eBOOK

Q2

3 PPP lessons to learn for future lending success

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For years traditional lenders have been leaking market share to fintech competitors who have used their digital savvy to deliver loans faster and more conveniently. The differences in borrower experience between traditional lenders and digital-only players has been so dramatic that borrowers are literally willing to spend more – sometimes at lending rates that are two to three times higher – to borrow digitally.

However, the COVID-19 pandemic and the U.S. SBA Payroll Protection Program (PPP) lifeline changed customer expectations forever and gave financial institutions (FIs) a chance meet their clients' lending needs digitally. During this period, the world was reminded of FIs' unique ability to know and serve their communities. In addition, we all learned that by adapting their lending practices to digital, FIs can speed-up business overnight and meet critical funding for small businesses.

As the industry slowly recovers and takes stock, banks and credit unions face a fork in the road: either they take the lessons the industry has learned during the pandemic and use them to launch a broader transformation of their overall lending practice, or risk falling further behind in a lending market where convenience, speed, and digital are more important to borrowers than ever.

3 PPP lending lessons

For the FI committed to establishing a lasting presence in the digital lending market and ready to compete with fintech, they have to worry about borrower experience.

Moving ahead, bank and credit unions should put these PPP lessons to work to provide effective, sought-after digital lending.

1. **Deliver consistently fast speed of enrollment and decisioning**
2. **Provide topline customer engagement experiences – think ease of borrowing**
3. **Use technology to mitigate loan fraud, especially loan stacking**

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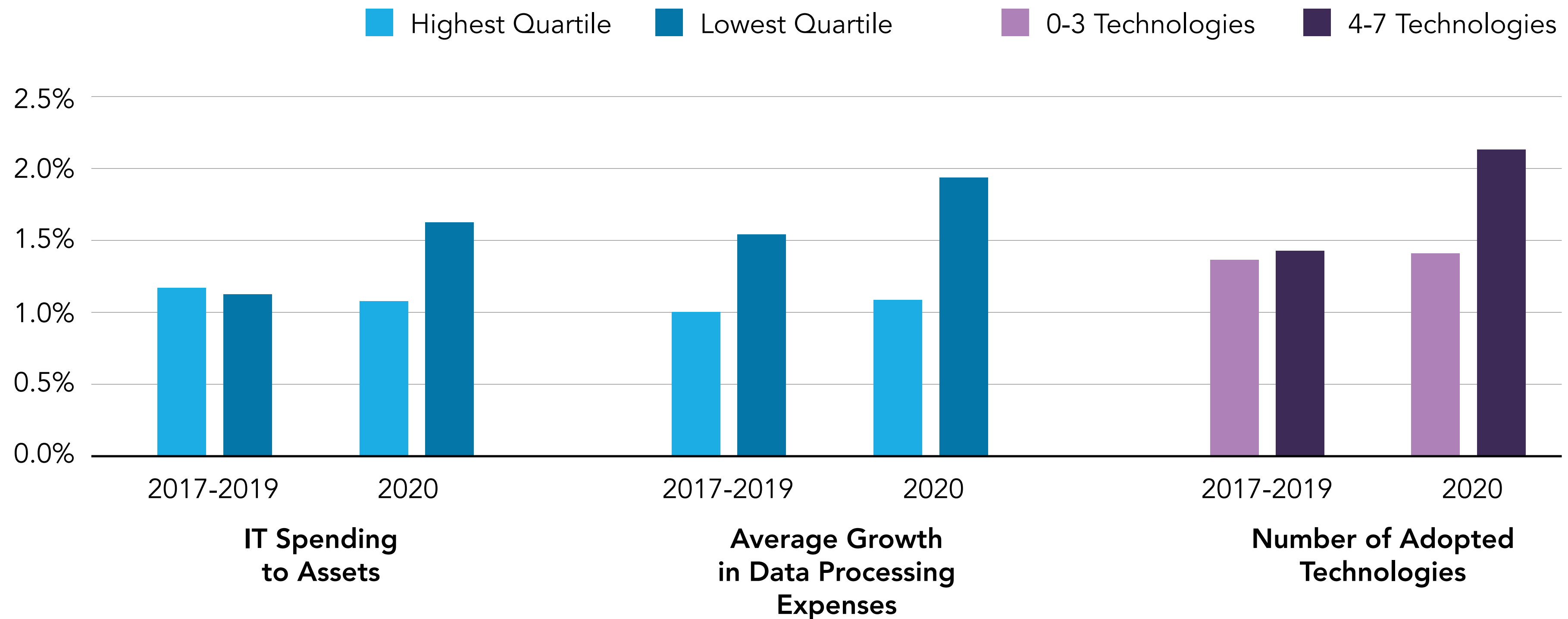
Slow to deploy, slow to approve, slow to success

