lenders front, not only does this help in processing applications faster and providing better customer service, but the detailed analysis can also help them innovate on existing products, develop new products, or provide better offers that are more fit for customers.

When it comes to speed of the process Yolt Technology Services states that time spent processing the average loan could drop by

**85%**

using open-banking with PFM insights.



Open APIs can enable players like Amazon to leverage existing customer datasets and based on set criteria to determine if a particular customer qualifies for a loan.

Building on this example further:

*Customer X has been shopping at Amazon for the past six months. Based on their purchase patterns – the PFM app then pushes forth not just a notification to shop at Amazon, but the app can also obtain a personalized loan rate and an easy installment plan. Such a linkage boosts cross-sell in other spaces as well.*

## Conclusion

There is more room for digital lending to grow and with open-APIs, it gives way to more collaborative partnerships and benefits for stakeholders. PFMs and lenders will most benefit from reduced friction in loan processing and more customized offerings. Open-APIs like in other spaces, stand ready to change the landscape.

