



DIGITAL LENDING LANDSCAPE

The digital lending landscape is evolving and as more Alternative Finance (AltFi) companies enter the market, traditional banks are faced with increased pressure to rethink and reimagine their digitalisation strategies.

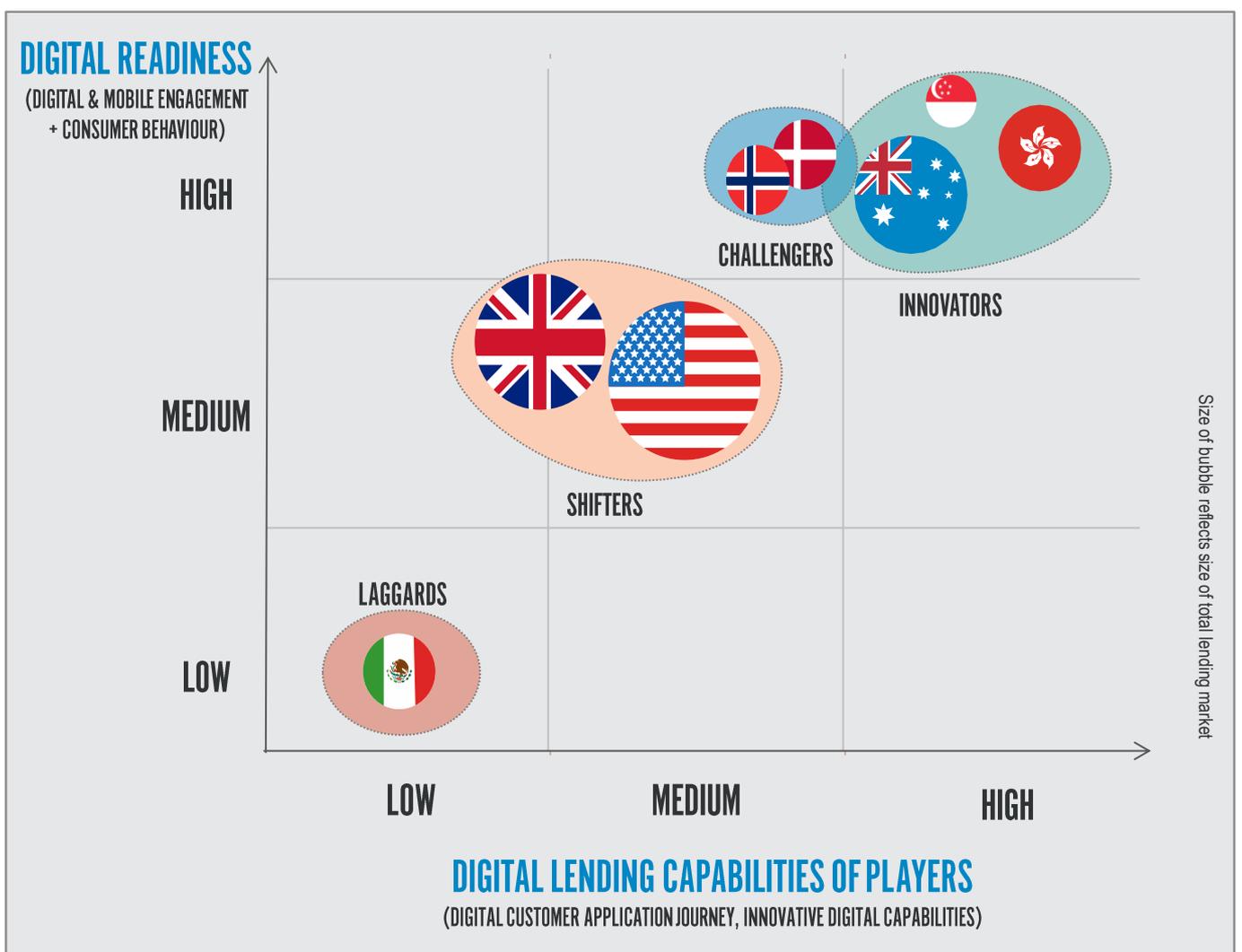
The growth of the lending market is expected to continue over the next 5 years, due to the increasing use of personal loans, POS financing and credit cards; a trend foreseen particularly in the US, Mexico and Hong Kong. Despite this, the digital lending space may not necessarily develop and progress at the same pace. Key factors we consider to contribute to this growth include a robust digital and mobile infrastructure, high digital engagement levels and key players prioritising building and developing their digital strategies.

Companies are increasingly exploring digitalising different aspects of their lending strategy. This can range from digitalising all or parts of the customer journey from the application stage to account management as well as incorporating sophisticated technology to create new digital delivery mechanisms.

KAE has conducted a market assessment to shed light on the outlook of digital lending and the global trends affecting this space.