Despite the fact that some digital lending efforts during 2020 failed to deliver the best outcomes, there were successes, especially when it came to accelerating the loan process. Overall, and to the benefit of small business borrowers, community banks investing in technology saw loan growth. The U.S. FDIC points this out in a recent assessment.[3]

Community Banks With Greater Technology Investment Reported a Larger Increase in Loan Growth in 2020

Median Average Loan Growth by Previous Technology Investment



Sources: FDIC, Aberdeen Technology Data Cloud, and Conference of State Bank Supervisors.
Note: PCs stands for personal computers.

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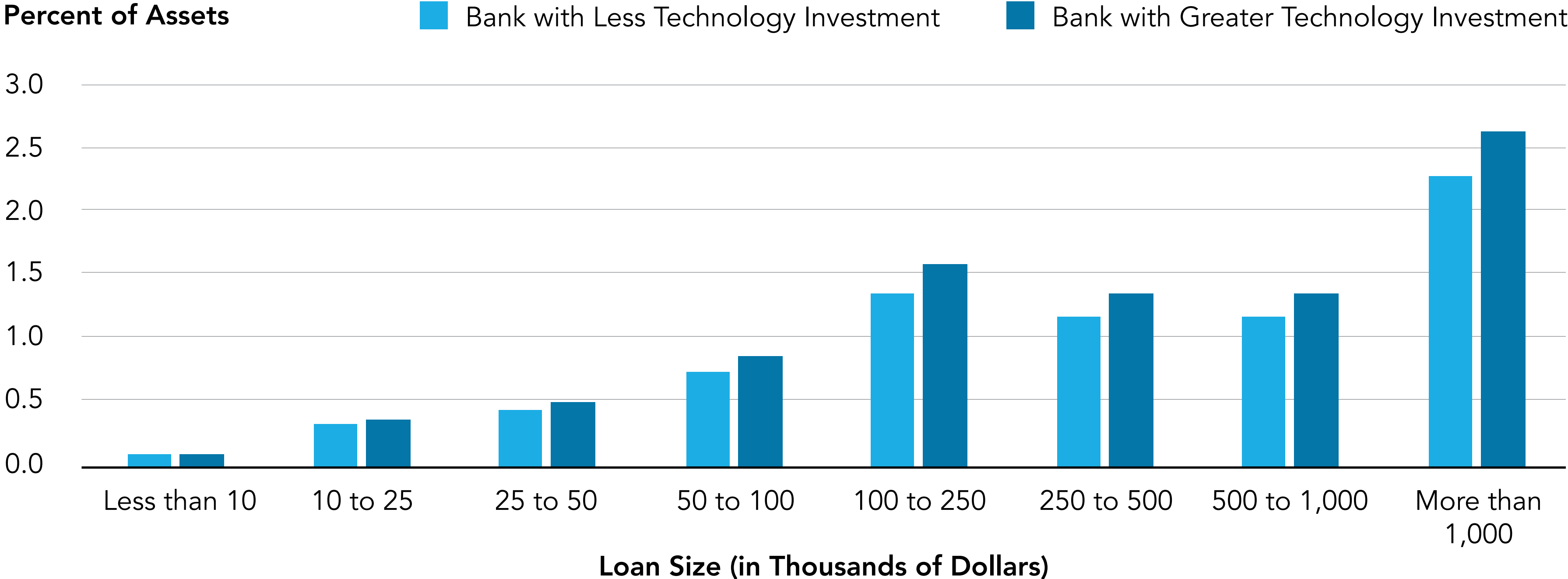

Sources: FDIC, Small Business Administration, Aberdeen Technology Data Cloud, and Conference of State Bank Supervisors

Note: PPP=Paycheck Protection Program. Loan approval based on intial approved amounts. Approvals as a share of assets by week were calculated for each measure and then averaged across the four technology investment measures.

