SPARK

When Rookies Become Rivals

Why fintechs and non-banks are outpacing the industry — and what traditional lenders can do to win.

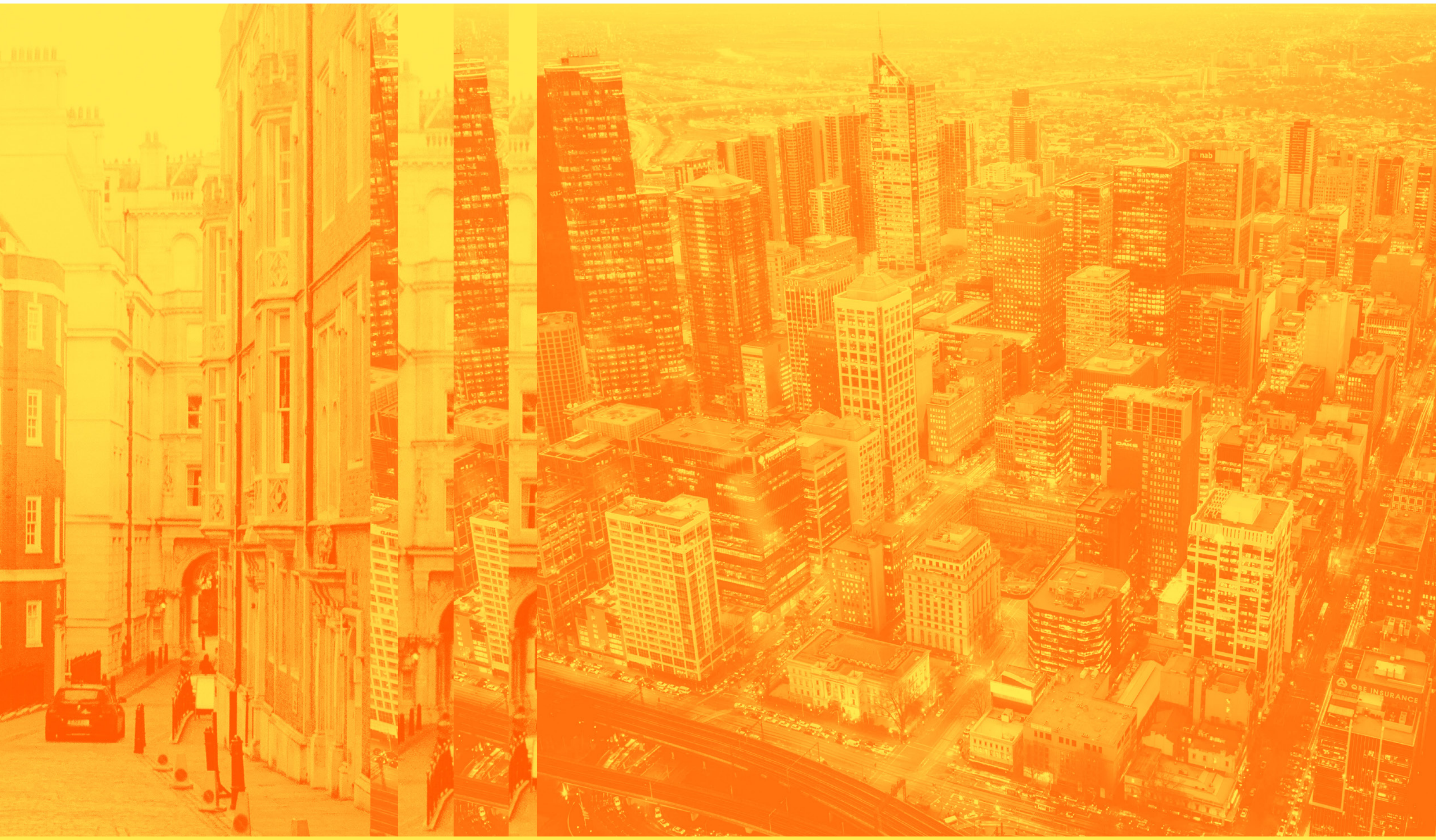
Tech Takeover

There was a time when your lender of choice was largely dictated by your geographic location and proximity to your local bank branch. Now, tech has changed everything, eliminating brick-and-mortar bank branches as a limiting factor of your lending choice, blurring the lines between offerings and capabilities and even making it possible for companies that simply engage with business owners on a regular basis, such as online retailers, to get in the game.

