Modulr

Whitepaper

Survey results

Where's my money? Meeting consumer expectations for instant credit

July 2018

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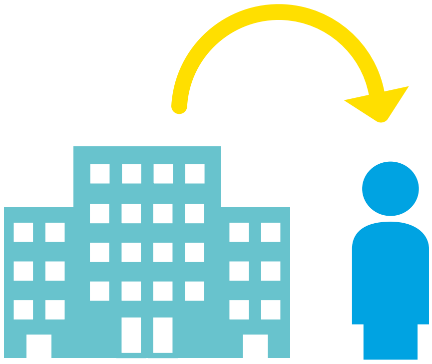
Modulr Finance, July 2018

Rapid online loan approvals and disbursements are core to the proposition of many UK consumer lenders. Customers often need funds to finance emergency or aspirational purchases and the speed with which they receive the money has become a significant competitive benchmark.

However, 40% of lenders see quick delivery of funds as one of the three biggest challenges facing their business. This is one of the lead findings from a survey, commissioned by business payments provider Modulr, into the challenges faced by lenders.



Whilst most consumer lenders use the real-time payment system, Faster Payments, for disbursing loans, they receive an inconsistent level of service from traditional banks and third-party service providers. Around 40% believe that service availability and/or poor Service Level Agreements (SLAs) offered by banks and payment platforms hamper their ability to quickly and reliably deliver funds. As many as a third may not know whether the loan has even reached the borrower's account – until the customer complains or is lost to a competitor. This reality undermines consumer lenders' desire to provide a seamless, end-to-end customer experience that encompasses the initial online or mobile loan application, approval, and finally, disbursement of the loan to the customer's bank account.

Arguably, the payment services currently used by many lenders are not fit for purpose. While alternative lenders have transformed the credit landscape through simple online application experiences and almost instant risk decisioning and approvals, they are being let down by a payments infrastructure that hasn't caught up with the demands of the market.

This paper explores in more detail the loan disbursement and reconciliation challenges identified by consumer lenders we surveyed and how they can benefit from new API-centric payment platforms, which can improve the speed, availability, and visibility of payment delivery, while offering simple and flexible integrations and reducing unnecessary manual processing overheads.

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About the research

Modulr partnered with Credit Strategy and the Consumer Credit Trade Association to undertake an online survey of consumer and business lenders, brokers and consultants. The survey canvassed opinions on the business challenges facing lenders, use of payment processing services, issues impacting payment speed and reliability and the business impacts of payment errors and delays. The survey was supplemented by telephone interviews with a sample of the online survey respondents. These interviews explored the issues raised in more depth.

Please note that some of the survey questions provided the choice to select more than one option, so totals in the charts included in this report may be greater than 100%.

Key findings in 30 seconds

Speed of processing is the most common challenge faced by lenders

- Quick delivery of funds
- Manual payment reconciliation
- Collecting funds on time

41% of lenders face these three biggest challenges

6/10 Lenders use *Faster Payments*

60% of lenders have **lost customers** due to payment delays or errors

OTHER CHALLENGES

36% Onboarding of customers	**36%** Accessing bank / payment platform	**32%** Keeping up with the competition
27% New customer credit checks	**18%** Real-time payment receipt notifications	**16%** Reliability of payment facility