The U.S. FDIC acknowledged that PPP played into the loan growth, but within this context, the community banks utilizing technology came out ahead. Loan growth and potentially deposit growth, by those utilizing digital technology, can be sustained if new relationships created through the PPP lead to non-PPP lending and deposits after the pandemic. The FDIC has clearly stated:

"Given the rising use of digital banking channels before and during the pandemic, it appears likely that an effective approach to technology and technology investment will continue to be important for community banks in the future."[3]

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Speeding time to decision

Again, bringing speed to the lending process is a primary success driver. The need for non-PPP lending will continue, and small businesses want easy application submission and fast decisioning. They want to receive loans and other credit at the speed of business today.

McKinsey surveys have found the average time to decision for traditional small business loans can be between three and five weeks. The firm also has found that piecemeal approaches in the digital lending market are less successful in bringing speed to digital lending.[4]

"Time to decision" can be so much faster, down to just a few minutes, but getting there requires an end-to-end, automated approach – especially one that adopts a cloud-based, API-driven model that can seamlessly integrate with an FI's systems and processes.

This approach allows an FI to fully compete with fintechs and other FIs to meet the growing digital solutions preference of business. More FIs understand that from the PPP effort, an automated and highly functioning end-to-end process – one seamlessly running from initial application to approval in minutes – can be established and carried into standard loan offerings.

It's becoming more apparent to banks and credit unions that cloud-based, API-driven model is the one to embrace for rapidly realized ROI. They recognize that in order to grow in a lower interest environment, they must process loans at a faster, higher-volume pace than in the past.

The right technology – possibly even one out of the box – with third-party integrations backed by a knowledgeable, well tested partner can go a long way in speeding deployment and shaving costs.

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FIs remain the Small Business preference for lending

While fintechs are gaining small business lending share, many businesses ideally prefer to meet credit needs through their bank or credit union. In fact, customer satisfaction ratings are generally much higher than fintechs.[1]

At the same time, over 50 percent of small businesses think their FIs don't understand their needs.[2] Within these statistics is a clear point of importance: when FIs meet small businesses' digital needs like many fintechs are doing, these businesses will remain and likely increase their loyalty to a bank or credit union.

Equally important, there are an increasing number of FIs that see digital lending as a means to maintaining independence or a way to quickly take advantage in a time of banking M&A. They understand that transactional banking in the digital channel is becoming standard fare today, and the ability to meet the needs of businesses with fast response can serve as the foundation for a banking relationship in 2022 and beyond.

UX matters to small businesses

Small businesses are and will remain the bedrock of local economies and they want to do business with local FIs whenever they can provide the services and support they need. The pandemic funding crisis proved this. Given the increasing preference for digital lending, banks and credit unions need to provide value through a great digital experience – "good enough" functionality and one-size-fits-all experiences are not a recipe for winning in today's digitally competitive market.

Opportunities will come using technology that takes the small business lending process from the front-end application process all the way through the backend areas of underwriting and decisioning. Put more simply, an FI must use technology to provide unique customer experiences and engagement—it can be done.

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Change must begin with a digital-first approach with a focus on increased usability. Fifty percent of small businesses admit they are likely to use more bank products and services when they are easy to use.[2] And when asked by businesses if they wished their FI would work with fintechs to offer more innovative and helpful new products and services faster, the vast majority said they did.[2]

To be fully effective, meet growing expectations, and open opportunities to offer other products and services, digital lending should have:

- An easy enrollment process
- Straight-through, seamless loan processing that allows easy configurability
- Automated real-time due diligence and decisioning through integration with best-of-breed data vendors
- And increasingly, self-service anytime, anywhere through desktops and mobile devices.

This requires, as Aite-Novarica has reported[2], "silos to come down to better align platform workflows with the ways in which businesses manage their finances. For example, if a small-business owner notices it has insufficient funds to cover a pending payment, it should be able to easily drawdown on an existing line of credit without having to log in to a new system." This is an example of what can happen when an FI thinks through the customer experience and what small businesses want.

