» White paper

Lending 3.0:

Making the most of the new lending ecosystem

MARQETA

fintech talents

Foreword

Lending ain't what it used to be.

New players are entering the market. Old players are re-inventing themselves. And players that don't necessarily have a background in financial services are suddenly embedding finance into their offers.

In this white paper, we chart the evolution of lending from version 1.0, through 2.0 to 3.0. We ask experts from Capital on Tap, Xero, Mambu, Credit Kudos, Butter, Banxware, VC Innovations and Billie about the new lending ecosystem that is being created, as well as the drivers behind it.

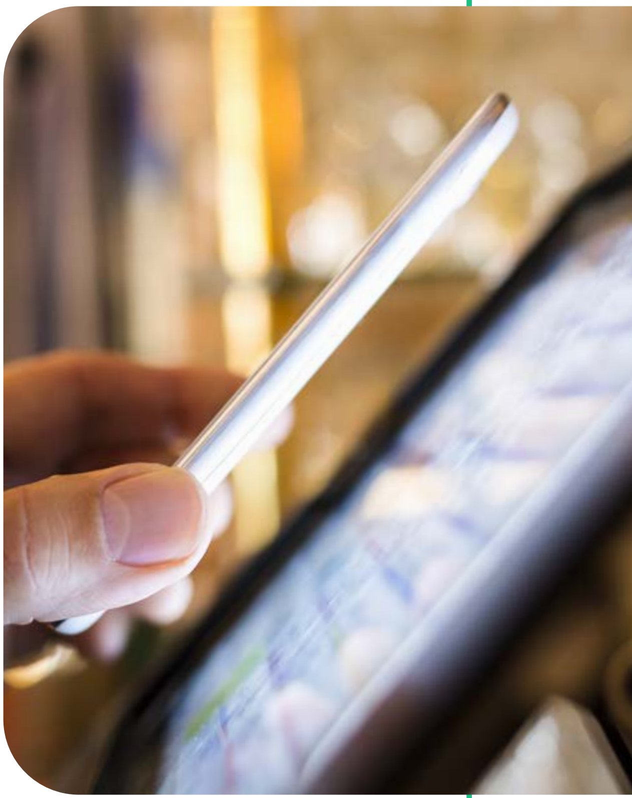
We take a deep-dive on the current and morphing buy-now-pay-later (BNPL) phenomenon. Our experts give their insights on what's happening now and next in the world of BNPL. And the implications for banks, challenger banks, Big Tech, retailers, card schemes and others.

API technology and data are powering new lending opportunities, especially around embedded lending. And payment cards are helping to bridge the gap between lending and payments. At the same time, our experts will give their take on the barriers and enablers to realising the full potential of lending 3.0 and beyond. And how new and existing lenders can make the most of the lending 3.0 ecosystem.

Ian Johnson
SVP – Managing Director
Europe, Marqeta

Contents

What we talk about in this ebook:



"API technology, the platform economy, embedded finance and open banking have created fertile ground for innovation in lending. We are seeing the transformation of lending, where every stage of the borrower process is data-driven, real-time and personalised. This new world, Lending 3.0, is delivering better outcomes for borrowers and lenders."

Ian Johnson – SVP, Managing Director, Europe, Marqeta

1. The evolution of lending

Evolving digital technology and alternative, real-time data sources have helped drive lending 3.0.

In the old days, borrowing money was paper-based and slow. Repayments were fixed and due on a set day each month for a set number of years. It wasn't any better for lenders, who took borrowers on trust and had no visibility of how loans were spent. Let's call this lending 1.0.

After the financial crisis of 2008, a new generation of credit providers emerged. They used digital technology and real-time data to offer convenient online applications and interest due only on the day funds were used. This was lending 2.0.

Digital transformation and alternative data sources brought further changes. Lenders moved from digitising analogue processes to true digitalisation at every stage of the borrower journey. They drew on real-time data from more sources to make lending better for borrowers, simpler for staff and cheaper for themselves. Welcome to lending 3.0.

What's driving lending 3.0?

Ubiquitous connectivity. The proliferation of online devices. A substantial rise in computing power, together with a decline in related costs. Newer, cheaper ways to store, manage and process data. Cloud computing. Software-as-a-service models. All these factors have fuelled the amount of data being generated globally. But also, the ability to collect, structure and analyse it continually and in real time.

As a result, the banking and financial services landscape has undergone a fundamental shift over the past decade. New technologies have lowered barriers to entry and led to a whole host of new providers. Big Tech, retailers and payment companies among others have all become lenders. And as the number of industry competitors has risen, so has the rivalry between them as they compete for share of wallet from an increasingly digital-savvy customer base.

Consumer-facing technology brands have done much to reset **customer expectations** around speed, but also convenience, value and choice. When customers can send and receive e-mail across the globe almost instantly. When they can streamline digital content live or order a cab or meal to the door in minutes, this cannot but shape their expectations of FS and FS providers.

"The consumer community has become increasingly aware of their own priorities and are demanding more from their banks," says Justus Roux, Solutions Engineering Manager at Mambu, a SaaS cloud banking platform. "Never before has the bar been set higher. Convenient, automated products available in a few clicks have become the norm," says Roux.

But it's not just consumers, businesses and businesspeople also expect more. Christian Grobe, Co-founder and MD at Berlin-based start-up Billie takes up the story. **"People leading businesses are maybe in their forties or younger. They come into the world almost with a mobile phone in hand. They are digital-first in everything they do: education, shopping and payments. Everyone owning a business and interacting with other companies is also to some extent a private consumer and used to having digital products. A high percentage is already demanding digital solutions."**

Customers are not comparing banks and financial services providers against other banks and FS providers. Rather they're comparing them against other facilitators of ease in their lives. They are aware that technology has the power to simplify their lives. And expect that getting a loan shouldn't be a complicated or lengthy process in the digital age.

At the same time, **policymakers, legislators and regulators** are pushing various Open Banking and Open Finance initiatives. These are intended to make it easier for data to move securely around the financial system in a standardised way through APIs. The thinking is that if consumers and businesses are able to share transactional bank account data, it will reduce the informational advantage of banks; and make it easier for non-bank lenders to compete.

Open Banking also represents a huge opportunity for FS and non-FS firms alike to reach vast new markets. And address public policy objectives such as increasing financial inclusion, developing small and medium businesses and driving better outcomes for borrowers.

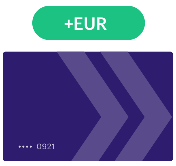
"In the UK, the insights to financial behaviour provided by Open Banking has been a key data source for lending 3.0," says Angus Clacher, Head of Product, Credit Kudos, an Open Banking credit reference agency. **"The benefits to lenders of adopting the technology is well understood and is measured in the pounds and pence of increased acceptances and reduced defaults."**

Finally, the **Covid-19 pandemic** has acted as an accelerator for digital transformation – and lending has been no exception. That's certainly been the experience of Credit Kudos. Its 'Lender Insights' report found that one-third of UK lenders that were forced to change their lending policies because of the pandemic now recognised the need to adopt new technologies across their business. A similar proportion saw increased need for alternative data sources.

> "There is tremendous value in the transactions, insights and scores you can generate from Open Banking. It permits lenders to develop rich, compelling and innovative digital propositions"
>
> Angus Clacher, Head of Product, Credit Kudos

The borrower journey.

Lending 3.0 offers consumers and businesses more personalised, intuitive loans, as well as digitalisation at every stage of the borrower journey. For lenders, this leads to better approval rates, fewer defaults and lower distribution costs.

	Lending 1.0	Lending 2.0	Lending 3.0
 **Identity checks**	Paper-based documentation or face-to-face meeting	Digital process with physical documentation	Combination of digital attributes (e.g. face recognition, biometrics) and processes; no physical documents
 **Credit assessments**	Thick credit files, assessments based on historic data	Additional data points, recent transaction data	Real-time financial behaviour insights from Open Banking, Open Finance and Open Data
 **Disbursements**	Wait days for a bank-to-bank transfer or to receive a credit card	Bank-to-bank transfer	Real-time disbursement to virtual or physical cards
 **Repayments**	Fixed repayment plan and penalties for early repayment	Fixed repayment plan with interest charged on days funds are used	Variable repayment plan with options and controls for the borrower

Identity checks use digital attributes, such as facial recognition and biometrics, as well as fully digitised processes, removing the requirement for physical documents. This delivers approvals for borrowers within minutes rather than days or weeks, while streamlining back-office processes and cutting KYC and compliance costs for lenders.

Disbursements via virtual and physical cards propel lenders to top of wallet. Borrowers have real-time access to funds for better liquidity, effectively capital on demand. This convenience also helps remove some of the psychological barriers to borrowing, such as lengthy application processes or platform logins, and builds long-term loyalty.

