

At the forefront of digital lending

A white paper exploring the convergence
of technology and lending



Aryza Lending Division

0800 088 5815 | www.aryza.com/uk_EN

aryza

Historical evolution

The lending outlook in the UK and the Republic of Ireland has historically been shaped by various financial institutions, including banks, building societies, and alternative lenders – which are typically private companies providing lending solutions and operating with a structure akin to traditional banks.

However, the introduction of advanced technologies into the industry has led to a new era of digital lending, which is now at the forefront of disrupting conventional lending practices.

Lending industry today

Lending manifests itself in familiar categories such as mortgage, vehicle, student, personal, home equity, credit-builder, debt consolidation, and payday loans. They also take on different forms namely, secured, or unsecured and they can be further described as revolving or term. These diverse lending avenues means that we need to have a broader array of choices to address emerging borrowing needs and preferences.

In the world of lending today, we are experiencing a digital acceleration. The conversion from long-established lending systems into automated models is actively being pursued by most financial service providers. This can be perceived as a proactive response to the evolving digital environment, which has been significantly shaped by the continued growth of digital interactions. As automation continues to reshape lending processes, it remains essential to address the challenges borrowers face in meeting their financial obligations. Financial institutions must ensure that digital lending solutions remain accessible and adaptable to changing economic conditions.

The digital acceleration of lending in the UK and the Republic of Ireland has been driven by evolving economic conditions and technological advancements. The anticipated growth in credit demand, as projected by an EY report for 2025-2026, highlights a steady increase in bank lending (3.7% to 4.3%), business lending (5.6% to 6.2%), and mortgage lending (2.6% to 3.3%).

Economic recovery is expected to gain momentum compared to previous years, supported by falling inflation and anticipated interest rate cuts, which will contribute to lower borrowing costs. These developments indicate a more favourable lending environment for both consumers and businesses.

The outstanding debt for borrowing in the UK stands at 233 billion British pounds, while in the Republic of Ireland, it is approximately 219.1 billion Euros. The sustained cycle of borrowing underscores the ongoing need for financial support, particularly in consumer loans for personal, family, and household use.

Loan automation is now unfolding within a landscape where digitalisation has become an integral component of how consumers manage their finances and also how lenders manage their portfolios.

In this new era of lending, technology plays a crucial role in creating a progressive, and adaptable digital lending sphere that aligns with the demands of the rapidly changing economic climate.

Digital lending

In traditional lending models, both lenders and customers encounter significant challenges, particularly in the domains of credit decisioning, information accessibility, data accuracy, associated costs, and the overall duration of the process. The credit decisioning process typically experiences delays due to labour-intensive manual processing. Additionally, the required information for credit approval decisions may undergo prolonged analysis, potentially leading to inaccuracies in interpretation that can influence the final credit decision outcome.

At present, the introduction of digital lending has effectively tackled the challenges associated with conventional lending models across multiple fronts:

1 | Uplifted customer experience



The necessity of physically visiting a bank or the offices of other lending service providers is steadily becoming obsolete. Digital lending offers advantages such as mobile apps and online platforms that enhance the customer experience, enabling them to apply for credit facilities from any location.

AI-powered integrated customer service tools also facilitate interactions between customers and the lending company, greatly assisting in the collection of essential basic information. In cases where more intricate details are required, the tool can then seamlessly connect the customer with an agent or staff member.

2 | Quality decision-making



Digital lending systems possess the capability to accurately retrieve and convert data into analytics, fostering an in-depth understanding of individual customers.

Lenders can make better informed decisions in the loan origination process, when it comes to aspects such as income verifications, credit checks, credit scoring and loan outcomes.

Additionally, customers can benefit from data by gaining access to a digital overview of their financial situation. This overview includes features such as affordability checkers, digital payment schedules, payment history, digital loan calculators, and outstanding balances. Such access enhances their decision-making capabilities when evaluating the most suitable financing options for their needs.