Put a priority on fraud prevention

A disconcerting outcome of PPP is the increase in fraud that transpired. Fraud rates remain "concerningly high," according to Aite-Novarica Group's 2021 Fraud in Small-Business Lending Impact Report.

Aligning digital attributes like flexibility, speed, and convenience – together with better lending rates and relationship building – is a powerful draw for businesses in the post-COVID economy. When a bank or credit union adds effective security and fraud protection to the mix, they offer an attractive offering to small businesses.

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~20%

of lenders surveyed by Aite-Novarica cited loan stacking as a major concern. SMB lending is "dogged by latency," and as a result, a criminal enterprise masquerading as a legitimate business, or a legitimate business in need of funds and willing to commit credit abuse, can easily go undetected if it submits multiple credit applications during a brief time.

Source: to Aite-Novarica Group's 2021 Fraud in Small-Business Lending Impact Report.

The rapid shift to digital lending brought on by PPP brought along with it an increased digital surface area for lending fraud. Lenders and their vendors now have the opportunity to learn from those challenges and address them proactively as they bring the rest of their lending practices into the digital realm.

Those most likely to be identified as the perpetrators of credit abuse or fraud in small business lending are criminals using breached credentials and those committing fraud as a criminal enterprise and masquerading as a legitimate credit-seeking business. Among the fraudsters are legitimate businesses committing deception in pursuit of credit from an institution that would not otherwise extend it. Meanwhile, an FI with a reputation for security lapses will not attract small businesses.

It's so important that fraud prevention technology be part of a digital lending endeavor. Particularly, technology that doesn't bring latency issues and that can quickly discern data anomalies and alert FI staff is necessary.

Q2, as an example, employs:

- Zero Trust security architecture
- Block chain to work to safeguard data
- Threat intelligence

Equally important are the prevention advantages of a security-savvy digital lending approach that:

- Thwarts increasing sophistication of "fraudster"
- Allows existing bank clients can be differentiated (pre-authentication in a platform)
- Automates data access and workflows reduces human error risk

When looking for a digital lending vendor, any FI needs to dig deeply into their fraud prevention approach.

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Moving beyond PPP, FIs can and should capitalize on digital lending

Q2 hopes this eBook has provided a useful overview of what works and what hasn't in the lending environment since the 2020 pandemic crisis and is helpful in ensuring success for any FI's digital lending initiative moving ahead.

Digital lending opportunities remain ripe for FIs: 52 percent of small businesses, as reported in October 2021, agree that if banks can improve their processes, they would be far better positioned to win more lending business, as most small businesses would ultimately prefer to give this business to a bank.

And today most small businesses overwhelmingly – up to 72 percent – feel comfortable leveraging fintech capabilities recommended by their bank or integrated with their bank portal, as opposed to seeking out a partner on their own. Businesses trust their banks will properly vet fintech company referrals.[1]

> Small businesses—poorly served by traditional banks for decades—are also catching up in their use of Fintech. The financial services landscape for these firms has changed drastically in the last 10 years, following innovations such as the introduction of payment apps for small retailers, and the emergence of online lending platforms.
>
> Source: The Big Business of Small Business, April 2019, Oxford Economics

Small businesses want even more from their FI. They're looking to their FIs for assistance with capabilities such as receivables automation, expense management, cashflow forecasting, and seamless payment initiation processes with more payment options.[1,3]

As your FI thinks about its digital lending for 2022 and beyond, you may want to strategize on the future of your commercial banking as a whole. Though these capabilities go beyond what banks have historically offered, they represent the "new normal" for what customers expect and need from their FIs.[1]

To deliver these digital solutions, fintech can significantly help. **Perhaps there's a fourth lesson to learn from PPP: FIs and fintechs can work together to bring better financial services to businesses and everyone benefits.**

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About Q2

Q2 is a financial experience company dedicated to providing digital banking and lending solutions to banks, credit unions, alternative finance, and fintech companies in the U.S. and internationally. With comprehensive end-to-end solution sets, Q2 enables its partners to provide cohesive, secure, data-driven experiences to every account holder – from consumer to small business and corporate. Headquartered in Austin, Texas, Q2 has offices worldwide and is publicly traded on the NYSE under the stock symbol QTWO. To learn more, please visit **Q2.com**.

Sources

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