Credit assessments are more accurate and personalised with insights and scores generated from the analysis of transaction data. This includes customer consented information from bank accounts and credit cards. Lenders can leverage these insights and scores to personalise rates, terms and even payment dates to help borrowers better manage any peaks and troughs in their cash flow.

Repayments are easier because they can reflect the borrower's particular circumstances. Lenders can adjust and enhance credit risk modelling and build comprehensive customer profiles using real-time transaction behaviour. This brings down delinquency. Technology also allows lenders to set dynamic spending controls, while giving borrowers digital budgeting and monitoring tools.

Lending 3.0 around the world.

Alternative lenders have grown rapidly over the last decade to service unmet demand. Fintechs around the world are finding ways to streamline verification of individuals and businesses and assess risk through new sources of data. Others are combining data with advanced analytical technique to enrich credit scoring and open up lending to previously under-served parts of the economy.

* Not a Marqeta customer

codat

Codat is an as-a-service firm making financial integrations simple. It provides real-time connectivity to enable software providers and financial institutions to build integrated products for their small business customers. The use cases range from automatic reconciliation and business dashboarding to loan decisioning.

cleo.

Cleo offers a money management app with a powerful chatbot, smart automated savings features and credit builder products. Aimed at Gen Z users, Cleo has a young, fresh way of talking to customers, offering a money app that doesn't suck and to unf*ck your credit score.

Fluidly

Fluidly helps businesses understand their cash position and get access to the finance they need quickly. Its automated tools connect to a business's Xero or QuickBooks account and uses the data to build cashflow forecasts, chase late payment and get pre-qualified funding offers from a range of lenders.

Funding Options

Funding Options describes itself as the UK's leading marketplace for business funding. After completing a simple online application, Funding Options compares more than 120 lenders to match a business with tailored finance options. Its products include invoice, asset and property finance, commercial mortgages and business cards.

lendable

Lendable was founded in 2014 on the principle that getting a loan shouldn't be a complicated or lengthy process in the digital age. It offers instant decisions and same-day funds transfer for personal loans. Applicants can manage their loan online, including early repayments or top-ups.

Liberis

Liberis offers an embedded business finance platform, enabling its customers to offer finance directly to their customers under their own brand. Customers include Worldpay and Klarna, who provide revenue-based financing to merchants, powered by Liberis.

shopify

Shopify can pre-qualify businesses for loans based on their sales data. The process is speedy, transparent and accessible directly from the user's dashboard. This is a boon for businesses experiencing a pandemic-induced cashflow crunch.

Square

Square is diversifying. What originally started as a business to help small businesses accept face-to-face card payments via a dongle and app, now includes all payment channels, accounting, invoicing and analytics tools, plus business loans, following the acquisition of BNPL player Afterpay.

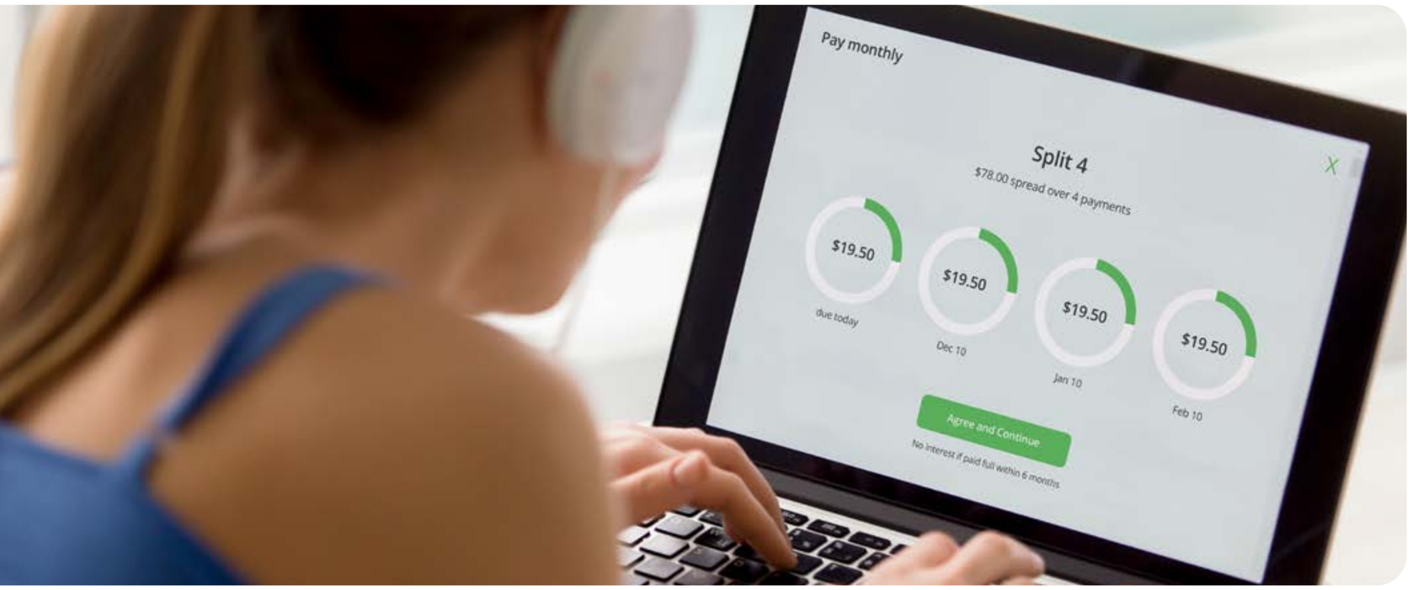
2. BNPL: a current and morphing phenomenon

Buy now pay later (BNPL) is booming. The growth and popularity of this payment method show no sign of let up, but what does the future hold?

Forbes estimated that US consumers alone would make nearly $100 billion in retail purchases using BNPL programmes in 2021. That's up from $24 billion in 2020, and $20 billion in 2019 (Forbes, 2021). Meanwhile McKinsey reports that Fintechs have diverted $8 billion to $10 billion in annual revenues away from banks with BNPL. (McKinsey, 2021)

BNPL has re-booted point-of-sale financing and instalment credit for the digital age. Integrated into the checkout or distributed via attractive, easy-to-use apps, BNPL boasts of increasing conversion through a better user experience. The digitised application process means customers register, undergo an initial soft credit check from the BNPL provider and receive a decision within seconds.

Data analysis helps suggest an optimal instalment plan for a particular customer for a particular purchase. Or customers can set their payment schedules themselves at checkout, plus modify them afterwards. This may include retrospectively splitting a purchase into instalments or increasing the number of instalments.



Headroom for growth

There's considerable headroom for growth for BNPL. Finance originated at point of sale is projected to continue its growth from 7% of US unsecured lending balances in 2019 to about 13-15% of balances by 2023, according to McKinsey. BNPL is appealing to a younger demographic of digital natives. 25% of BNPL users are 18-24, and half are 25-36, according to Financial Conduct Authority (FCA) data. Additionally, there's the relatively under-penetrated B2B market, as Christian Grobe, Co-Founder of Billie explains.

"Over the past few years, we've seen BNPL methods increasingly replace traditional payment methods, such as credit cards in the consumer segment. We're now seeing a similar trend in the business sector. BNPL is on the rise and continues to gain importance over traditional payment methods."

"Today, B2B buyers are going 'digital-first' and are used to automated and frictionless processes in the B2C space. They also expect to see modern user interfaces, high limits for shopping carts, as well as real-time decisions for B2B. However, BNPL for business customers is still at a very early stage. Worldwide, there is nearly no provider of a BNPL product like what Klarna offers for B2C. We aim to close this gap," says Knecht.

New revenue streams and business models

The growth in BNPL is being driven not only by greater digitalisation but also a trend identified by Alex Miles, UK Managing Director at Capital on Tap: **"There's always going to be costs to borrowing, but I don't think that this will be concentrated so much with the end-borrower. It will sit elsewhere in the ecosystem."**

Indeed, in B2C versions of BNPL, lending is usually interest-free to borrowers if instalment payments are made on time. It's retailers who typically pay a percentage of the transaction fee to BNPL providers, calculating that increased conversion and revenue will more than recoup the costs. It seems to be paying off in that e-commerce company, Digital River, found brands in the UK and Europe saw a 3-10% lift in gross revenue after adding a BNPL option.

When it comes to new revenue streams and business models, BNPL players are looking beyond pure financing offerings. Speaking of Butter's future plans, CEO Tim Davis is looking to expand the scope of the Butter app, plus build a stronger shopping proposition to boost scale and engagement.

"We're looking at all the other needs customers have when shopping – obvious ones like cash back, coupons and rewards, but also less obvious ones like returns. We're also looking at other areas. If customers are spending with us, why not have them save with us? Why not build a larger ecosystem – a 'super-app' – where you can service more of the customer's needs beyond just spreading the cost of purchases?"

Of course, the bigger the ecosystem, the greater the network effects. **"All that additional data and transactional throughput you get from customers can give you more confidence in lending. You can tailor the offers more because you know more about them, and just provide a better service overall,"** says Davis.

