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The Post-COVID Business Lending Agility – 5 Takeaways

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Introducing the Speakers



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Proud to support
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credit unions who
provided more than

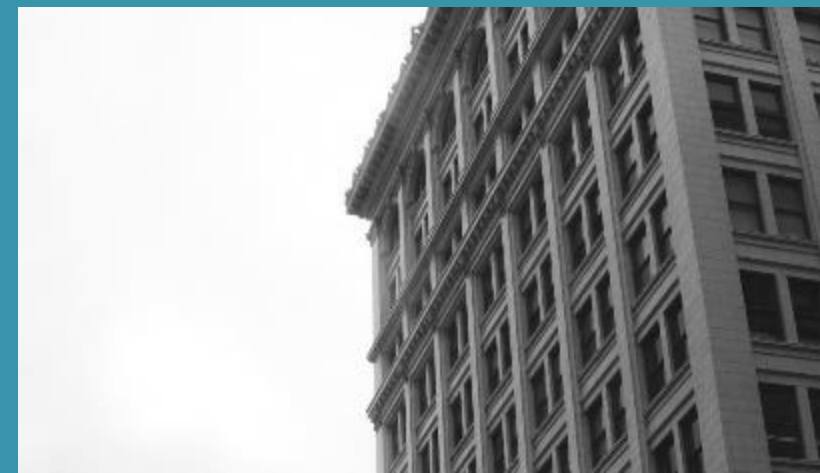
86,000

PPP loans to small and
mid-sized businesses



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Aite Group delivers research and guidance to leading institutions and technology providers across the global financial services industry. With expertise in banking, payments, insurance, wealth management, and the capital markets, we guide financial institutions, technology providers, and consulting firms worldwide. We are dedicated to helping our clients make smarter decisions, faster, to strengthen and grow their business.



Core Values

1 Impactful

Every research firm publishes information. Aite Group imparts intelligence. Our data-driven approach makes our guidance relevant, timely, and actionable, enabling clients to put our insights to work.

4 Dedicated

We treat every client as our most valuable client and every member of our team as vital to our success. We provide our clients with true thought leadership that they can use to make better decisions and strengthen their business.

2 Invaluable

An essential tool for business decision-making—the insights and analysis we deliver, backed by unmatched access to a team of seasoned industry experts, offer our clients immeasurable confidence in their business decisions.

5 Objective

We offer objective, third-party research that our clients can rely on. Hired for their deep industry knowledge, our analysts possess the years of experience needed to research and advise without bias.

3 Accessible

We pride ourselves on being accessible to our clients and building a culture that is open to new ideas, critical thinking, and open collaboration. We believe that openness breeds curiosity and that curiosity leads to the best partnerships and the strongest business outcomes.

Agenda

- SMB lenders can digitalize
- Loyalties have likely shifted
- The SMB lending ecosystem is far more tenacious than thought
- Lessons of digitalization were two; one was optional
- Post Covid: digitalization is the new normal

SMB lenders can digitalize

Pre-COVID circumstances

- SMB lending:
 - Community-based
 - Dominated by face-to-face transactions
 - ... Neutrally, these were deterrents to embrace of digitalization
- Low volume, high touch – long a competency
- High volume, low touch – increasingly achieved with automation



Polling question

How successful has your SMB lending operation been at embracing digitalization?

Small lenders can digitalize

Mid-COVID circumstances

- High volume, high touch – achieved during PPP
- Rapid new-product introduction
- In-flight changes to:
 - Products
 - Individual PPP applications



Loyalties have likely shifted

Large banks cherry picked by narrowly defining

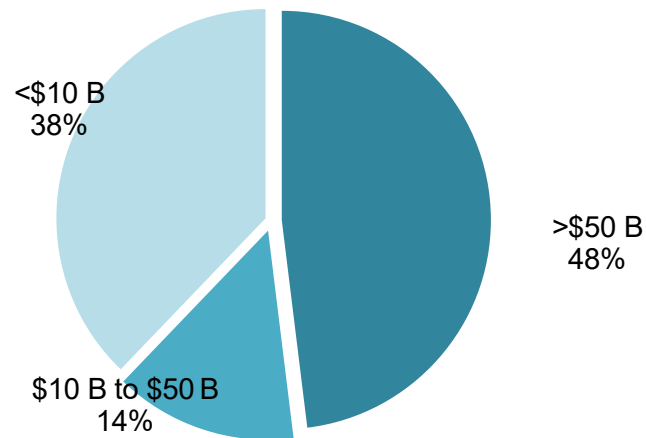
- Customer
- Borrower
- Possibly opportunistically
- Upheld in court
- PPP was crafted with openness to maximize opt-in