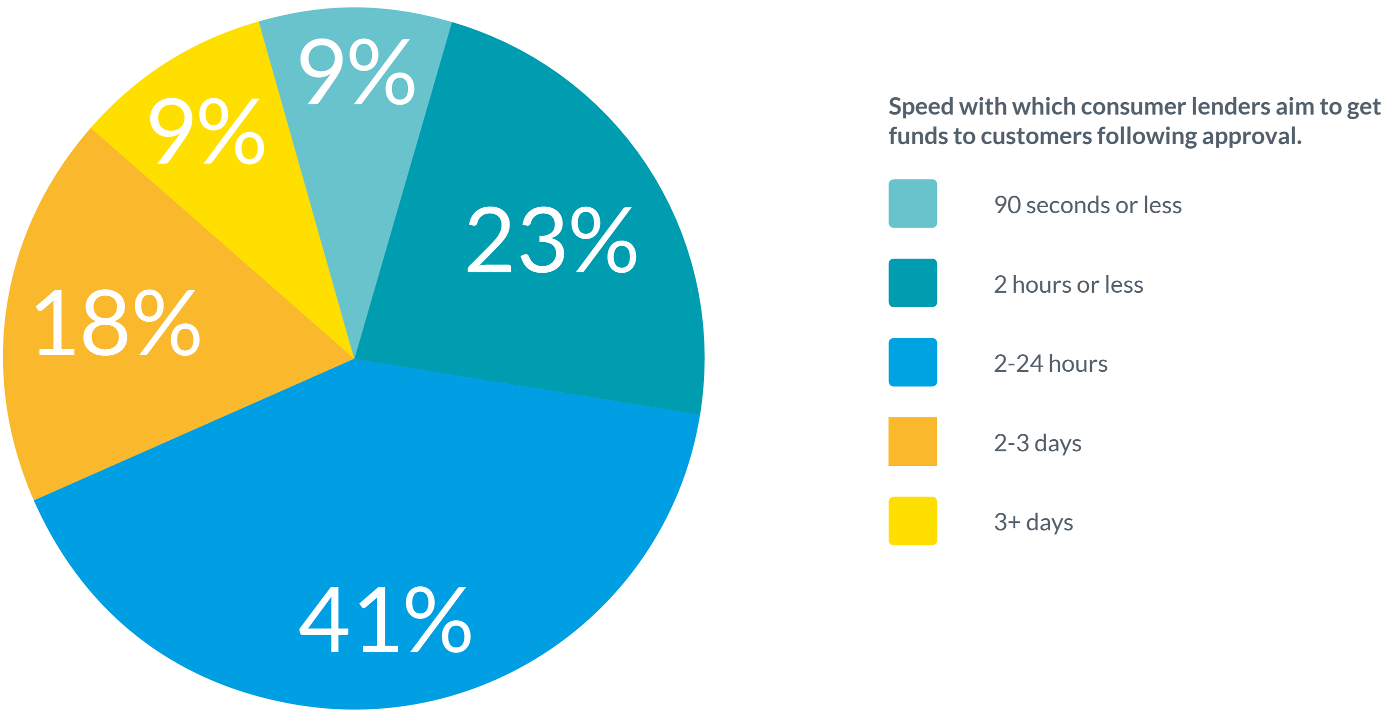
60% Do not deliver funds as quickly as they would like to, due to manual approvals and processing

36% Can not disburse funds as rapidly as they would like to, due to poor payment / bank platform availability or inadequate SLAs

Payment speed is critical – and a challenge for many

More than 70% of the consumer lenders we surveyed aim to deliver funds to their customers within 24 hours of loan approval. For around half of these, the target is less than 2 hours.

Speed with which consumer lenders aim to get funds to customers following approval



Borrowers, especially those seeking short-term credit, need to get – and expect – immediate payment. The market standard in this sector is same-day approval and receipt of funds and the survey results reflect this. As one high-cost short-term credit (HCSTC) lender that processes half a million loan applications a month put it: *"In the business we are in, (immediate payment) is very, very important. It is the standard across the industry and customers who need the money for an emergency need it now."* This lender also pointed out that for a customer, knowing they will get the money quickly brings the additional benefits of peace of mind and confidence in the lender.

41% of consumer lenders cited quick delivery of funds as one of the biggest challenges.

Despite the need for speed, 41% of consumer lenders cited quick delivery of funds as one of the biggest challenges their business is currently facing. It is also clear from the survey that failure to meet consumer expectations can result in loss of business.

