Taking A Crack At Digital Lending?

technology lending digital banking

Summary: Only 38% of banks with assets under $1B have a digital origination channel, but interest is strong. What you should know before you go down this path.

Scientists still don't know why knuckles crack when you bend them, but some think the size of bubbles around the knuckles may be the reason. We will keep watching to see if more evidence bubbles to the surface, but in the meantime scientists say cracking your knuckles probably doesn't do any harm.

In banking, evidence suggests bank digital lending strategies may not be all they are cracked up to be either. We know that community banks are likely even more reticent in this department, but we thought the 2018 ABA State of Digital Lending survey, provided some fresh insight into the latest progress and challenges. Here are some of the highlights.

Interestingly, only 50% of banks with assets over $1B and 38% of those under $1B currently use a digital origination channel. This means if you don't have a digital lending channel, you are in good company.

Yet, interest among banks is strong. For example, nearly 75% of bankers say their bank is interested in using a third-party digital platform for consumer loan origination. Not surprisingly, that figure was even higher at 79% for banks with more than $1B of assets.

For all banks, the strongest interest was in partnering for auto loans and unsecured personal loans, followed by home improvement and student loans. Many community banks may not be supporting these types of loans right now, but if you are considering adding them, this could be an interesting option.

When and if the time comes, there are various models that banks can choose from. You can use software-as-a-service solutions to white label your own digital lending processes, or you can develop a referral relationship with outside partners.

Certainly, partnerships between banks and fintechs can be mutually beneficial. Banks gain the opportunity to provide stellar technology to customers, while lowering the cost per loan. Fintechs, meanwhile, are able to broaden their customer base and benefit financially.

There are still challenges of course. When it comes to implementing a digital lending solution, 60% of banks said they were concerned about integrating such a solution with their core system. Meanwhile, 57% said they were worried about compliance, 53% were concerned about the cost of acquisition and 53% had reservations about the ability to ensure a superior customer experience. These are all valid concerns and should be addressed one by one, if you decide to head down this path.

While community banks may be reticent to partner with a fintech for digital lending, if you provide these lending products or plan to, the risks of doing nothing may not be an option.

As the ABA digital lending study shows above, non-bank digital lending is growing at a torrid pace. The sector experienced YoY growth of 93% in 2015 and 58% in 2016. Estimates are that non-bank digital lending will reach $122B by 2020 - a ten-fold increase in only 6Ys. Given the right partner, a good strategy and mitigating the risks appropriately, your bank could see opportunity bubble up in the digital lending arena too.

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