These players (ranging from FinTechs like OppFi to online giants like Amazon and Google) aren't just new entrants. They're now considered pros. They've seemingly scaled their operations with ease — not due to luck or even business savvy, but because of their tech-first prowess, agile mindset, willingness to innovate without hesitation and ability to partner.

Yet, legacy financial services institutions have remained largely unchanged and even complacent in the digital age. Sure, they have websites and maybe even a mobile app, but the lending process is still paper-driven, clunky, and inefficient. What's missing is a secret ingredient that non-banks inherently possess: a willingness to meet changing consumer expectations with cloud-first processes.

In this report, we expose the reasons these companies are poised to succeed in the market, what threats they pose for traditional lenders, and how digital transformation not only ups your game, but keeps you in it.



What Makes FinTechs and Non-Banks Poised to Succeed? **A Lot**

New entrants into the industry don't have a lot of experience in lending. But they've proven they don't need a ton to succeed. They have several characteristics in their favor, namely, their tech-savvy nature and subsequent ability to move quickly. They boast a number of advantages — some that legacy lenders have unwittingly handed over.

1. HEAPS OF PROPRIETARY DATA.

Non-banks like Google, Amazon, and Facebook were built on data and continue to fuel their businesses with customer information. FinTechs were founded on data-first principles that prioritize strong acquisition, management, and analysis habits. It's unclear yet whether or not having these troves of data are superior to the traditional credit scoring and predictive logic in the space already. But as the world becomes more data-centric, having it means having options.

2. TRUSTED NAMES THAT DRAW UNTAPPED MARKETS.

Unbanked or underbanked consumers represent a huge opportunity if accessed. According to the FDIC, that includes about 5.4% of US households or 7.1 million adults. If one of these companies is able to tap into the several million households not already in the traditional capital markets, they could gain a tremendous share of the $3T lending market based solely on the long-standing trust their brand names have already built among consumers.

3. MASSIVE SCALE THAT UNLOCKS CUSTOMER ACCESS.

Non-bank competitors have created giant economic footprints — from billions in revenue and millions of employees to college-sized campuses and the ability to influence culture on a massive scale. Whatever challenges they encounter on the road to lending success, they have access to the capital and talent necessary to solve it, in addition to built-in customers to point toward any new product. If Google, for example, wants to get a product in front of a specific subset of their customer base, they have all the scaled capabilities in order to do so.

4. TRADITIONAL BANKS' UNWILLINGNESS TO TRANSFORM.

In recent years, there has been greater pressure on financial services to digitally transform through things like blockchain, decentralized finance, digital currency, etc. Yet, consumers have given in to this resistance in earlier years, evolving around traditional financial institutions who remain largely unchanged and complacent. Tech, on the other hand, hates complacency. FinTechs and non-banks are not tied down by the threat of risk or regulation. They seek to act first and think/question later. Paired with an inherently innovative and ambitious mindset, they have the ability to experiment in ways most banks operating in a heavily regulated and traditional industry cannot.

> "Right now, banks are getting competition from everywhere — if that competition also starts coming from the user's phone or search provider, that could be the final straw that breaks the bank's back. Most won't be able to compete with the presence of an Apple, the data of a Google, or the distribution of an Amazon." — **NICK ELDERS, CEO**

This is the main difference between legacy and new age institutions — their inherent agility and willingness to adapt. Unlike the generations before them, they were established with several innate mindsets:

DESIGN-FIRST

In tech, design and experience come first, product comes second. Banks traditionally take the opposite approach, matching people to existing products and services and prioritizing the customer experience after the fact.

TECH-FIRST

Tech companies grew up digital, giving them an advantage from the get-go. It's much easier to start in tech and transition to other services instead of building a business and becoming a tech company later.