3 | Cost-efficiency



The quicker lending companies embrace digital integration in their business processes, the more they can strengthen their pricing power. Consequently, this will have a lesser impact on demand in terms of prices, as they gain a competitive edge through pioneering the digitised approach. Simultaneously, the reduction in manual processes requiring many staff, administrative costs and office spaces is expected to lead to a noticeable decline in operational costs for these companies.

Borrowers can derive additional advantages from the more favourable interest rates offered by online lending platforms when contrasted with those provided at traditional physical lending institutions. Furthermore, armed with a comprehensive data overview of their financial situation, they can harness cost-saving plans that are automated through digital platforms, thereby reaping the benefits.

4 | Effective time management



Loan processing and approval times can be significantly reduced. Typically, it might take several weeks to months, depending on the type of loan that has been applied for.

Digital lending is now transforming application timeframes, enabling quicker or even instant outcomes. Moreover, digital infrastructures facilitate effective priority setting, allowing for a balanced allocation of time between high-priority tasks and those requiring less time, thus reducing time wasted on unnecessary areas.

Risk management strategy in digital lending

Within the digital ecosystem, loan transactions are experiencing significant growth. Various types of loans can now be disbursed digitally through a multitude of online channels, serving a wide spectrum of individuals with diverse financial profiles.

While digital lending presents numerous opportunities and advantages, it also brings certain risks. Therefore, it is imperative to have an effective risk management strategy in place to prepare for potential disruptions that may arise in this dynamic landscape.

The critical areas that are to be examined cover payments, IT infrastructure and regulatory compliance.

Payments

For borrowers, the possibility of not being able to make loan repayments is a real concern, particularly during unfavourable financial circumstances that shape the social climate. This risk is prevalent in traditional lending, and it is equally applicable to digital lending. If borrowers are unable to meet their repayment obligations, lenders are exposed to the risk of incurring substantial financial losses due to non-payments.

Implementing a risk mitigation plan can establish the necessary foundations for conducting due diligence when analysing customer profiles. This analysis includes factors such as income verification, affordability, vulnerability, credit history, and the ability to meet repayment obligations.

Additionally, it aids in the early identification of warning signs, particularly after the onboarding process. These signs may involve behaviours like frequent late payments, unexplained alterations in transaction patterns, and reduced interactions and engagements.



IT infrastructure

In the digital sphere, the heavy reliance on software and online platforms exposes both lenders and customers to potential risks, including cyberattacks, technical disruptions that can result in privacy breaches, and data losses. These risks can pose significant challenges to the overall lending operations.

Employing a risk management approach is vital to address these serious security concerns and ensure the implementation of effective mitigation strategies. A comprehensive risk management agenda should encompass the adoption of stringent cybersecurity measures, including robust encryption protocols, firewalls, and the implementation of multi-factor authentication.

Regular IT security audits are crucial to monitor and maintain the security of the system. Additionally, a recovery architecture can be put in place to have a backup plan in case of potential data loss. Furthermore, emphasis should be placed on training to equip employees with the knowledge and skills needed to navigate IT protocols and security measures effectively. This ensures smoother and more secure operations within the digital lending environment.

Compliance

Considering the escalating rates of interconnectivity in lending and borrowing activities, the role of regulatory frameworks has become paramount. This is primarily attributed to the numerous challenges that surface, particularly concerning issues related to privacy and cyberattacks.

Consequently, compliance with pertinent laws, regulations, principles, and best practice standards is imperative to ensure the security and integrity of the digital lending marketplace. These regulatory measures encompass a wide range of legal obligations, covering aspects such as consumer protection, data privacy, Anti-Money Laundering (AML), Know Your Customer (KYC), digital and e-signature procedures, as well as interest rates and usury regulations. This approach fosters a transparent, ethical, and responsible digital lending environment, where the interests of both lenders and borrowers are safeguarded.

The advantages associated with a highly compliant environment extend far beyond this foundation. They also lead to building trust, contributing to growth, mitigating legal risks, enhancing the company's value, streamlining internal operations for efficiency, and positioning the company as a forward-thinking and progressive entity.