The rise of Big Tech

When it comes to mining data for insights, Big Tech have an advantage. In July 2021, Apple announced it was joining forces with Goldman Sachs to offer BNPL within Apple Pay for iPhone users. Dubbed Apple Pay Later, the service could help boost Apple Pay adoption and transaction fee revenue for Apple. Its services business was already worth around $70 billion in 2021. And maximising value from its ecosystem in this way will contribute an estimated 25% of revenue by 2025.

Similarly, Amazon is expanding its BNPL partnership with Affirm to allow all eligible US purchases of $50 or more at checkout to be split into monthly instalments. Affirm will also be embedded as a payment method in Amazon Pay's digital wallet in the US. This test-and-learn partnership is being seen as a prelude to a possible acquisition – as Square did with its $29-billion acquisition of Australian BNPL provider Afterpay. Or to Amazon building its own BNPL capability, as PayPal did with its 'Buy in 4' offer.

Disintermediation threats

Whether Big Tech build, buy or partner to offer BNPL, the disintermediation threat for banks and incumbent lenders looms large. Banks risk being reduced to a platform role, underpinning the cutting-edge experiences offered by other fintech providers. Banks must look to innovate and add value beyond their core proposition, thereby continuing to grow customer numbers, deposits and revenue, and maintain both relevance and profitability.

Any future strategy must acknowledge that while banks have disadvantages relative to Fintechs and Big Tech, they also have advantages. Being regulated is a burden, but it creates consumer confidence. A long history brings with its legacy systems, but also builds trusted brands and provides historic data, scale, a banking licence and a head-start in compliance activities. Banks also understand banking and the risks involved, which new entrants may not.

Collaboration not competition seems to be the guiding principle behind bank-Fintech engagement today, both in the BNPL space and elsewhere. From a technology standpoint, this increasingly involves leveraging plug-and-play BNPL capabilities, as Tim Davis from Butter explains: **"We're talking to a lot of incumbents about how we can expedite their entry to the market, running on our rails. It's one of the longest acronyms coined: BNPL-as-a-service."**

"Embedded lending solution providers can offer value-added services and shift conversations for payment providers from how they can compete, mostly based on price, to how they can provide value to merchants and enable them to grow."

What makes BNPL so interesting...?

For challengers: a route to profitability and diversification

For banks: an opportunity to remain relevant and switch on new revenue streams as old ones decline

For alternative lenders: a need to remain competitive

For Big Tech: an opportunity to unlock yet more value in their massive consumer and merchant data pools

For merchants: an opportunity to embed lending into their existing proposition to increase sales and, ultimately, revenue

BNPL at a glance

$8-10 billion

in BNPL lending Fintechs **have diverted away from banks**[1]

13-15%

of unsecured lending balances to be **originated at point of sale by 2023**[1]

300-400%

growth in BNPL **during 2020**[1]

60%

of consumers say they are **likely to use POS financing** over the next 6-12 months[1]

£75

average order value on Klarna[2]

£48

average outstanding balance compared to **£1,081 on credit cards**[1]

1. 'Buy now pay later: 5 business models to compete', McKinsey & Company, 29 July 2021, https://www.mckinsey.com/industries/financial-services/our-insights/buy-now-pay-later-five-business-models-to-compete
2. 'Why consumers choose Klarna', Klarna blog, 10 December 2021, https://www.klarna.com/uk/blog/why-consumers-choose-klarna/

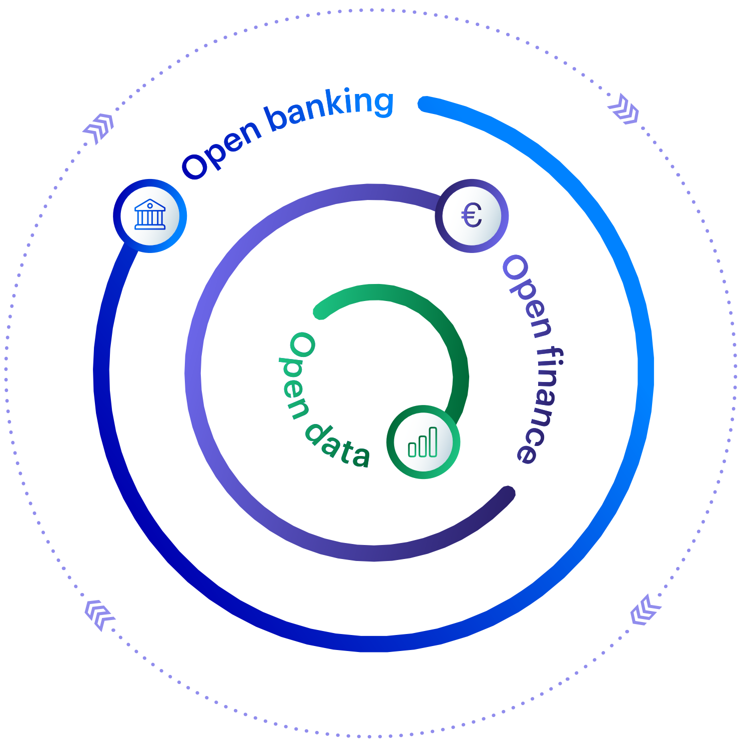
3. APIs, SaaS and data power new lending opportunities

Digital transformation and new data sources have been the catalysts for lending 3.0. How have players leveraged the move to digital and better data, to make faster decisions and power new propositions?

APIs are bringing real-time data into lending decisions. Software-as-a-service platforms are fostering an ecosystem of collaboration rather than competition. Big data and alternative data sources are influencing not only credit underwriting but the whole customer journey. Ultimately this is resulting in better lending solutions for both consumers and businesses.

The evergreen drivers of lending remain the same: speed, availability and price. As part of lending 3.0, instant lending decisions based on real-time data offer near-instantaneous funding for customers and remove lengthy waits and uncertainty. Availability and access to funds via bank transfer and physical or virtual cards has increased convenience. And the price of borrowing is falling, especially for consumers who can take advantage of interest-free periods, and businesses who only pay interest when they access the funds.

In addition to speed, availability and price, personalisation and intuitiveness have become an increasingly important part of lending 3.0. This is helping to create propositions that are better for customers, simpler for staff and cheaper for lenders.



Better for customers

Customers can expect more personalised, intuitive propositions, delivered digitally. **"We've found that when you combine bank transaction data with accrual accounting data, which is reconciled and managed by an accountant, lenders can gain a more accurate picture of the creditworthiness of a customer,"** says Michael Green, Director of Partnerships, UK and EMEA at Xero.

From the customer's perspective this leads to more personalised, contextualised offers. **"We know that customers worry about going through a lending process only to be declined. Xero tackles this by presenting offers to customers based on their financial data, giving them a clearer sense of where they stand. And better meeting the needs of SME borrowers,"** Green continues.

> "We're confident that short-term cashflow-based lending will become more and more contextual, and be seamlessly embedded into exiting workflows."
>
> Michael Green, Director of Partnerships, UK and EMEA at Xero.

For Tim Davis, CEO at Butter, the personalisation piece has become more relevant as time has gone on, particularly with the growth of Open Banking. **"If you can understand where people have been transacting for the last 24 months, you can build a strong profile of who that person is and what they need from you. And you can tailor an offer to them which is much more personalised and therefore will feel much more intuitive."**

Simpler for staff

"The main thing about digital is the ability to do things quickly and at scale. If we were trying to underwrite analogue style, we'd have to input the numbers somewhere and make a decision based on human eyes looking at it," says Alex Miles, UK Managing Director, Capital on Tap.

This is labour-intensive as someone must transpose the information from paper to their thought processes or into a computer. It's also very hard to scale up because you need more staff to do more underwriting, Miles explains. **"The advantage of being digital, from an underwriting perspective, is that it's very scalable and it's instant."**

The move to digital has also enabled the move from macro services in physical distribution to micro services in digital distribution. Take insurance contracts, for example. They always tended to be annualised because it was difficult and expensive to administer them across a physical network. A digital sales and distribution network now makes possible micro-insurance products, lasting only for an hour or an activity. Similar principles apply to lending, which not only increases choice for customers but decreases the cost and complexity of offering this choice for providers.

Cheaper for lenders

The combination of APIs, SaaS and data can contribute to new ways of assessing creditworthiness for lenders. **"Going through Covid, we've seen how credit scores may not be the best predictor of someone's repayment capacity,"** says Martin Magnone, CEO of Tymit.

By using real-time transaction behaviour insights, lenders can adjust and enhance credit risk modelling and build comprehensive customer profiles. This may help to bring down the double-digit delinquency rates seen in lending 2.0.

Just-in-time funding also helps reduce delinquency further, as lenders can approve or deny limits for each transaction at the point of purchase.