AGILE

Tech software is developed in a different way than other products, using an agile methodology that prioritizes ideation and action above all else. Tech teams launch products quickly by executing "sprints" of necessary work to produce a minimum viable product that can always be improved later. Conversely, banks prefer a safer "waterfall" approach that prioritizes due diligence and preparation first, action second. The problem is, the world doesn't work that way anymore.

INNOVATIVE

Financial services companies that haven't innovated are still alive. But tech companies that don't innovate die quickly. Their innovation is both their differentiator and their fuel for future success.

Banks Still Win on Some Grounds

Traditional banking institutions still have a lot to offer in the way of experience and stability. Why should small businesses seek lenders with digitally transformed processes?

BANKS	NON-BANKS
REGULATED	NOT REGULATED
STABLE	SOME ARE NOT STABLE
MANY HAVE BEEN LENDING FOR HUNDREDS OF YEARS	MANY JUST ENTERED THE INDUSTRY
LOW-COST PRODUCT	CHARGE MORE

That's right — tech companies in the lending industry are not without their faults. Most lack crucial experience and expertise that's necessary in such a complex field. This could yield unintentional results if they accidentally back the wrong model, introducing a massive problem that the financial system and nonprofit lending community are not prepared to take on.

Still, these companies also have the means to woo top talent with the necessary background and expertise to put them in the game.

Perhaps most importantly, tech companies favor data in a way that positions people as digital footprints instead of the complex beings they are. Without physical presences and people to interact with customers one on one, the models they create could have long-term, detrimental effects on a person's ability to secure loans in the future.

Predictions for a Changing Industry

What will happen to banks as these new entrants rock the industry?

The good news is the loan origination process as we know it doesn't seem to be changing. Non-banks have only mimicked what they've seen from traditional lenders to be successful at it. But there is always a potential for change. With their ability to concept and ideate quickly, paired with their scale, new models (whether empty or industry-changing) are still possible.

It's also unknown whether the data these companies possess will add value in making lending decisions. Sure, it can be mined for customer behavior relative to a purchase decision. But can it be applied to build a credit model? No one knows.

One thing we have already witnessed is tech's sway in government. Tech companies have the means to invest in lobbying to influence policy in their favor. If they want something changed or the status quo maintained, they can typically accomplish it. And in a heavily regulated industry like finance, there is plenty of governance to affect. At the same time, these changemakers could help adapt policy in a way that benefits the entire ecosystem for the better.

One possibility for the future is a surge in models like LendingClub, where tech companies buy an existing bank (Radius) and rename it (LendingClub Bank). This way, new entrants can shortcut the process of becoming a bank by buying one and inserting their culture and way of doing business over top of the existing legacy approach.

The Best of Both Worlds

Traditional banking institutions still have a lot to offer in the way of experience and stability. Why should small businesses seek lenders with digitally transformed processes?

Banks still have a chance to transform and remain competitive (though the timeframe to do so gets slimmer with every new technological advance). It is possible to benefit from the stability and security of an experienced bank, while attracting new customers and securing market share with streamlined processes that speak today's language.

SPARK speaks both "tech" and "legacy." We help traditional lending institutions accomplish the tasks of tomorrow by automating the things they did yesterday.

SPARK offers banks:

TRANSLATION

Companies looking to make sense of the tech industry need translators with boots on the ground to make better business decisions and understand risks/opportunities before pushing forward blindly into markets. But banks partnered with SPARK can function in both worlds.

PARTNERSHIP

We "grew up" in digital and have 10 years of experience in the industry, making us ideally positioned to help new entrants automate secured lending.

EXPERTISE

We've solved a tremendous amount of lending problems with every release of SPARK. We are positioned to lend that expertise to new players and validate our approaches with their customers

As banks face mounting pressure from all sides, SPARK is there to make things easier through:

AUTOMATION AND AI

CUSTOMER-CENTERED DESIGN

DEEP SBA EXPERTISE

REGULAR INNOVATION AND RELEASES

SPARK

We're on the forefront of the latest loan origination technology, helping you surpass the competition, heighten ROI, and win back loyalty with modern processes that are as easy for your team as the customer.

Join the next generation of lending at lendwithspark.com.