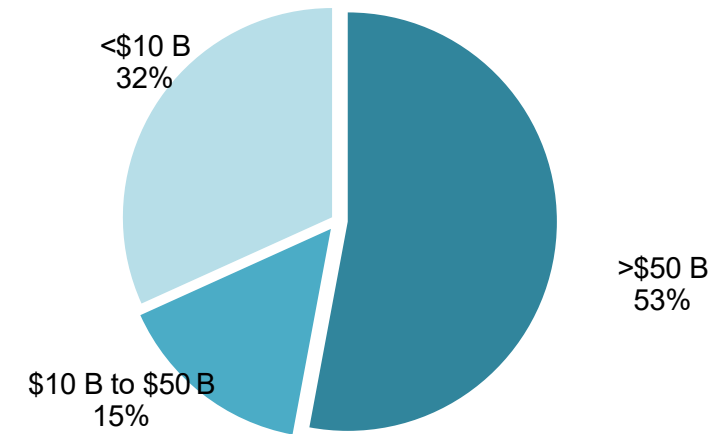
Loyalties have likely shifted

Small banks more than pulled their weight

Approved Loans by #



Approved loans by \$



Source: Small Business Administration

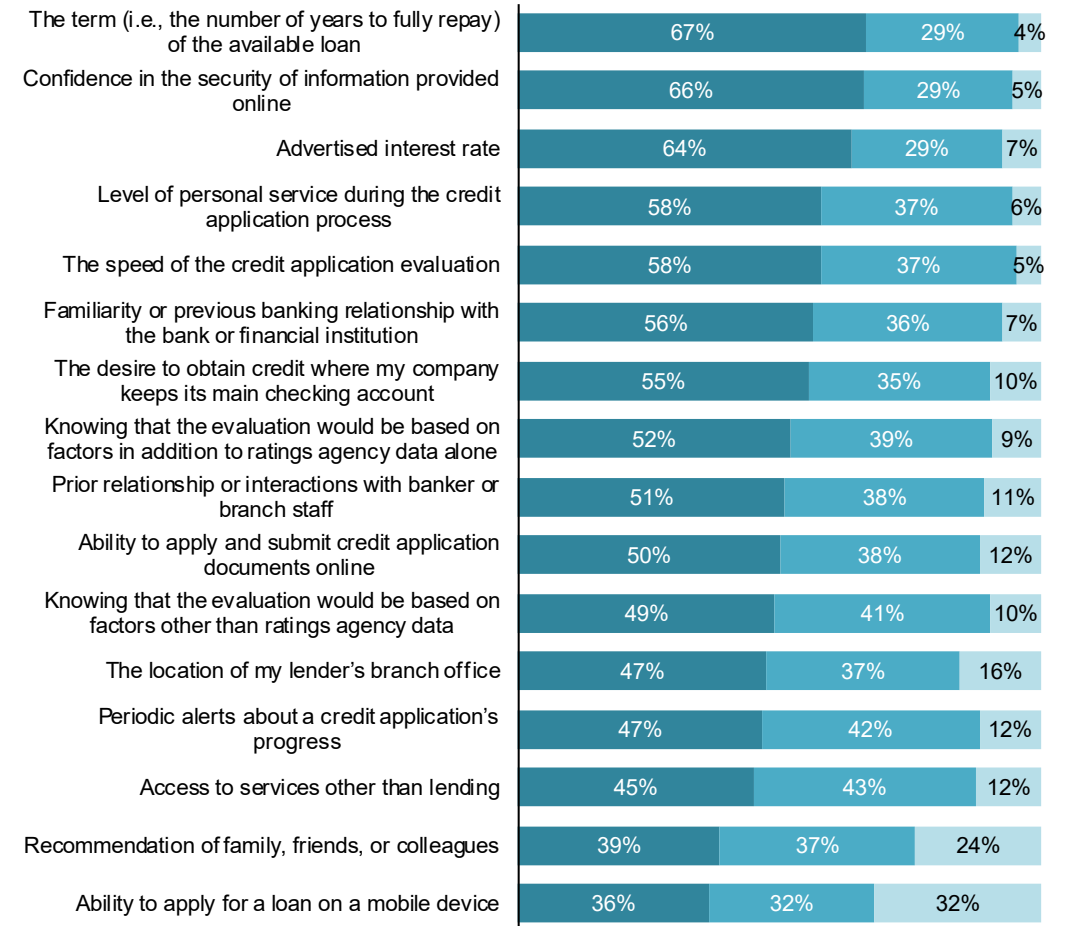
Loyalties have likely shifted

Relationship is very important to credit-seeking SMBs:

- Branch
- Human
- Institution

Being there during COVID invokes loyalty, forms the basis of a relationship... and has elevated expectations.

Q. In thinking about the process of ... , how important were each of the following factors in determining where you completed loan applications? (n=501 SMBs that applied for a loan in the last two years)



■ Very important

■ Somewhat important

■ Not at all important

The unexpectedly tenacious SMB lending ecosystem

Vendors behaved like repurposed car factories during WWII

- Resilience was obtained for challenging pairing of
 - Epic scale and volume with...
 - Terms that were open
 - Terms that were fluid
- ... with a grave social mandate



The unexpectedly tenacious SMB lending ecosystem

Summoned were skills of:

- Digitalization, digitalization, digitalization
- Improvisation
- Tenacity
- Continuous collaboration: lenders, vendors, SBA



Polling question

When it comes to digitalization at your business lending organization, what are senior management's goals?