Key transition method

The primary inquiry arises when lenders express their interest in digitising their lending processes – up to what extent? In this context, we will categorise this phase into three pivotal stages: nascent, growth, and mature.

Nascent stage

1

The initial emphasis is on introducing minor enhancements to the digital lending journey. Key focal points encompass:

Onboarding: Partially digitised yet necessitating physical documentation.

Underwriting: Manual underwriting creates a bottleneck, relying on manual verification.

Credit decisioning: Simple rule-based decision-making.

Growth stage

2

The priority is to augment digital transformation not only in the front office but also in the back office. Key focal points encompass:

Onboarding: Onboarding is predominantly digitised, with limited physical interactions.

Underwriting: Mostly automated, accompanied by occasional manual checks. Integration of third-party APIs for incorporating scores.

Credit decisioning: Simple rule-based decision-making.

Mature stage

3

The focus is on achieving comprehensive digital optimisation throughout the lending journey. Key focal points encompass:

Onboarding: Onboarding is entirely digitised, eliminating the need for physical interactions unless mandated by regulations.

Underwriting: Fully automated, employing third-party APIs extensively for underwriting and customised product offerings.

Credit decisioning: Advanced decision-making using intricate analytics and machine learning based on comprehensive data.

Then vs now: How digital lending can help all stakeholders

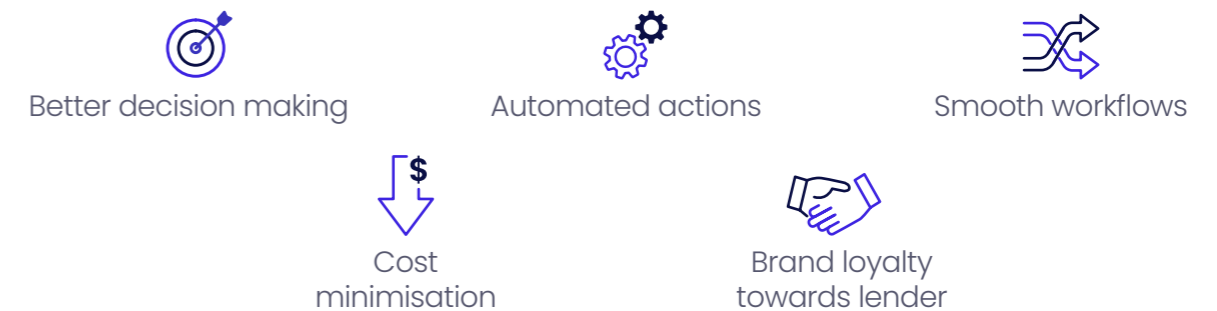
Currently, most lenders find themselves in the growth stage. A small portion of lenders are struggling to adapt to the evolving demand, while a very select few have fully embraced digitalisation. The latter group faces challenges such as high costs or the absence of optimal software and resources.

Traditional lenders are using legacy software's which have the following issues:

- 1) Poor performance issues during high volume periods.
- 2) Disjointed systems.
- 3) Multiple data sets resulting in process inefficiencies.
- 4) Manual intervention at times of fraud, risk, or error.
- 5) Manual porting to separate data source and systems.

Fintech's are disrupting the market by providing strong performing software for loan origination and loan management. These cloud-based software's can provide automated intervention and easy porting abilities. Benefits to stakeholders:

Lenders:



Employees:



Borrower:



Fintech lending

In the convergence of finance and technology, fintech is swiftly disrupting the industry by streamlining financial processes and furnishing financial institutions with revolutionary tools. This transformative shift is paving the way for innovative financial solutions, notably evident in the emergence of fintech lending within the lending domain.

One of fintech's prominent features is APIs, which serves as an interface enabling electronic advancement of transactions in the lending ecosystem. The experiences drawn from this, for both lenders and borrowers, indicate that the results of the approval, payment, repayment, and collection processes can be generated more quickly and with increased accuracy.