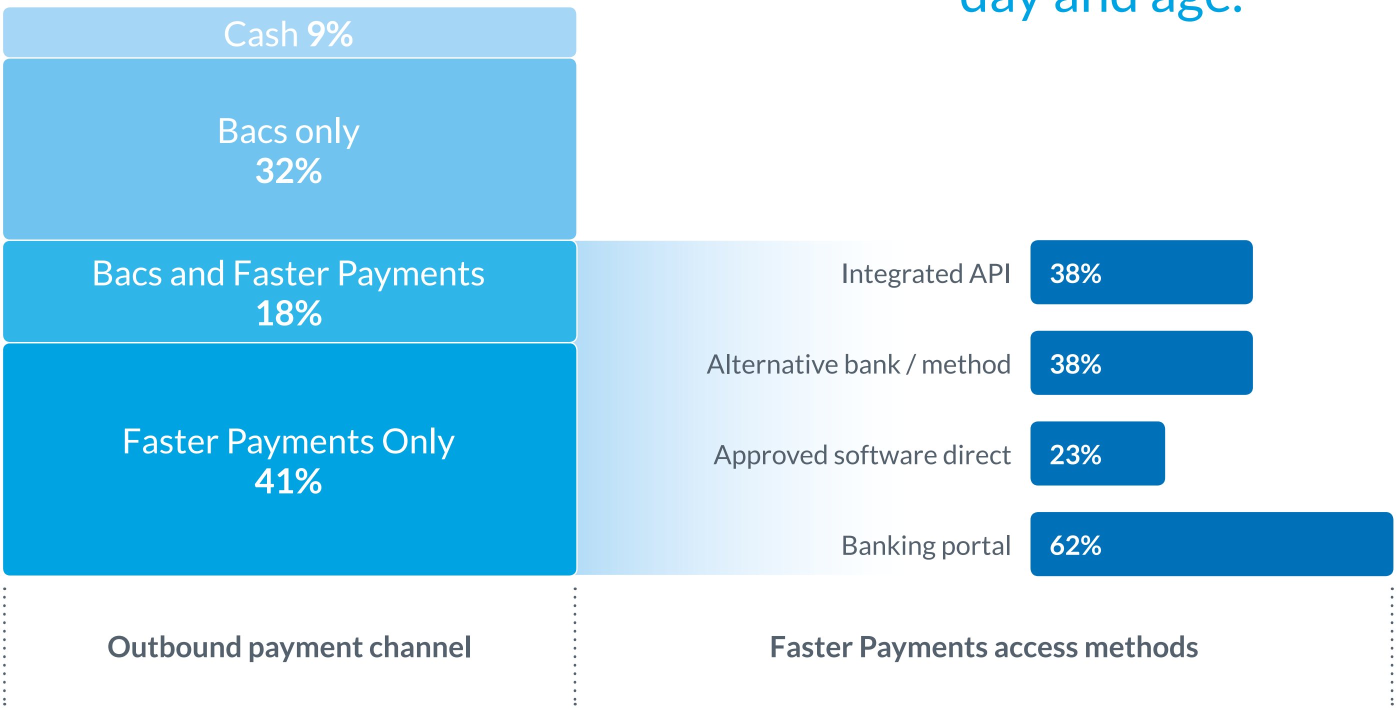
Sixty percent of our respondents reported losing customers because of delays or errors in disbursements. The risk is exacerbated when the lender doesn't have a reliable way of knowing whether the funds have arrived. As one lender explained: *"We only know they haven't got the funds when they ring up. The worst case is if this happens over a weekend and we get an email from the customer saying they haven't received the money and don't need it anymore because they have gone somewhere else."* →

Faster Payments – quick, but access can be problematic

As expected, most short-term consumer lenders in the UK rely on Faster Payments to pay out to borrowers.

It has to be Faster Payments in this day and age.

Outbound payment channels and access



Sixty-two percent of consumer lenders using Faster Payments gain access via their banking platform or portal. The remaining 40% use an intermediary. However only 38% of Faster Payments users make use of an API.

What is an API?

An API, or Application Programming Interface, enables computer systems to directly exchange information with one another. It means payments to customers can be more easily triggered from within accounting, payroll, HR or other software applications, without the need for time consuming and error-prone manual file handling.

How consumer lenders access Faster Payments matters. Poor service from banks or platform providers has an impact in terms of speed, flexibility and ease of integration.

Only 38% of Faster Payments users make use of an API.

User experience and risk decisioning are key differentiators

Speed of payment disbursement is only one of the key success factors for HCSTC lenders. The ease and speed with which the customer can make an application and gain approval is critical to the user experience and to a lender's ability to win and retain customers. Competitive advantage is driven primarily by risk policy and decisioning. As one HCTSC lender put it, *"Loan decision and speed of disbursement go hand in hand. From a marketing and customer onboarding point of view, decision-making speed is very important."* →

This is particularly critical where lenders are taking referrals through online lead brokers, or "ping trees," and typically need to make lead bid decisions in less than two seconds.