The 2 lessons of PPP

- Trial-by-fire and one-time embrace of digitalization
- Embrace of digitalization as...
 - A better way of doing things
 - A competitive competency
 - Here, vendor plays coach and therapist to mid-and senior-level management



The post-COVID state: digitalized is the new normal

With digitalization, lending LOBs their lenders will:

- Handle more relationships
- Deal with less of the clutter in lending relationships
- Move up the hierarchy of needs
- Become the Trusted Advisor
- Be the relationship provider that invokes loyalty



The post-COVID state: digitalized is the new normal

Cultural transition will not be seamless

- SMB lending relationships tend to be community based
- Interactions tend to happen in the community
- Lenders will need to loosen their grip
- Borrowers actually want them to
- Don't buy into digital-divide folklore

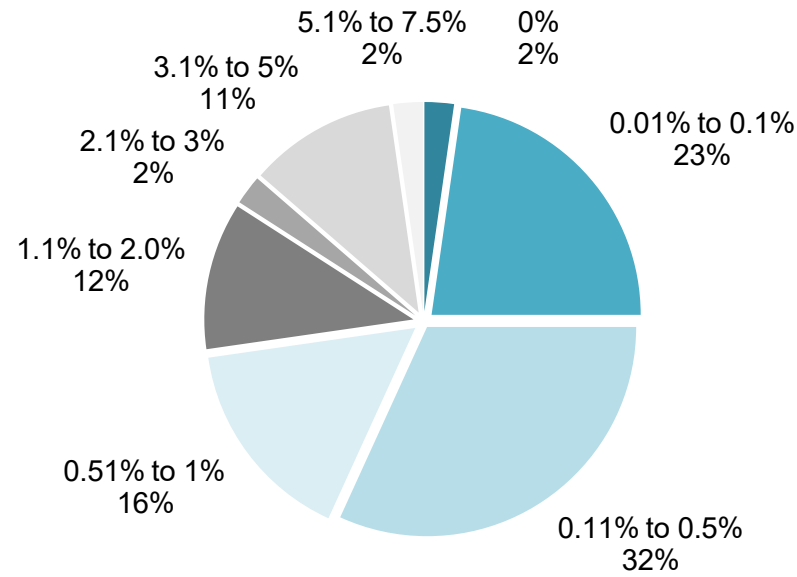


With high-volume-high-touch comes fraud

Fraud rates, though down, remain concerningly high

27% reported a fraud taint rate higher than 1.0%

Q. What percentage of the SME business loans about which you are knowledgeable (including troubled loans) do you think are connected to fraudulent activity, from individuals or businesses seeking to defraud your institution? (n=44)