With lending 3.0, there's also scope to influence other elements in the customer journey, thereby stripping out cost for lenders. This includes onboarding, identity verification, product design, segmentation, engagement, insights and risk management.

4. Challenges to realising lending 3.0

New types of data, new data tools and mediums of exchange present lenders with a huge opportunity to innovate, both to remain competitive in traditional markets and to tap into vast new markets. But what of the challenges?

Data

Despite the oceans of data out there, it's difficult in practice for Financial Services (FS) providers to use more than a tiny fraction. That's because the data is highly fragmented and held and owned by different providers. Significant collaboration with third-party data providers, such as utility companies, social media providers, mobile network operators and other specialised data vendors, is required.

Open Banking has required banks to make their customers' data available to third parties, if the customer permits this. But what about Mobile Network Operators, Big Tech and social media companies? They have their own ambitions in the FS space and may not want to share data. There's also the question of customer consent and privacy.

Regulation

The legal and regulatory environment also contributes to this complexity. Various rules pertain to data privacy, protection and ownership. The provisions in the revised Payment Services Directive (PSD2), General Data Protection Regulation and various Anti-Money Laundering Directives in Europe overlap and may even conflict to a degree. This not only heightens the need for specialised expertise in data management and compliance, but also for greater engagement with, and guidance from, policymakers and regulators.

With regard to BNPL, regulators fear that it's becoming too easy to take up credit, including in situations where customers would have simply not made the purchase. There are customer protection concerns around over-indebtedness, the transparency of fees, and the mixture of regulated and unregulated operators active in the sector. Several national regulators are looking to enhance regulatory overview of some POS financing models, but until they do, there is regulatory uncertainty.

Technology

The rapid digital transformation currently underway may require lenders to completely overhaul IT systems, while ensuring regulatory compliance. Not doing so hinders their ability to collect, structure, analyse and leverage data fully. Plus makes it difficult to collaborate with external partners.

"Long-standing providers may be at a disadvantage due to the rigidness and complexity of legacy systems. And if they're limited in their ability or willingness to adopt the latest technologies, before long, this will result in a decline of competitive advantage and customers."

Justus Roux, Solutions Engineering Manager, Mambu

Adjacencies

In addition to the main challenges around data, regulation and technology, lenders face ancillary challenges around their internal readiness. This is particularly around changing the culture, attracting and retaining the right talent, and mitigating the risks of siloed systems and thinking.

There are also external, industry-wide adjacencies, such as developing a comprehensive, cost-effective, secure, re-usable digital identity system. Plus, the ongoing natural tension between financial inclusion, seamless customer on-boarding and monitoring, and know-your-customer provisions as part of anti-financial crime requirements.

5. The role of cards in the new lending ecosystem

The three main drivers for lending remain speed, availability and cost. Cards deliver on all three, in addition to the new drivers of personalisation and intuitiveness.

"The three key reasons why payment cards are preferable over bank transfers are the free working capital, the rewards and also the control you have around issuing cards to employees to enable them to access funds more easily when making purchases," says Alex Miles, UK Managing Director, Capital on Tap.

From the borrower's point of view, if they pay off their credit card balance every month, borrowing is interest-free. It also comes with rewards, such as loyalty points, coupons, cash back, discounts negotiated with preferential suppliers and so on. And business customers get an efficient, decentralised way to manage purchasing decisions, without having to give employees access to the company bank account.

For lenders, cards represent a profitable revenue stream with the necessary controls useful for devising compelling propositions. As Miles explains: "The advantage for us is that payment cards, because of interchange, deliver a business model that is profitable. Whereas if we were to do bank-to-bank transfers, we don't benefit from that transaction itself."

The ability to do black- and whitelisting on cards helps manage risk. Blacklisting means that cards work everywhere, except at certain merchant categories. Whitelisting means cards don't work anywhere, except at specific merchants or merchant categories. This gives lenders an almost granular level of control, sometimes down to individual merchants, not available with other funds disbursement methods.

More and different types of card-based propositions are possible, including those with higher credit limits yet restricted to particular merchant types. As Miles explains, more control gives lenders more confidence that the customer is using the card for legitimate business spend. Therefore, it enables them to increase credit limits at a faster rate than when they had limited or no visibility as to where the funds were being spent. It also enables them to innovate at a faster rate.

"With term loans, there's not a huge amount that you can do. You can change the price, the amount you're lending, the duration. Once you have a credit card, quickly the rate of innovation changes. There are many different features you can add. The ones we've already implemented are supplementary cards, integrated accounting software, rewards and cash back," says Miles.

> Cards can be used to bridge the gap between lending and payments in lending 3.0

Cards can be used to bridge the gap between lending and payments in lending 3.0

How cards deliver against the five main drivers of lending

1

Speed – instant-issuance of virtual cards make just-in-time funding possible, purchases and ATM withdrawals authorised in real-time for maximum speed and control

2

Availability – direct card issuance possible, embedded lending and distribution via banks, retailers, third parties and other distribution partners possible via card BIN sponsorship arrangements.

3

Cost – interchange revenue makes card-based lending profitable for lenders and competitively priced for borrowers.

4

Personalisation – operational set-up and control features of cards enable better personalisation around budgeting, risk management, rewards etc.

5

Intuitiveness – better data quality, accessibility and transparency enables lending at the point of need, and lenders to take action more promptly to tailor an offer, resolve an issue or unlock additional value.

6. The emerging themes of lending 3.0

We asked a range of leaders in the lending ecosystem what they think will be the biggest opportunities, challenges, accelerators and threats of lending 3.0. During our conversations, ten dominant themes emerged that will define the lending landscape for borrowers and lenders alike.

Customer demand

"BNPL has radically changed the payment behaviour in e-commerce in the last couple of years. Consumers pay easily and conveniently when and how they want. Today, B2B buyers expect to see modern user interfaces, high limits for shopping carts, as well as real-time decisions for B2B."

Christian Grobe
Co-Founder and Managing Director, Billie
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Data

"In the UK, the insights to financial behaviour provided by Open Banking has been a key data source for lending 3.0. The benefits to lenders of adopting the technology is well understood and is measured in the pounds and pence of increased acceptances and reduced defaults."

Angus Clacher
Head of Product, Credit Kudos
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Technology

"Technology is the backbone of challengers and neobanks, giving them the ability to pivot and adapt in a nimble way to meet the growing demands of plugged-in consumers. Traditional providers must leverage their existing resources and brand loyalty to keep customers content and their expectations met."

Justus Roux, Solutions Engineering Manager, Mambu
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Contextualisation

"Short-term cashflow-based lending will become more and more contextual. And be seamlessly embedded into existing workflows as increasingly accessible digital tools are embraced by small businesses."

Michael Green
Director of Partnerships, UK and EMEA, Xero
Read more

Digitalisation

"The endless march of digital means that the traditional lending model is continually under threat. There really is no opportunity to rest in what may have been a 'walled garden'."

Lisa Moyle – Chief Strategy Officer, VC Innovations

Read more

Personalisation

"If you can understand where people have been transacting for the last 24 months, you can build a strong profile of who that person is and what they need from you. And you can tailor an offer to them which is much more personalised and therefore will fell much more intuitive."

Tim Davis
CEO and Co-Founder, Butter

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New business models

"There's always going to be costs to borrowing, but I don't think that that will be concentrated so much with the end-borrower, it will sit elsewhere in the ecosystem."

Alex Miles
UK Managing Director, Capital on Tap

Read more

Acceptance

"For a lending solution to be effective, it has to be available at the point of need. The payment card is a way for us to be available everywhere the user is. Payment cards already have a lot of benefits, which are hard to replicate: acceptance, settlement and a dispute mechanism."

Martin Magnone
CEO and Co-Founder, Tymit

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Partnership

"We see silo thinking being challenged by the end-customer to provide more value. And this is natural opportunity for partnership."

Nicolas Kipp
Co-Founder, Banxware

Read more

BANXWARE

Nicolas Kipp
Co-Founder

> "We see the whole data ecosystem going together more with the whole lending ecosystem."

1. What's keeping your clients awake at night? And to what extent are these factors different across your client base?

What keeps entrepreneurs and small businesses up at night depends mostly on industry, but it often relates to Covid, revenue dips and e-commerce logistics problems.

Payment providers seem to be driven by competition now and they're looking for value-added services for their merchant base. This is good for us as embedded lending solution providers. We shift the conversation for the payment provider from how they can compete — based on pricing mostly — to where they can actually provide value and enable merchants to grow and have a sustainable business.

Fintechs struggle with the complexity of regulation. We talk a lot to Fintechs who understand and have the necessary licenses for one part of the value chain, but they struggle with the regulation and the complexity of having a lending product in addition to that. We can come in and build them a tailor-made lending product, without the regulatory and compliance complexity.