With the incorporation of AI and data analytics to enhance the benefits of APIs, digital lending can effectively address issues of convenience and security. Fintech in lending can be integrated through different extensions such as **Open Banking**, **Open Finance**, **Peer-to-Peer (P2P)** and **Neobanks**.

Open Banking

Introduced in 2018, Open Banking has evolved into a crucial fintech product in the market. Functioning as a service exchange tool, it facilitates the seamless movement of data between financial entities and regulated third-party providers.

Open Banking enhances lending processes by instantly generating affordability checks and offering a real-time view into bank accounts for income verifications.

This capability significantly contributes to expediting customer onboarding procedures.

Open Finance

Open Finance has expanded beyond the confines of Open Banking, which predominantly revolves around transaction data controlled by borrowers. With this evolution, borrowers now have broader access to their financial data.

This extended access allows the mapping of the financial footprint of borrowers, enabling the generation of customised lending solutions that align with their financial profile.

Consequently, this approach enhances the final outcomes of loan transactions, offering a more tailored and beneficial experience for borrowers.

Peer-to-Peer (P2P)

Peer-to-Peer (P2P) lending is a financial practice that emerged in 2005. It involves lending transactions that take place directly between individuals rather than involving traditional financial institutions such as banks.

P2P platforms have proliferated through this trend, presenting a wider array of options compared to conventional financial entities. Through these platforms, borrowers can establish direct digital connections with lenders, enjoying enhanced flexibility and more favourable interest rates.

This lending model has reshaped the borrowing landscape by fostering direct, digital interactions between individual lenders and borrowers.

Neobanks

Fintech lending has extended its reach to include remote banks, commonly known as neobanks or challenger banks. The architecture of neobanks closely resembles that of traditional banking models, but with a key distinction – they operate exclusively online, devoid of any physical branches.

Within the realm of digital lending, neobanks leverage advanced algorithms to transform decision-making. The algorithmic capabilities of neobanks play a pivotal role in reshaping decisioning processes within the fintech lending landscape, aligning with principles of fairness and transparency to enhance the credit scoring systems in delivering optimal outcomes.



Aryza's technologies at work

Technology has fundamentally revolutionised the lending landscape. In the past, securing a loan relied solely on manual processes. Today, technology plays an integral role in various facets of the lending process for most financial institutions.

Origination

Currently, we have applications that allow lenders to capture the loan applicants' details, feed them into the decision system, and depending on the outcome, direct the application to a workflow. If the loan application is accepted, the workflow manages the applicants' onboarding and collection of documents, right through to the payment of the loan.

Loan Management

Loan management has become a key aspect for lenders, integral to operational efficiency. Typically, loan management software includes managing the loan book, reconciling loan payments against the correct loan accounts, managing regulatory notices, and applying the correct set of interest and principal.

Arrears Management

Arrears is a financial term that refers to the status of payments in relation to their due dates and is usually used when the liability has not been paid before or on the date it is due. Arrear Management Software can help banks and financial institutions categorise pending loan arrears based on their value, days, regions and perform follow-up actions.

Debt Management

For most individuals, loan repayment marks the conclusion of their lending journey. Nevertheless, in cases where customers encounter financial vulnerability, they may find it necessary to seek assistance from a financial advisor. Modern software solutions available on the market leverage open banking, open finance, and credit scores to deliver tailored and optimal financial guidance.

Insolvency

Current software connects the trustee, lenders, and debtors. These programs provide end-to-end case management systems for managing all types of insolvency solutions.

Looking ahead

To ensure the successful digital integration, it is essential to consider the following factors:

1. Collaboration over silos

Various departments need to be actively involved in the process of digitisation, including operations, risk, finance, data & analytics, and IT.

2. Understanding the baseline

Identifying bottlenecks and challenges before commencing the digital integration project is important. This step provides clarity on the necessary actions to be taken.

3. Prioritisation roadmap

Priorities should be established to gain insight into the value at stake and to facilitate a smooth sequencing of the implementation.