As a result, successful online lenders are technically sophisticated, actively investing in proprietary lending-decision algorithms. Some have their own APIs for integration with data and payment providers.

Fast approvals are not backed by effective payment processing

But the payment or loan disbursement process is where things start to come unstuck. Consumers move from what is a relatively sophisticated, technologically advanced and elegant experience on the front end, to a process that does not quite match up with customer's expectations.

Sophisticated lenders are being let down by bank and platform processes and SLAs that are not necessarily designed to meet the needs of credit providers in the digital age. Almost 30% of consumer lenders identified 24x7 bank or platform availability as a problem impacting fast and reliable delivery of funds.

Twenty-seven percent also have concerns about poor bank or payment-platform SLAs, with 41% mentioning either one or both these factors as a concern.

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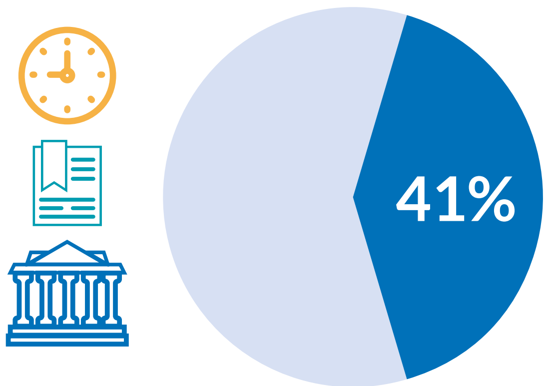


...of consumer lenders report that availability of their bank or payment platform and / or a poor SLA prevents them from paying borrowers quickly or reliably

Whilst business lenders appear to be happy with the service they receive from their banks, consumer lenders face more challenges in getting the level of service they need. The historical reputation of the industry may have impacted the service levels consumer lenders receive from the banks, particularly in the high-cost, short-term credit market. As one such lender remarked: *"The industry, rightly, had a poor reputation. However, it is now in a much better place, but perceptions are still poor… Some payment providers took the attitude that they were doing us a favour."*

Thirty-six percent of consumer lenders also find accessing bank and payment platforms a challenge. One HCSTC lender summed it up by saying: *"Banks are quite slow and not able to directly plug into our system."*

The third-party payment providers that some lenders rely on to access Faster Payments can also be difficult to integrate with and may not be responsive to the requirements of individual lenders. One described the difficulties →

and delays they experience transferring money into third-party service providers' accounts to make payments: *"Some payment providers make it very difficult, especially for cross-border payments. It often takes days to get into the account, and we don't know when the payment is going to hit the account. We really do need to know we've got the funds there."*

Manual approvals still have a place

For other sectors, including business lending and longer term, higher-value consumer loans, the focus is somewhat different. The ability to accurately assess risk is just as critical, but speed matters less to the customer and many lenders choose not to fully automate the approvals process.

Manual approvals can ensure more nuanced decisions – especially when the lender needs to assess a complex balance of opportunity and risk, for example with higher value business loans. It can also give the consumer a more premium experience. As one business lender explained: *"We have to look at a deal and see if it makes sense. We rely on our account executives to do this — machines can work on an algorithm, but they can't tell the difference between a light and dark shade."*

That being said, unnecessary manual intervention does adversely affect customer experience. Sixty percent of lenders said that manual processing and/or in-house approvals processes prevent them from quickly and reliably delivering funds to customers.

APIs simplify payment platform integration

One of the important lessons from the survey is that payment provider integration should be easier – and APIs are the best way of achieving that. As one of the lenders put it, *"APIs definitely could transform the business and are one of the most useful things we have put in place."*

Another one added, *"Once approved, transfer of funds normally takes place in less than two hours….. if we had something that could plug straight into our systems, we could distribute in minutes."*

However only a quarter of our respondents are using APIs. The majority of these are using an integrated API to access Faster Payments. Only one respondent was accessing Bacs via an API.