We also see it the other way around. Some of them might have a good credit card solution, but they struggle with crypto. They have a good account solution but struggle with brokerage. We see this silo thinking within Fintechs being challenged by the end-customer to provide more value. And this is a natural opportunity for partnership.

2. How has Banxware leveraged the move to digital and alternative data to power its proposition?

Alternative data is key in our underwriting. Most important right now is bank account data. We use PSD2 to look at the merchant's bank account and our underwriting is very much based on that.

I think that falls into the alternative data bucket, although if you look at it from the traditional banking perspective, it's not really new to underwriting. This has been going on for hundreds of years — the bank looks at the bank account. The technical prerequisites have only been available for the last few years. As we're in B2B lending, this is still a bit of a frontier play. Not a lot of Fintechs can automatically underwrite based on B2B bank accounts – it's totally different in consumer finance, of course.

We also look at the transaction history across different platforms: merchant sales data from payment providers and marketplaces. We can then model repayment behaviour over time and base a lending decision on that, which is a differentiator from other players, who may serve the same merchant but not through an embedded channel and don't have access to this proprietary data.

Thirdly, there's truly alternative data, such as customer reviews on platforms or social media data, which we don't use extensively for underwriting but it can be a good add-on.

3. How do you think that lending-as-service is going to develop in the future? What are the barriers and accelerators to future developments?

I think we're just seeing the first proof points that embedded lending is now more than hype and that there's really true value. We see in some countries like the US, UK, Canada, it's really taking off. Other countries not so much yet but this is going to be the development over the next years.

Lending-as-a-service is moving away from transactional platforms — marketplaces, payment platforms — to other niches. We see the whole data ecosystem going together more with the whole lending ecosystem. I think there's still a tonne of room to grow, and then over time once it passes a certain threshold, we probably won't call it embedded lending any more. It's natural then that banking services and commercial services grow together — the same as in payments where the borders are not there anymore.

Learn more about Banxware
Banxware.com

Learn more about Nicolas
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BILLIE

Christian Grobe
Co-Founder and Managing Director

"Today, B2B buyers are going 'digital-first' and are already used to automated and frictionless processes from the B2C space."

1. One of Billie's main products is Billie Boost, a buy now pay later proposition for B2B checkouts. Could you explain the positioning of this product to customers, and how it captures the payments Zeitgeist?

BNPL has radically changed the payment behaviour in e-commerce in the last couple of years. Consumers pay easily and conveniently when and how they want. Today, B2B buyers from larger companies to individual retailers are going 'digital-first' and are already used to automated and frictionless processes in the B2C space. They also expect to see modern user interfaces, high limits for shopping carts, as well as real-time decisions for B2B.

However, BNPL for business customers, is still at a very early stage. Worldwide, there is nearly no provider of a BNPL product as what Klarna offers for B2C. We aim to close this gap.

2. How has Billie leveraged the move to digital and alternative data to power its proposition?

Although the principles behind both concepts are very similar, the mechanisms that apply to "buy now, pay later" in B2C cannot be transferred entirely to trading with business customers. While transactions in the consumer segment are relatively simple, B2B business faces various hurdles that complicate the process. More individualized offers and services increase the complexity of a transaction, and significantly larger shopping carts increase the risk of non-payment. At the same time, predicting fraud risk in B2B purchases is extremely difficult–– especially when dealing with new customers.

By investing heavily in the development of our risk detection engine from the very beginning, we are now the only player on the market able to offer a truly fast and reliable B2B BNPL solution for online stores that is on par with B2C standards.

3. How do you think that lending is going to develop in the future? What are the barriers and accelerators to future developments?

In the recent past, lending was a centralised process. To apply for financing, companies collected their financial information (annual accounts and bank statements), filed an application online with a financial institution, submitted their documents, and waited at least 24 hours for a decision. All of this has started to change.

In the modern banking world, the credit application is seamlessly integrated at the point of sale. All information needed to underwrite a company is pulled through several databases automatically upon approval of the applicant, via Open Banking with PSD2. And lending decisions are taken instantly.

Furthermore, companies will be able to design lending patterns more flexibly and more in line with the rhythm or their cash flows and business prospects. The advent of BNPL solutions for business buyers is just the prominent example of this trend.

Learn more about Billie
Billie.io

Learn more about Matthias, Christian and Aiga
Connect with Matthias
Connect with Christian
Connect with Aiga

Butter

Tim Davis
CEO and Co-Founder

> "The standard revolving credit card isn't going to cut the mustard for this new generation of [digitally native] consumers."

1. Neither instalment credit nor point-of-sale financing are new concepts, yet buy-now-pay-later products are trending high at the moment. Why?

Trends tend to go in cycles. BNPL is the newest in-trend, largely driven by digital native finance.

Credit cards are still the predominant form of unsecured, flexible credit, but that's just because they've had a monopoly on the market for a long time. People haven't been innovating and releasing new products. So, customers have been using them as a one-size-fits-all solution to their credit and borrowing needs.

Credit cards do have significant room for improvement. It's very easy to spend, but not as easy to understand what you're repaying. Whereas BNPL takes all that complexity and distils it down into a simple form of credit. It's interest-free or it's a transaction fee known upfront, so you can make an informed decision. It's easy for people to stay on top of their finances.

Some of these embedded checkout players like Klarna have done a great job in terms of raising the profile of this BNPL, by being present at the moment of checkout. People have that with Butter too, because they're either transacting in our app or they have our browser extension. As they're checking out, they get the message from the BNPL provider, why not spread this out?

2. The winners in the new world of lending 3.0 are pursuing embedded lending – that's more personalised, intuitive loans, delivered digitally. To what extent would Butter agree?

This is exactly why people are winning. It's not just with lending, it's with all financial services. If you look at people like Revolut and Monzo, who don't have any branches, they just have really personalised, intuitive, digital experiences; that's why they've been able to scale.

The personalisation point has become a lot more relevant. Look at the growth of Open Banking. If you can understand where people have been transacting for the last 24 months, you can build a strong profile of who that person is and what they need from you. And you can tailor an offer to them which is much more personalised and therefore will feel much more intuitive.

3. How is Butter planning to extend / expand its proposition?

We're going to be in the Opera web browser for all users in the UK. They will get the option to spread the cost using BNPL provided by Butter wherever they shop. We're expanding our distribution and are looking into partnerships that have a big reach.

We're expanding the scope of what we offer within our app, based on the Open Banking data that we're able to access to via our customer.

We think that we've developed the best, most powerful, most flexible BNPL platform anywhere. We're also talking to a lot of incumbents about how we can expedite their entry into the market, running on rails provided by us.

4. How do you think that lending, and BNPL specifically, is going to develop in the future? What are the barriers and accelerators to future developments?

All eyes are on the Financial Conduct Authority (FCA) and HM Treasury in the UK. The Woolard review and consultation paper on proposed BNPL legislation has come out. There's an idea of having a specific regime just for BNPL, but it's very difficult to define what BNPL is. How do you develop a regime that captures it exactly, so you don't end up with unregulated lending being a problem all over again?

I think the solution is to introduce a cap on the volume of origination that can take place before providers fall under the existing regulation. So, there's no need for a new regime. It's just bringing everyone who's currently outside the fold into the fold, because a lot of them are effectively running account credit.

The FCA have a sandbox programme and that should be a good accelerator to future products. There's also the constant evolution of technology available for use. When we first started the business, Open Banking wasn't really a thing you could buy off-the-shelf. But now an affordability check is something that you can do automatically very quickly. You have a compliant way of safely lending to someone.

Learn more about Butter
butter.co.uk

Learn more about Tim
Connect on LinkedIn

CAPITAL ONTAP

Alex Miles
UK Managing Director

"The three key reasons why payment cards are preferable over bank transfers are the free working capital, the rewards and the control around purchasing across the company."

1. How has Capital on Tap leveraged the move to digital and alternative data to power its proposition?

We use digital data to do our underwriting and that enables us to make instant credit decisions. Also, we use data that comes back through the card rails when someone makes a purchase on their card. That data tells us instantaneously what customers are spending and where. And we can take a decision about whether we think it's fraudulent or something that we don't want to lend for.

The main thing about digital is the ability to do things quickly and at scale. Underwriting analogue style is very hard to scale up, because you need more staff to do more underwriting. Whereas the advantage of digital is that it's very scalable and it's instant.

2. How does Capital on Tap use payment cards to help SMEs better understand and manage their finances? What advantages do payment cards deliver over bank-to-bank transfers both for borrowers and you as the lender?

The three key reasons why payment cards are preferable over bank transfers are the free working capital, the rewards and the control around sharing the purchasing across the company.

The advantage for us is that we make money off the interchange when people use cards and give some back to the customer as cashback. We don't make money when people do a bank-to-bank transfer.

You're also a little more in the dark when it comes to transferring funds to a bank account. On an ongoing basis, we have a lot of confidence in how money is being spent. Therefore, it enables us to give credit limit increases, when we can see customers using it in a positive way. And at a faster rate than when we had limited or no visibility as to where the funds were being spent.

