Digital Lending

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Presentation Contents

Brief Introduction

- Digital lending is the use of online technology to originate and renew loans in order to deliver faster and more efficient decisions.
- Digital lending can start as basic as an online loan application offered by a bank or credit union on its website. It can also be as comprehensive as an entirely automated platform that includes a full suite of software, such as an online loan application, document capture, electronic signatures, credit analysis, loan pricing, loan viability, and loan administration.
- Financial service providers across the globe can now take advantage of improving connectivity, increasingly available customer data, and new technologies to offer digital products at lower cost and increased scale. These products offer customers a convenient, fast, and personalized experience that builds engagement and promotes financial capability.

Digital Lending in Global Scenario

FinTech – Transforming the lending process

- $160 Billion of digital loans were extended by fintechs in 2017 and the numbers are expected to exceed $220 Billion with China dominating the space with 75% share.

Banks launching Digital Lending

- Global Players like Goldman Sachs competing with Fintechs by launching Marcus, a digital consumer-lending platform which has already disbursed more than $2 Billion in loans to more than 3,50,000 consumers.
- BNP Paribas has launched 'Hello Bank' in France, Germany, Belgium, Austria and Italy reaching 2.5 million consumers.

Banks partnering with Fintech's

- National Australian Bank (NAB), has partnered with Xero, a cloud based accounting software solution, to augment data for underwriting.
- Bank of Baroda has partnered with various Fintechs to offer instant digital credit.

Key Factors Driving Global Growth

The Internet Homo Sapiens

- Consumers are becoming increasingly digital savvy.
- Millennial (commonly defined as those born between early 1980s and 1990s) have largely pioneered this approach and the older generations are catching up
- Online channels have given to rise to new purchasing patterns which begins at 10 PM and goes till 3 PM due to long day working hours.

Enabling regulatory environment

- Digital lending growth has been given a fillip in many countries by a supportive regulatory environment. For instance: **UK-**Open Banking Act will allow sharing of Bank data to authorized organizations in standard format

Key Factors Driving Global Growth (Cont.)

Technological Advances and big data

- Two-thirds of world's population having access to mobile services with 4G Services and expecting 5G services shortly, technological revolution is unearthed by many Unicorns.
- Advancement in Bio-metric Tech assist digital lending – Thumbprint, Iris and now face recognition, instant payments, internet of things (eg. wearables) and blockchain.

Innovative operating models

Innovative operating models adopted by fintechs, internet giants, big data disrupters and financial aggregators. There are several examples of innovative operating models with four broad archetypes (non-exhaustive):

- Independent Platform
- Aggregator/Partnership Model
- Peer-to-peer Platform
- Value'+ Service in addition to a Core Service

Independent Platform

An independent platform is typically a fintech start-up which lends to consumers directly without partnering with a incumbent bank by raising debt and equity funds through institutions.

❑**Example**

1. Kabbage, a US based company, has been utilizing proprietary technology to provide loans directly to small businesses and consumers through automated credit process based on a variety of alternative information sources.
2. OnDeck, another US Company, offers business loans upto $250000 within a day with underwriting based on a host of readily available information. It has so far extended more than $7 billion in loans to small businesses in US, Canada and Australia.

Aggregator / Partnership Model

Fintechs acquire consumers and lend to them by partnering with banks. The value proposition of such fintechs include a scalable acquisition channel (likely achieved through partnerships with other internet companies such as e-commerce) and a proven underwriting model (e.g time tested algorithms)

- **Example**

1. BeeEye, an Israeli fintech, translates consumers' online web data into specifically tailored financial indicators. Those are then passed on to lending financial institutions, which combine these with internal consumer and financial data, using machine-learning methods to deliver improved risk and market prediction models.

Peer-to-Peer Platform

Peer-to-Peer lending is gaining steam in the global digital lending market.

❑**Example**

- In Europe, 84 percent of peer to peer lending activity is concentrated in the United Kingdom. In 2017, UK P2P companies lent more than $11 billion.
- In United States, listed P2P company lending club supplies loans with greater speed and efficiency than the big brick and mortar lenders and had extended loans worth more than $33.6 billion by the end of 2017.
- In Mexico, Kubo Financiero digitally matches middle class and wealthy savers with SMEs and households seeking to borrow up to $25000.

‘Value’ + Service in addition to Core Service

These are built around existing large businesses and is designed as ‘Value-add’ to consumers of such businesses. Few examples are models of instant messengers, telco companies and cab aggregators.

❑Example

- WeBank, an online only bank in China, whose biggest shareholder is Tencent, 2015 started offering unsecured small loans via Wechat/QQ app. Tencent credit has started providing user scores, similar to credit scores, ranging between 300 and 850 to all Chinese nationals who use WeChat or QQ. Depending on their score, users can access a number of different services and perks, including a waiver on deposit of housing rentals, riding metros or bikes for free.

Digital Lending in India

- New Age Fintechs in India have been at the forefront of disrupting the lending market primarily through lending in the internet ecosystem. (e.g. lending to the sellers of e-commerce platform).
- Studies anticipate 15x growth in digital lending to MSMEs by 2023, owing to rapid digitization and access to easier, cheaper credit facilitated by digital lending companies.
- Total Retail Loans which could be disbursed digitally in the next 5 years could be over $1 Trillion.
- **Global trends playing out in India:**
  - The Internet Homo Sapiens
  - Technological Advancements and Big Data
  - Enabling regulatory environment
  - Rapid rise of innovative models

Rapid Rise of Innovation Models

Over the last 7 years in India, more than 1000 fintechs have been disrupting digital lending and financial services space. Multiple new models have emerged as follows:

- **Point of Sale Transactions based lending**
  NeoGrowth has raised more than $90 million and offers loans to merchants in 21 cities.
- **Bank-Fintech Partnership models**
  Indifi has partnered with banks targeting specific MSME segments and the HOReCa segments.
- **Invoice discounting exchangeS**
  KredX aims to disrupt the SME lending market by discounting their unpaid invoices to a network of buyers/financiers including banks, NBFCs, wealth managers, and retail investors.

Rapid Rise of Innovation Models (Cont.)

Marketplaces

- Paisabazaar is meeting the financial needs of consumers by providing consumers with the choice of the financial institutions including Bank of Baroda.

Bank-led Digital models

- Various banks Bank are leveraging digital platform to sell loan products as well.

Captive models

- Uber and Ola partnering with banks to introduce financing solutions to its drivers.
- Xiaomi, has launched a credit program for its consumers in India by partnering with KreditBee.
- Few e-commerce players like Flipkart have partnered with banks including Bank of Baroda to offer loans to its merchants.

India Digital Lending Way Ahead – A $1 Trillion Opportunity over next 5 Years

- The global experience in digital lending, growth of digital infrastructure in India and readiness of the Indian Consumer will combine to expand the digital lending space in India exponentially.
- Total value of digital lending business in India will exceed $1 trillion over the next 5 years. The growth forecast is based on underlying drivers:
    - ➢ Increase in Retail loan disbursements
    - ➢ Greater access to Internet
    - ➢ Increase in Digital Influence
    - ➢ Increase in Digital Purchase

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