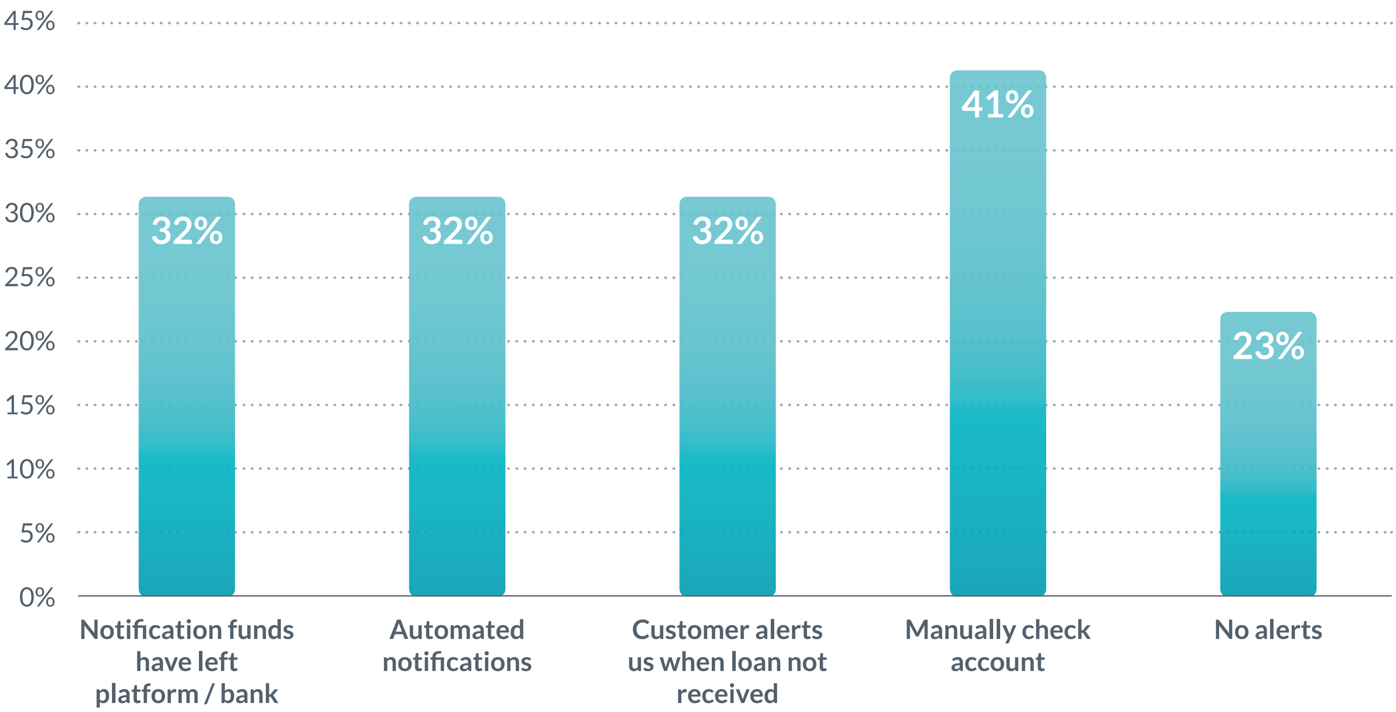
When considering a new payment provider, ease of integration and quality of onboarding support are key. Lenders need to consider the fact that there may be a 'bedding-in' period with a new payment provider. However, payment delays or errors experienced as the technology and processes stabilise will result in lost customers. The lender and platform need a close relationship to minimise this impact. As one interviewee put it: *"You can expect teething problems with any new provider. It's how they communicate with you and resolve those problems that is key."*

60% of lenders said that manual processing and/or in-house approvals processes prevent them from quickly and reliably delivering funds to customers.

Lenders too often rely on customers to alert them to payment problems

Getting positive notification that customers have received their funds is critical to providing good customer service. However, our survey results showed that only one third of consumer lenders receive automated notifications of payment. Another third relies on the customer notifying them if the loan is not received and nearly a half use manual checks. More than 15% of respondents see the lack of real-time notification of receipt of payment as one of the biggest challenges faced by their business.