In the future, what we'd like to do is offer customers the ability to issue supplementary customers to other employees and put blocks on what they can spend. So for example, you could say here's a card that you can only use on travel and you'd feel more comfortable having a higher limit but restrictions on where it could be spent. Rather than the other way around.

3. How do you think that lending is going to develop in the future? What are the barriers and accelerators to future developments?

There's going to be more borrowing that's free to the borrower. Historically, people have always assumed that businesses make money on credit cards when individuals or businesses don't want to pay in full. We actually prefer it when our customers pay us in full, because we have no risk of the money not coming back. But we're making revenue through interchange, some of which we're passing on to them.

It's also going to become more profitable to borrow from the borrower's perspective. If I look at it on the consumer side, there's obviously BNPL. There's always going to be costs to borrowing, but I don't think that that will be concentrated so much with the end-borrower, it will sit elsewhere in the ecosystem.

Learn more about Capital On Tap
capitalontap.com

Learn more about Alex
Connect on LinkedIn

CREDIT KUDOS

Angus Clacher
Head of Product

"There is immense value in the transactions, insights and scores you can generate from Open Banking. It permits lenders to develop rich, compelling and innovative digital propositions"

1. How has Credit Kudos leveraged the move to digital and alternative data to power its proposition?

In the UK, the insights to financial behaviour provided by Open Banking has been a key data source for lending 3.0. The benefits to lenders of adopting the technology is well understood and is measured in the pounds and pence of increased acceptances and reduced defaults.

At Credit Kudos, we see first-hand the impact that Open Banking can bring to lenders. For example our client, Admiral Loans, uses our Open Banking insights for a more comprehensive view of the applicant's current financial situation to make better and more informed credit decisions.

Admiral Loans has also adopted our Open Banking decision engine to further automate and scale their business, with minimal tech integration required. In doing so, they were able to unlock £35 million pounds of additional business and increase customer conversion by 30% when replacing manual bank statement collection with our Open Banking journey.

The immense value that alternative data sources can provide is a compelling proposition for lenders to digitise and embrace innovation.

2. What's keeping your banking clients awake at night? To what extent are these factors different across your banking customer base?

For banks, and their partners, improving on their core capabilities is an ongoing focus and priority. Large banks typically engage Fintechs to carry out innovation programmes and run tests for next generation upgrades of their core capabilities.

Challenger banks on the other hand, are likely focusing more on the use cases of credit decisioning and prioritising the development of tools. These may include those to assess customers for credit in the form of BNPL products, credit cards, unsecured loans, car finance and mortgages. Plus Open Banking decision engines for creating and implementing credit decisioning.

3. How do you think that lending is going to develop in the future? What are the barriers and accelerators to future developments?

2022 is set to be an exciting year for the lending sector, especially where Open Banking is concerned. In November 2021, the FCA ruled that customers will no longer need to re-authenticate Open Banking access every 90 days. This accelerates many Open Banking use cases, including revolving credit and overdrafts in lending as well as collections. It allows firms to have a continuous relationship with users and provide products and services that are most appropriate to an individual's circumstance.

Variable Recurring Payments (VRP) is another area that will develop in 2022. VRPs held much promise but will actually be introduced with a very limited scope. The one silver lining is that sweeping will be permitted to e-money accounts where they are used by consumers and SME as a substitute for current accounts.

When considering barriers that could hinder future developments in lending, it is worth noting European banks have less mature APIs compared to those in the UK. This manifests tself as inconsistent user journeys, and makes scaling across Europe more challenging

Learn more about Credit Kudos
[Creditkudos.com]

Learn more about Angus
[Connect on LinkedIn]

MAMBU

Justus Roux
Solutions Engineering Manager

> "To evolve into the future, FIs need a reliable core architecture that gives them the freedom to grow."

1. What's keeping your banking clients awake at night? To what extent are these factors different across your client base?

For conventional banks and lenders, there is an immediate need to keep up with their digitally-native rivals. Technology is the backbone of challengers and neobanks, giving them the ability to pivot and adapt in a nimble way to meet the growing demands of plugged-in consumers. Traditional providers must leverage their existing resources and brand loyalty to keep customers content and their expectations met. To win greater market share, incumbent banks must act now to capitalise on growth opportunities as they arise.

Challengers on the other hand are faced with the task of winning new users, gaining loyalty and retention. With a steady rise of new entrants, competition is stiff and requires FIs to invest in their unique differentiators, develop a compelling proposition and offer best-in-class user experiences. Understanding the audience, their values and behaviours is key to forming a steady relationship and reducing the risk of customers taking their business elsewhere.

Financial accessibility, digital adoption and variation in regulation mean banks around the world must consider the unique nature of their markets. SaaS providers like Mambu make it easy to accommodate these factors through a platform that is cloud-native and fast to adapt to regional requirements, allowing our clients to rest easy at night.

2. How has Mambu leveraged the move to digital and alternative data to power its proposition?

Digitisation and automation will support smooth customer interactions and in turn boost profits for banks and lenders. Embracing cloud-native technologies is one key for an achievable digital transformation strategy. And leveraging a robust range of data sources will provide greater insights into consumer preferences and propensity to buy.

But change is not instantaneous. And it's not always comfortable. Defining clear expectations and actionable steps, along with engaging influential advocates for change will build greater momentum for the banks and lenders embarking on this journey.

Look at digital transformation as an evolution. Start small by developing MVPs to determine the best path forward. Learn fast when moving from old to new. This will set lenders up to optimise development for agility, growth and innovation.

To deliver effortless onboarding, swift decisions, real-time balances and omnichannel access, lenders must take advantage of the full range of available user data and pair that with the power of the cloud. This will advance the capability of smart tools like AI and machine learning, deploy personalised offerings and build seamless mobile applications to put customer-centricity at the forefront of a lender's value proposition.

3. How do you think that lending is going to develop in the future? What are the barriers and accelerators to future developments?

The growth of lenders and other FIs may be in jeopardy if technology constraints interfere with their ability to adapt and innovate.

But the future is bright. The advancement of cloud-native technologies enable platforms, like Mambu, to scale to keep pace with the market developments. And deliver financial providers the tools they need to meet customer expectations. By embracing composability and assembling a state-of-the-art infrastructure, lenders can reduce risk, make decisions faster, and provide a great customer experience at a lower total cost of ownership.

To evolve into the future, FIs need a reliable core architecture that gives them the freedom to grow. Mambu makes the orchestration, integration and automation of new functionality and super-targeted lending services fast and easy.

Learn more about Mambu
Mambu.com

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Martin Magnone
CEO and Co-Founder

"Payment cards already have a lot of benefits, which are hard to replicate. There's a myriad of options to make instant payments, but payment cards already come with acceptance, settlement and a dispute mechanism."

1. From your experience, what exactly do customers need? And secondly, how does Tymit go about delivering it better than competitors (both look-alike and non-look alike)?

I used to be a consultant and spent 10 years working with credit card issuers and banks on FS products, so I had the luxury of being exposed to tonnes of customer data and research. As part of that work, it became clear to me that the credit card as a budgeting instrument wasn't working for the user. We tried to solve these problems with the infrastructure and products that the banks had, and we hit a wall in terms of what we could do.

We also saw that people were moving away from credit cards into personal loans and term loan products, just to get more control, an overview of interest and a platform to repay. That was mind-blowing and why I ended up starting the company in the first place.

We built it around those insights. How can we build a credit solution that people can totally control? That's totally flexible and available everywhere? And people feel that they can use to budget effectively and make smart choices?

2. The central idea to this white paper is that digital transformation and alternative data sources have been the catalysts for lending 3.0. Does Tymit agree?

Lending 3.0 definitely involves some kind of digital transformation, maybe different to ten years ago. I would agree another catalyst is alternative data sources. Going through Covid, we've seen how credit scores may not be the best predictor of someone's repayment capacity.

We still haven't landed a sustainable consumer lending model. This should be something that's flexible, adjusts to my needs and that I can use recurrently. It's designed for use anywhere I need it, whereas BNPL is only available in certain places and stores.

When you make decisions about credit, it's important to have an aggregated view of your lending. BNPL doesn't provide that. You end up using multiple providers. Plus, BNPL providers are not regulated, so consumers don't have guarantees that they will be treated fairly throughout the process. There are still some boxes to be ticked in a way that works better for the user.

3. How does Tymit use payment cards to help customers better understand and manage their finances? What advantages do payment cards offer for both Tymit as the lender and borrower customers?

Our proposition is the platform, not so much the card. It's the ability for someone to decide how they want to pay off each purchase and know exactly how much interest they will pay. Moreover, they can pay early or extend their instalments, aggregate and track their credit.

For a lending solution to be effective, it has to be available at the point of need. The payment card is a way for us to be available everywhere the user is. Payment cards already have a lot of benefits, which are hard to replicate: acceptance, settlement and a dispute mechanism.