We analysed the digital readiness of eight countries, the digital capabilities of the key traditional players and the concentration of AltFi companies in those respective countries to determine those that are best positioned to exploit the potential growth in the digital lending space. Our findings have identified four distinct groups within the Digital Lending Landscape; the Laggards, the Shifters, the Challengers and the Innovators. Hong Kong, Singapore and Australia have emerged as the Digital Lending Innovators making strides in this space.



The group characteristics are uncovered in more detail on the next page...

Digital and mobile engagement is based on internet penetration, mobile internet users, smart phone penetration, mobile social media usage, mobile banking usage, purchased / product service) Sources: *Global Social Media Research Summary, We are Social, 27 January 2016; Banking in a Digital World, A.T. Kearney, 2013; Provider websites



DIGITAL LENDING LANDSCAPE



DIGITAL AND MOBILE ENGAGEMENT



INNOVATION



ALTERNATIVE FINANCE (AltFi)

INNOVATORS



AUSTRALIA



SINGAPORE



HONGKONG

Higher Internet penetration, mobile penetration, smart phone usage and mobile banking usage



Traditional banks are launching their own innovations or seeking innovation through partnerships (see below for more)



AltFi lending is growing, despite Peer-to-Peer (P2P) lending being a fairly new concept. Key players include Society One, Ratesetter & Welend, with more expected to enter these countries



SHIFTERS



US



UK

Medium to high digital and mobile engagement



Innovation is generally driven by the AltFi companies rather than traditional banks



Higher concentration of AltFi companies, with some facing high levels of uncertainty (e.g. Lending Club in the US)



LAGGARDS



MEXICO

Relatively low Internet penetration, mobile penetration, smart phone usage and mobile banking usage



Traditional players lack digital innovations, and 'in-branch' remains the preferred channel



Few AltFi companies have entered the country



CHALLENGERS



NORWAY



DENMARK

If players capitalise on the digital readiness of Norway and Denmark, we could witness these countries moving toward becoming Innovators in the digital lending space

The **Digital Lending Innovators** (Australia, Singapore and Hong Kong) have a strong digital and mobile infrastructure in place and traditional banks have developed some of the most advanced innovations there, including:

- Customers applying via a mobile app and receiving almost instant approval
- Mobile apps with optical character recognition technology to capture information from ID documents which pre-populates application forms
- Intuitive and interactive online calculators, giving customers flexibility to calculate a repayment agreement based on their budget



WHAT NEXT?



Digital lending will most likely continue to focus on enhancing the customer experience. Lenders will need to map out different customer journeys that are applicable to the digital world and other digital aspects, such as biometric technology and Bluetooth capabilities, will also become more common. The rate at which this happens will be largely driven by the developments and pace of change within the FinTech space.

WHAT DO WE THINK?



CUSTOMERS ARE SEEKING GREATER TRANSPARENCY WITH LOAN PRODUCTS, AND DIGITAL TOOLS ARE FUNDAMENTAL TO PROVIDING THIS



Sarah Hawley, Senior Consultant



POS INTEREST-FREE INSTALMENT PLANS ARE LIKELY TO REMAIN ONE OF THE PREFERRED LENDING PRODUCTS IN MEXICO. THE NEED FOR DIGITAL LENDING JUST DOES NOT CURRENTLY EXIST



Maja Milosavljevic, Senior Consultant



IN ORDER TO KEEP UP WITH THE SIGNIFICANT ADVANCES IN DIGITAL TECHNOLOGY, BANKS ARE FORGING CLOSER TIES WITH THE FINTECH COMMUNITY. THE VIEW THAT ALL INNOVATION AND DEVELOPMENT NEEDS TO COME FROM WITHIN CONTINUES TO FADE



Matyas Fekete, Research Consultant



BARRIERS CONSTRAINING THE GROWTH POTENTIAL OF ALTERNATIVE LENDING - SUCH AS REGULATION, CONSUMER CONFIDENCE AND THE COST OF BORROWING - STILL REMAIN, BUT THE OPPORTUNITIES FOR ALTERNATIVE LENDERS, ALONGSIDE THE RISK THEY POSE TO TRADITIONAL LENDERS, ARE CLEAR. AS THE CONSUMER PSYCHE BECOMES MORE OPEN TO ALTERNATE LENDERS, ESPECIALLY AMONGST THE MILLENNIALS (GEN Y) AND POST-MILLENNIALS (GEN Z), WE EXPECT ALTERNATIVE LENDING TO ACCOUNT FOR A MUCH LARGER SLICE OF THE LENDING PIE



Chris Holmes, Senior Vice President



KAE is a leading London-based strategic marketing and trend consultancy that works globally with companies across the Financial Services industry

To find out more about KAE's work or to speak to the team, please contact the team at: enquiries@kae.com