4. Agile development approach

This approach provides flexibility and adaptability as the digital project evolves. Given the dynamic nature of digitisation, beginning with a manageable minimum viable product (MVP) serves as an ideal starting point, acting as a confidence builder. This can ultimately lead to a seamless expansion across the entire organisation, enabling the effective capture of value.

About Aryza

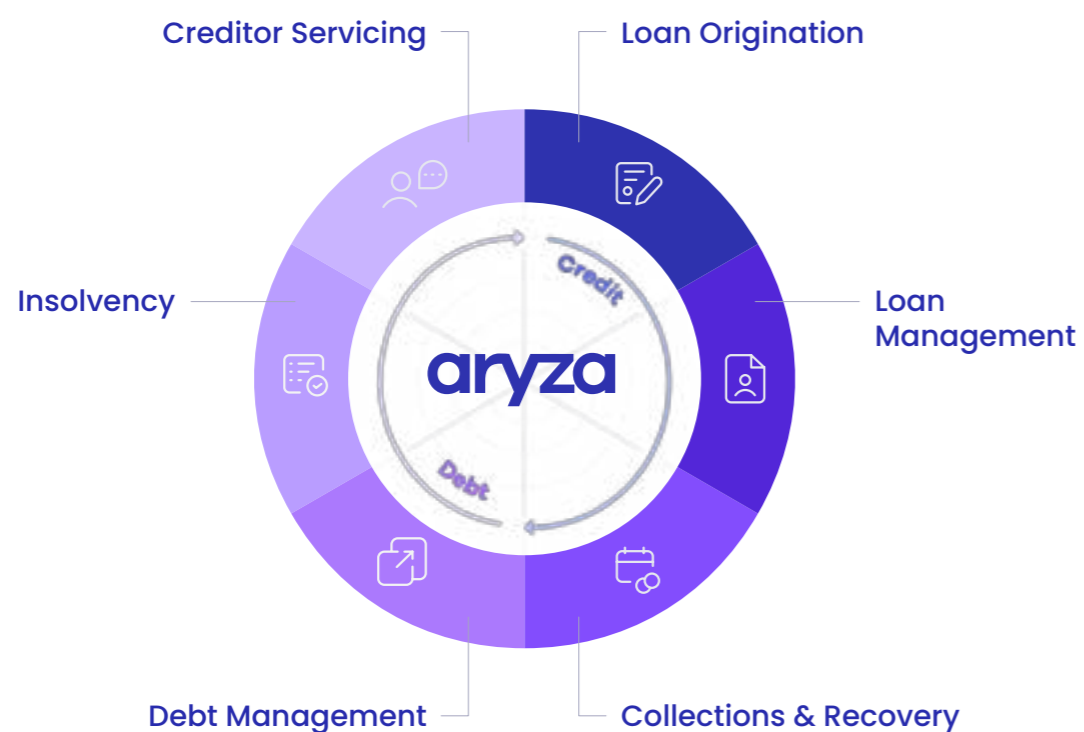
Aryza is a provider of end-to-end, mission-critical automation software to business customers in regulated industries, focused on the lending, credit, debt recovery and insolvency sectors.

Aryza's solutions automate a wide range of back and middle office activities including customer data collection, administration, and payment processing, covering every stage of the debt cycle. Its scalable technology platform is capable of meeting high volume, high complexity needs and helps customers significantly increase efficiency while ensuring compliance with local legislation.

Aryza's solutions are underpinned by unrivalled expertise and powerful data and are designed to have a positive impact on the financial health and wellbeing of our customer's customers around the world. Since its foundation in 2002, the business has grown rapidly. Today it has global operations across four continents.

Life cycle of credit & debt

Offering a full suite of solutions to progress our customers' customers towards positive financial health:



Our solutions

Loan Origination

Onboarding customers efficiently is critical for the creation of a strong ongoing relationship. Our acquisition tools are tried and tested in lending and non-lending applications across multiple sectors. Aryza solutions use the latest technology to identify affordability and vulnerability to allow you to make advised decisions and work in the best interests of your customers.