4. How do you think that lending is going to develop in the future? What are the barriers and accelerators to future developments?

There's more access to data, so aggregation is something that can be solved quickly to give people a consolidated view of their credit and make better decisions.

An ideal lending solution needs to run on existing rails if we want to have it everywhere. There will be other ways that this might work. This world is evolving fast, so it may shift.

The final component is decisioning. There needs to be a better way of dealing with people who don't fit the standard model. If you've just moved to the UK and have a good salary, you can't get credit. You can't even get a post-paid phone. Problems like this need to be addressed by this new form of lending.

Learn more about Tymit
Tymit.com

Learn more about Martin
Connect on LinkedIn

VC /INNOV.

Lisa Moyle
Chief Strategy Officer

"The endless march of digital means that the traditional lending model is continually under threat. There really is no opportunity to rest in what may have been a 'walled garden'."

1. What were the key lending trends you heard from the last Fintech Talents Lending 3.0 event?

The acceleration in digital underpinned every discussion at the event and was brought into sharp relief by the experience of participating lenders, tech providers and innovative Fintechs.

The industry had already been evolving at pace, driven by changing customer preferences and behaviours, technology to deliver better informed products at speed and a cost structure that challenged previous assumptions across the lending industry.

Data and personalisation were helping to create products that better meet customer needs, plus tap into vast new markets. Delivering on the promise of that potential and improving access to appropriate credit was part of many of the conversations.

2. Through your engagement with the lending community, what are the key things keeping lenders awake at night?

What concerns lenders is securing their place in a fast-moving industry. Embedded lending, for example, presents great opportunities for lenders, who are well placed to leverage what it enables or partner smartly to access new channels or distributors. The downside, however, is that the number of players is growing rapidly.

We are moving beyond the incumbent vs Fintech vs Big Tech debate. Now we see potential challengers who start by creating a community and then look to partner with companies that can turn them into financial services providers. Those whose technology does not enable them to compete, or find the partners to help them become agile, responsive lenders, face challenges to their business models.

3. What are the key trends the Fintech Talents Lending 3.0 event will focus on and why are they important to the future development of lending?

Embedded lending has become a key focus area. BNPL is a hot topic. More broadly those brands that win trust and loyalty become customers' most important touch point, which is central to the future of lending. Platforms that aggregate consumers or businesses, and understand the needs of those communities, do not have to be financial institutions or Fintechs. And, in fact, increasingly they are not.

Green lending is also a key trend. Consumers are increasingly concerned about how the businesses with whom they transact are mitigating and addressing the climate crisis. Whether compelled by regulatory requirements or nudged by borrower demand, lenders can drive change through their lending practices.

Crypto-based lending is also important for the Lending 3.0 community. There is a lot to learn in this fast-moving market. From developing and sometimes uncertain regulatory frameworks to understanding the nascent platforms as they evolve, this is an area of great interest.

4. How has the relationship between incumbent banks and Fintechs evolved and improved in the last couple of years, and how is this helping deliver better outcomes for borrowers?

If necessity is the mother of invention, then perhaps it is also the mother of collaboration. The digital acceleration that we saw during the pandemic created the push that many organisations needed to change. Partnerships between incumbents and Fintechs, though often discussed and explored over recent years, became more of a practical necessity.

The acceptance that each provider across the ecosystem focuses on what they do best drives better outcomes for customers. Challenges remain in working with large, incumbent organisations. But there is no doubt that both they and the Fintechs who increasingly aspire to partnership rather than competition, have refined their business models over recent years to address some of those issues.

Learn more about VC Innovations
vcinnovations.co.uk

Learn more about Lisa
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Michael Green
Director of Partnerships, UK and EMEA

"We're confident that short-term cashflow-based lending will become more and more contextual."

1. From your experience, what exactly do SME customers need? And secondly, how does Xero go about delivering it better than competitors (both look-alike and non-look alike)?

We always put the customer first. We listen to them and try to understand exactly what they need, and when they need it.

We understand that accounting can be complex, and is something many small business owners aren't well-versed in. Xero's aim is to make it as easy as possible for small business owners to understand their own finances, focussing on design principles to make it approachable and easy for them to engage with. We deliver this in a few ways.

Our bank feeds automatically import transactions from a bank or financial institution into a small business's Xero organisation. Once connected, they can turn to Xero to see their statement lines in the bank account, ready to be reconciled each day.

We offer automation tools, which automatically capture bills and receipts and match customers' transactions with their bank feeds so they have reconciled, up-to-the minute financials.

Xero is also keenly aware of the impact late payments can have on customers' cash flow. We've found that by integrating online payment solutions such as Stripe and GoCardless into workflows, customers can get paid up to twice as fast.

And finally, API enabled integrations with commerce apps, such as Shopify or Square, save users time and improve visibility of their cash position even further.

2. How has Xero leveraged the move to digital and alternative data to power its proposition?

We absolutely agree that digital transformation and alternative data sources have begun to catalyse improvements in lending. While credit bureau data and bank transactions are foundational data sources, they are also very reactive. With this in mind, Xero is working with dozens of banks and Fintech lenders around the world to make use of an applicant's Xero subscription data to improve underwriting.

We've found that when you combine bank transaction data with accrual accounting data, which is reconciled and managed by an accountant, lenders can gain a more accurate picture of the creditworthiness of a customer.

3. How is Xero embedding lending/payments/ financial services into its proposition?

Offering embedded lending and financial services is vital to helping us better support small business financial needs. With this in mind, in 2020 we acquired Waddle, an invoice finance lending platform used by a number of the world's largest financial institutions. This connects small businesses to invoice finance, delivering a flexible, ongoing line of credit based on their outstanding invoices.

Xero is also embedding lenders into its workflows, including NatWest and iwoca in the UK, which enables us to present relevant, contextual finance offers to small business customers.

We know that customers worry about going through a lending process only to be declined. Xero tackles this by presenting offers to customers based on their financial data, giving them a clearer sense of where they stand, and better meeting the needs of SME borrowers.

4. How do you think that lending is going to develop in the future? What are the barriers and accelerators to future developments?

In terms of accelerators, we're confident that short-term cashflow-based lending will become more and more contextual. And be seamlessly embedded into existing workflows as small businesses increasingly access digital tools. Whether that's selling on Shopify or Square, or invoicing in Xero, deeply relevant financial products will be instantly available to users when they need them.

That's not to say, however, that hands-on, in-person support around lending will fade away. We expect growth capital, such as long term secured loans or equity financing, to continue to benefit from relationships and advisors. These processes will be streamlined as accurate business data becomes more available.

Learn more about Xero
Xero.com

Learn more about Michael
Connect on LinkedIn

About our lending 3.0 contributors*

Banxware is a Lending as-a-Service provider that enables digital platforms such as marketplaces and other aggregators to offer integrated liquidity solutions and loans in real-time to merchants.

Banxware is the future of business lending. We are passionate about financing small businesses, the true heroes of our economy. As lending experts, we empower digital platforms to help their business customers grow. With Banxware, platforms can instantly launch tailored embedded lending solutions across Europe.

Based in Berlin, Banxware was founded in 2020 by Miriam Wohlfarth, Jens Röhrborn, Fabian Heiß and Nicolas Kipp. We are a diverse team of different backgrounds and complementary expertise, working together on a common goal: revolutionizing the payment and platform industry.

Matthias Knecht is a serial founder of Fintech companies from Berlin. Together with Christian Grobe and Aiga Senftleben he co-founded the B2B Fintech Billie in 2016. Billie reports being the leading provider of 'buy now, pay later' (BNPL) payment methods for business customers and offers B2B companies innovative digital payment services.

Previously, Knecht and Grobe successfully sold their B2B Fintech Zencap to UK competitor Funding Circle. Founded in 2013, Zencap was active in Germany, the Netherlands and Spain and the leading provider of online SME loans in continental Europe. Prior to founding Zencap, Knecht was a project manager at McKinsey & Company between 2008 and 2014, focusing on banking, insurance and private equity. In addition to his role at Billie, Knecht is an active advisor and angel investor in over 20 European start-ups.

[*] The views and opinions of third parties summarised in this video do not necessarily reflect the views or opinions of Marqeta. Marqeta has not independently verified the information and data provided by those third parties and makes no representations as to the accuracy of such information or data.

Butter set out about building a platform focussed around transparency, responsible lending and the ability to transact on bigger ticket items compared to other providers, whilst also offering more choice to customers through our unique over-the-top solution, which enables consumers to shop any online store in existence with Butter.

Butter has developed a unique credit decisioning process with affordability at its core, utilising open banking and machine learning to ensure that lending is responsible and that customers are only able to borrow amounts based on what they can afford.