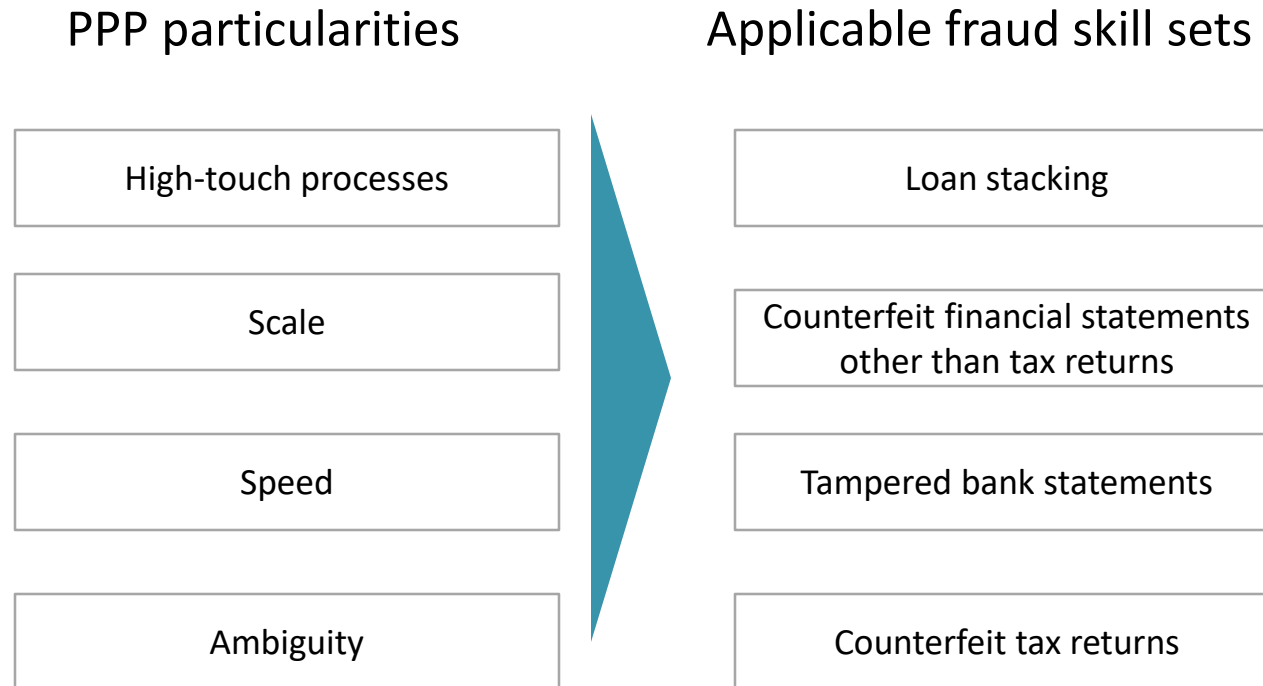
Source: Aite Group and SBFE survey of lenders, December 2019 to March 2020

With high-volume-high-touch comes fraud

The most virulent vectors

- Loan stacking
- Submission of counterfeit statements other than tax returns
- Submission of tampered bank statements
- Submission of bank statements from which data has been omitted

Fraudsters' skill sets and business bailout plans



What's next...

Commercial lending must get the digitalization bug

- Stop being the politician
- Not everything must be bespoke
- Finally be the Trusted Advisor
- Move up the hierarchy of needs
- Handle more relationships
- Your borrowers want this
- They are more digitalized than you might expect
- ... Farmers with drones and robotic combines, checking their loan portal at midnight

What's next – digitalization for commercial lending

Less of this

- Face-to-face interactions
- Manual compliance checking
- Getting documents in person
- Excel, excel, excel

More of “here’s how to...”

- Benchmark yourself to peers
- Pick the cheapest payment rail
- Stretch trade the right way
- Avoid fishing scams
- Use a letter of credit
- Meet peers

Here for the 'What's Next?' in business



End-to-end lending for a virtual economy



Maintain open communication in your process



Industry leading compliant documentation



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