Loan Management

Aryza solutions for the management of customer services financial products quickly, automatically and cost-effectively. Our software is currently in place in lending, utilities and mail order applications.

Collections & Recovery

We have an in depth knowledge of collections and recovery solutions across many territories. Our software streamlines the collections process and significantly enhances the chances of taking payments from indebted customers.

Debt Management

Our award-winning debt management software is ideal for companies in the debt & insolvency industry and beyond, including brokers, lenders, financial advisors, introducers, lead providers and more.

Insolvency

Aryza Insolvency case management software builds on our experience of systems, software, and best practice within the insolvency sector to deliver a truly global insolvency software product that adapts to the regional requirements and local legislation in each area.

Creditor Services

This part of the Aryza offering combines industry knowledge, data analytics, compliance and FCA expertise with a creative and passionate team to deliver managed service solutions. Creditor Services solutions has its heritage in the insolvency sector, and has evolved to provide services to allow you to achieve your strategic goals in many areas.

For more information visit our website:

UK: https://www.aryza.com/uk_EN/banking-lending/

Ireland: https://www.aryza.com/ie_EN/banking-lending/

References:

- 1) <https://www2.deloitte.com/uk/en/pages/financial-services/articles/uk-fintech-landscape.html>
- 2) <https://www.charteredaccountants.ie/Members/In-Business/News/navigating-the-new-lending-landscape>
- 3) https://www.ey.com/en_uk/newsroom/2024/11/total-bank-lending-is-forecast-to-return-to-growth-this-year#:~:text=Consumer%20credit%20demand%20to%20remain,inflation%20and%20steady%20wage%20growth.
- 4) <https://www.statista.com/topics/4583/consumer-lending-in-the-uk/#topicOverview>
- 5) <https://www.centralbank.ie/statistics/frontierstatistics/total-domestic-credit#:~:text=Key%20Indicator%20%2D%20Total%20Domestic%20Credit,8.77%25>
- 6) <https://www.mckinsey.com/industries/financial-services/our-insights/banking-matters/the-power-of-digital-lending>
- 7) https://www.mckinsey.com/~/_media/McKinsey/Business%20Functions/Risk/Our%20Insights/The%20lending%20revolution%20How%20digital%20credit%20is%20changing%20banks%20from%20the%20inside/The-lending-revolution-vF.pdf
- 8) <https://www.intelliswift.com/insights/blogs/digital-disruption-in-lending-how-firms-are-adapting-to-stay-ahead-of-the-curve>
- 9) <https://www.forbes.com/advisor/loans/loan-terminologies/>
- 10) <https://www.experian.com/blogs/ask-experian/types-of-loans/>
- 11) <https://www.expresscomputer.in/guest-blogs/potential-risk-associated-with-digital-lending-strategies-for-effective-risk-management-by-mr-ajay-chaurasia-vice-president-marketing-product-business-rupeeredee-technology-has-been-the-cr/105251/#:~:text=To%20manage%20digital%20lending%20risk,not%20least%20diversify%20lending%20portfolios.>
- 12) <https://www.investopedia.com/terms/l/loan.asp>
- 13) <https://www.shoosmiths.com/insights/articles/minimising-the-risk-of-customer-non-payment>
- 14) <https://lendfoundry.com/blog/the-best-practices-for-compliance-in-digital-lending/>
- 15) <https://fintechly.com/financing/what-is-fintech-lending/>
- 16) <https://www.mckinsey.com/industries/financial-services/our-insights/banking-matters/a-kyc-aml-utility-driving-scale-efficiency-and-effectiveness>
- 17) <https://gocardless.com/guides/posts/open-finance-vs-open-banking/>
- 18) <https://www.investopedia.com/terms/p/peer-to-peer-lending.asp>
- 19) <https://www.investmentmonitor.ai/finance/neobank-digital-lending-disrupt-financial-services/?cf-view>