Alex Miles is UK Managing Director of Capital on Tap, a high-growth Fintech that specialises in SME lending. Capital on Tap offers business credit cards with limits of up to £50,000 to SMEs in the UK and Spain. Lending through credit cards allow Capital on Tap to offer their customers additional benefits beyond the supply of working capital – customers can earn rewards points on their card spend, manage their transactions through integrations with their accounting software, and borrow interest-free for up to 56 days if they clear their balance in full. Across Capital on Tap's 8-year history, they report lending £2 billion across more than 100,000 customers.

Angus is Head of Product at Credit Kudos. He brings to the company 20 years of experience leading teams to design, develop and market software products to banks, corporates, SMEs and consumers.

Credit Kudos is a challenger credit reference agency and Open Banking provider that is innovating the traditional credit assessment model. Credit Kudos builds intelligent products that allow businesses to leverage Open Banking to enhance affordability and risk assessments.

Credit Kudos has been delivering better credit decisions to lenders for over 6 years, including CarFinance 247, Drover, LendInvest, Curve, Admiral, Atom bank and Bluestone mortgages. In the past 12 months Credit Kudos has signed 100+ clients, and won numerous industry awards.

VC Innovations is a full stack marketing services agency working with both growth stage and large-scale businesses across three key pillars of marketing infrastructure, demand generation campaigns and event properties. We are the architects of Fintech Talents – a community of over 300,000 digital transformation leaders from across fintech ecosystem. We believe the impossible is possible through content, community and experiences.

Tymit is pioneering the next generation of instalment experiences for merchants, lenders and consumers.

Beginning its mission to make credit smart, flexible and honest in 2019 with the launch of the world's first instalment credit card, Tymit now offers partners from across retail and financial services the ability to tap into its market-leading platform's instalment capabilities. By running end-to-end, bespoke instalment programs with state-of-the-art credit, payment, and loyalty experiences , Tymit enables its partners to unlock new sources of value while giving consumers the peace of mind that comes with greater control over their instalment credit lines.

Justus Roux is a Solutions Engineering Manager at Mambu with 15 years' experience in accounting, business intelligence and cloud banking. He is an ACMA/CGMA certified accountant helping enable banks to be built in the cloud, and is leading a team of Solution Architects and Engineers in aligning customer needs with Mambu's core platform solution.

Mambu launched in 2011 with the aim of enabling free access to modern financial services for all. The only true SaaS cloud banking platform, Mambu's unique composable approach allows for the flexible assembly of independent components and systems to fit the exact needs of your business and customers. The Mambu team of 800 is spread across the globe and supports over 200 customers in 65 countries.

In his role as Director of Partnerships at Xero, Michael and his team work closely with Xero's 1000+ connected app partners, banks and financial institutions, leveraging Open Banking and PSD2 to realise the next generation of services for Xero customers. Michael has 10+ years experience working with high-growth technology companies across New Zealand and the UK, in both legal, partnerships and advisory roles. He is passionate about technology, and the role it plays in making life better for small businesses and their advisors.

Xero is a cloud-based accounting software platform for small businesses with over 3 million subscribers globally. Through Xero, small business owners and their advisors have access to real-time financial data any time, anywhere and on any device. Xero offers an ecosystem of over 1,000 third-party apps and 300 plus connections to banks and other financial partners.

ftt LENDING 3.0

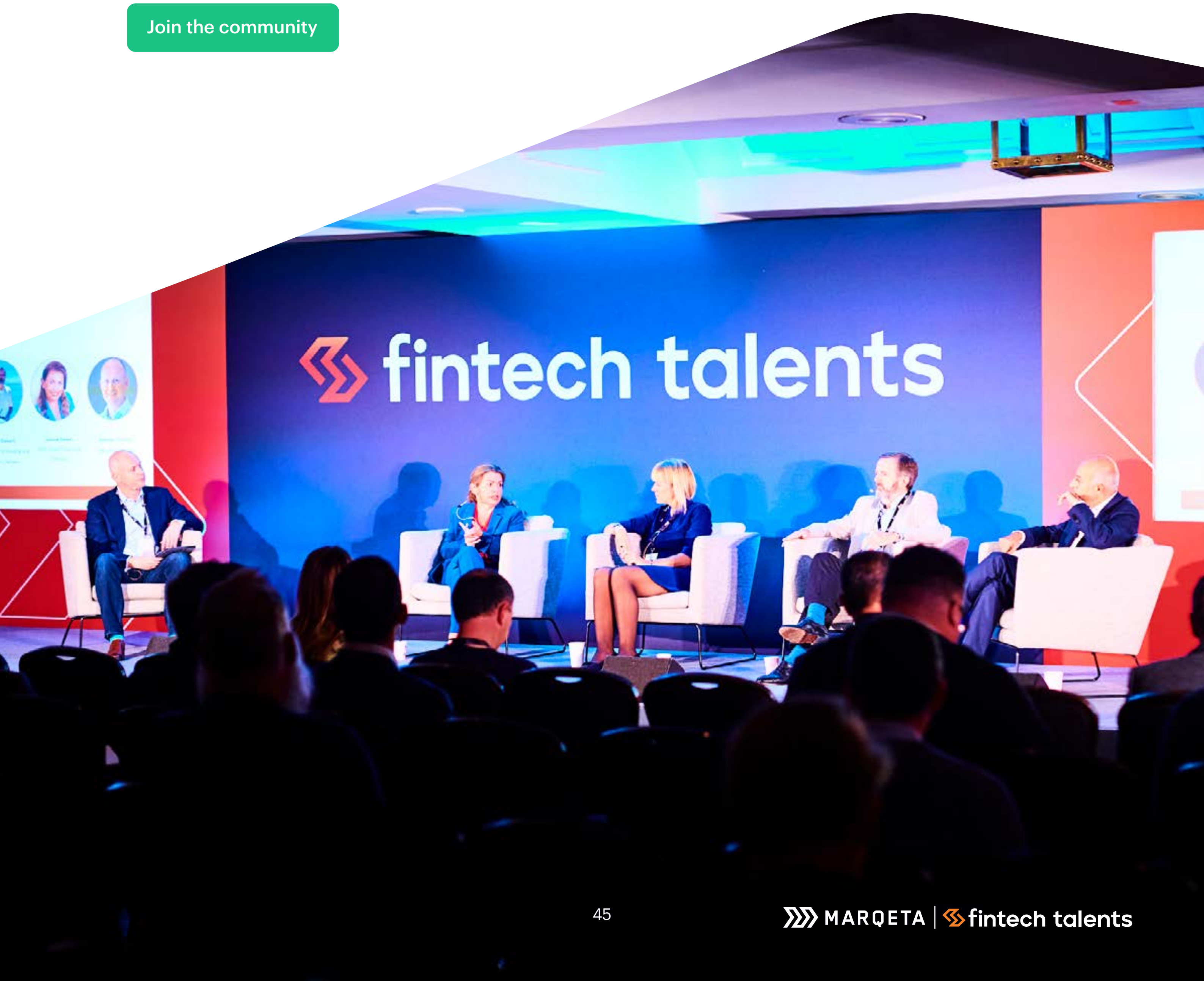
FTT Lending 3.0 is a community initiative that was developed in partnership between Marqeta and Fintech Talents.

The idea was to bring together innovators across the lending landscape to share and exchange ideas and work together as a community to transform lending to a new world, a world we call Lending 3.0.

Founded in 2021, we brought together speakers from Traditional Banks, Challenger Banks, Alternative Lenders, Credit and Capital Allocators, BNPL providers and more, to better understand the promises of lending 3.0 and how we can get there together!

We had a tremendous response from the industry and felt inspired to continue the Lending 3.0 community going! Join us on the 30th March 2022 in London for a live event with over 60 speakers and 400 delegates.

Join the community



About Marqeta

Marqeta's modern card issuing platform empowers its customers to create customized and innovative payment cards. Marqeta's platform, powered by open APIs, gives its customers the ability to build more configurable and flexible payment experiences, accelerating product development and democratizing access to card issuing technology.

Its modern architecture provides instant access to highly scalable, cloud-based payment infrastructure that enables customers to launch and manage their own card programs, issue cards, and authorize and settle transactions.

Marqeta built its simple, trusted, and scalable platform from the ground up to help companies design seamless payment experiences, streamline purchase flows, and bring products to market faster while minimizing fraud risk.

- **Card issuing**: Instant issuance of physical, virtual, and tokenized cards with direct provisioning to digital wallets
- **Card processing**: Real-time funding using our Just-in-Time (JIT) Funding™ feature with dynamic spend controls to reduce fraud
- **Card applications**: A suite of applications and tools that help you build, manage, and run your card program
- **Modern architecture**: Developer-friendly, modern open APIs, cloud infrastructure, and webhooks

Marqeta is headquartered in Oakland, California and is enabled in 36 countries globally. For more information, visit www.marqeta.com, Twitter, and LinkedIn.

You see a card. We see endless possibilities.