

The evolution of fintech and its impact on equipment financing lenders

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The evolution of modern financial technology (fintech) started in the latter part of the 20th century, and its use has increased significantly in the past 10 years. Fintech is helping companies and customers manage their businesses and risks more efficiently, with financial transactions now conducted very differently. The significant shift towards the technology led to global investment of USD135.7bn in fintech in 2019 (vs USD141.0bn in 2018) across 2,693 deals. Reportedly, 964 funding events helped 722 fintech firms raise USD34.4bn through a number of funding rounds in the year to September 2020, compared to 1,501 funding events that helped 1,070 fintech firms raise USD48.9bn in the year to September 2019. As fintech provides increased cost advantage, ease of business, and growth for investors, more companies are choosing to use fintech in their day-to-day operations. Like other segments of the financial services sector, the equipment financing division is witnessing an increased use of fintech in its process of lending.

Impact of fintech on equipment financing lenders:

- **Managing risk more effectively and efficiently:** Managing risk is a lender's main objective, and the use of technology not only provides companies with cost efficiencies but also helps them minimise the risks associated with lending. The more information an analyst has ready access to and the more algorithm models made available through fintech, the more accurately lenders can determine risk ratings for their customers and funded assets. The increased use of fintech in the lending business has resulted in more robust underwriting standards. The risk rating assigned to a customer or asset is linked to a number of factors that may sometimes be overlooked by an analyst, but the algorithms are designed to capture every minute detail and compare these with peer details. The models built to evaluate data can help make better credit decisions. For example, the automatic financial spreading tool provides a quick overview of the credit and is more accurate than a manual process.
 - **Technological boost:** With the advent of fintech, the equipment financing market is witnessing a number of technological changes. Unlike earlier, all the information relating to a contract is available as one single platform, leading to a more simplified process. Fintech has, therefore, made business more digitalised, more flexible and more affordable. For instance, lenders would previously spread a customer's financials on an Excel sheet and make adjustments manually. However, with the help of technology, financials can now be captured automatically from any database and output provided in any format desired by the user. The technology/software will also calculate a customer's financial
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risk and present it in a simple, easy-to-understand form, making for faster and more accurate decision making. Technology also mitigates portfolio risk, as the availability of management information at a click of a button would help make quicker and more informed decisions about a deterioration in the quality of assets. In addition to the traditional way of evaluating credit risk, the use of social media analytics and consumer behaviour analytics helps equipment financing companies assess lending risk in a holistic manner. Fintech innovation leads to more equipment financing products and end-to-end technology-enabled processes.

- **Incremental business opportunities/diversification:** Fintech also provides cross-selling and up-selling opportunities to equipment financing companies, enabling them to provide add-on facilities to their customers such as collateral insurance, maintenance and upgrades, along with their vendor support network. For example, if an equipment financing company has funded a large-ticket asset, it is aware of the asset's insurance status. It can, therefore, help a buyer choose the most suitable insurance option and build a strong client relationship. Similarly, in the case of complex technological equipment, it can collaborate with the vendor and provide solutions for periodic upgrades.
- **Regulatory implications as technological risk increases:** With companies relying more on technology, associated risks increase, making regulators more vigilant in terms of technological gaps/breaches by the users. They have, therefore, implemented new policies. After the 2008 financial crisis, they banned a number of risky practices followed by traditional banks, such as lending without verifying a borrower's ability to repay. This has resulted in a significant increase in the compliance processes banks need to follow and paperwork they need to complete prior to lending. Borrowers are now required to document their employment and debt levels, while lenders need to disclose all the costs involved in each loan and verify a borrower's ability to repay. With the help of machine-learning technology, fintech companies such as Lenda, SoFi, Lending Tree, Quicken Loans and Rocket have now entered the "one-click" loan game that is benefitting customers and lenders significantly.
- **Increased competition for traditional equipment financing companies:** All banks are taking steps to stay ahead of the market. Some banks have completely replaced their legacy systems, while others are doing so in phases, in line with their business models and objectives. Traditional equipment financing companies are first evaluating the risks and returns associated with fintech. Those yet to implement innovative ways of lending are feeling the pressure, as they are unable to explore new avenues and markets.

The pandemic – opportunity with uncertainty

With the economic slowdown, fund flow to fintech companies has become uncertain and difficult. However, with social distancing becoming the new norm, e-commerce and digital financial services have seen substantial growth, benefitting the fintech companies engaged in providing these services. Equipment financing companies using innovative technologies have also been able to respond in a more effective manner.

Final thoughts

Technology has transformed the way the equipment financing products and processes are viewed, improving the overall customer experience. Fintech is still evolving and the companies more flexible in adapting it would have an edge in this competitive market. Equipment financing companies,

therefore, need to allocate more of their budgets towards technological transformation, while keeping in mind the inherent security risks and regulatory policies. Increasing use of fintech would ultimately enable lenders to manage risk more efficiently and economically, and grow their business.

Acuity Knowledge Partners, with its dedicated team of domain experts and strong focus on the use of new automation technologies supports equipment financing teams in their quest to achieve sustainable growth. We understand not only the traditional ways of equipment financing but also the technological advancements that would help customers thrive in the new normal.

Sources:

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We empower our clients to drive revenues higher. We innovate using our proprietary technology and automation solutions. We enable our clients to transform their operating model and cost base.