Consumer lenders – notification of payments made to / received by borrowers



Inbound payment reconciliation is a further challenge

Reconciliation of inbound payments to borrower accounts is a further challenge. Slow or manual repayment reconciliation was one of the most commonly mentioned challenges faced by consumer lenders in our survey, with 36% highlighting it as a problem. This is especially the case for bank transfers or direct credits set up by consumers. As one lender pointed out: *"It is very important to have a robust referencing system. We have a problem with receiving payments if the customer doesn't give the correct reference. Effectively managing inbound payments is critical."* But card repayments are not without problems. Another lender said, *"We predominantly use card payments for collections, but we have issues reconciling card payments with our systems."*

Manually reconciling inbound repayments to customers' accounts adds an unwelcome process overhead and carries the risk of errors, which can lead to unnecessary customer dissatisfaction and complaints. Automated reconciliation is a benefit of moving to an API-based platform and brings both increased efficiency and accuracy. →

Automated reconciliation is a benefit of moving to an API-based platform.

Open Banking could be a game changer

All the consumer lenders that Modulr spoke to are assessing the potential of Open Banking. Real-time access to applicants' bank account data is expected to significantly improve approvals decisioning. As one lender pointed out: *"Open Banking will change the game. Lenders will be able to rely more on what is happening day-to-day with applicants' finances, rather than relying on credit agency data which is based on what has happened before and may not be a good indicator of the current situation. It also allows us to see actual account information rather than relying on what customers say."*

Another lender who has registered as an Account Information Service Provider (AISP) told us, *"it will make the quality of underwriting even greater."*

There is also an expectation that Open Banking enabled payment initiation services will help address the integration challenges that lenders currently face. One lender told us, *"Banks are quite slow and not able to directly plug into our system. When Open Banking comes in I hope this will change."*

However, there is still uncertainty around how smaller lenders will access Open Banking. It is likely that many will want to go through third-party integrators and may not want to become regulated Account Information Service Providers (AISPs) or Payment Initiation Service Providers (PISPs) in their own right, at least until the business model is proven.

What is an AISP?

An Account Information Service Provider (AISP) offers an account aggregation service that allows customers to get a single view of all their payment accounts via one site. Lenders and credit reference agencies are likely to use AISPs to make better informed lending decisions.

What is a PISP?

A Payment Initiation Service Provider (PISP) is an overlay payments provider that can make a direct bank transfer from the customer's account with another payment service provider to pay a retailer or merchant. The benefit for the merchant is that they can determine whether the funds are available before releasing the goods or service.

As one lender said to us: *"Open Banking is still a new market – it is difficult to see what it will be like and there are potential issues, for example, around security. Initially we would be happy to use a competent third party."* They also pointed out the necessity that those partners understand the credit provider market – something that some vendors they have been approached by do not yet recognise. *"This seems to come as a surprise to them at times, I'm not sure who they really cater for,"* said one lender.

The benefits of moving to an API-based payments platform

Lenders operate in a highly competitive market and optimisation of processes is key to both cost minimisation and the ability to deliver customer satisfaction.

It is in the interests of all lenders to ensure the payment services they use match the performance levels they promise their customers. Relying on →

Lenders will be able to rely more on what is happening day-to-day with applicants' finances, rather than relying on credit agency data.

traditional banks means that lenders cannot always measure up to the challenge.

Cumbersome payment platform integrations and manually intensive payment and reconciliation processes all bring unnecessary complexity and cost.

Migrating onto a developer-friendly, API-driven platform, such as that provided by Modulr, simplifies the payments challenge and offers guaranteed performance that lenders can rely on to compete effectively and delight their customers. Typically, lender systems can be fully integrated with these platforms with minimal development overhead.

Disbursement payments can be triggered automatically as soon as a loan is approved, and payment delivery notifications provide reliable and immediate confirmation of receipt. In addition, borrowers can be allocated individual payment accounts into which they make their repayments. This enables accurate, automated account reconciliation with no reliance on the customer to use a correct reference.

Modulr's own platform offers the following specific advantages that have been proven to help its customers optimise their disbursement and collections processing:

- 24x7x365 access to Faster Payments
- Industry-leading SLA that guarantees 99% of payments submitted to Faster Payments will be received within 90 seconds
- Simple integration and onboarding processes – with developer-friendly reference documentation
- Real-time notifications when funds are received
- Unlimited collection accounts for easy reconciliation
- A roadmap of new features, which includes Direct Debit collections, Euro payments and the adoption of Open Banking

Contact Modulr at **sales@modulrfinance.com** to find out how we can streamline your business payments and reduce overheads.