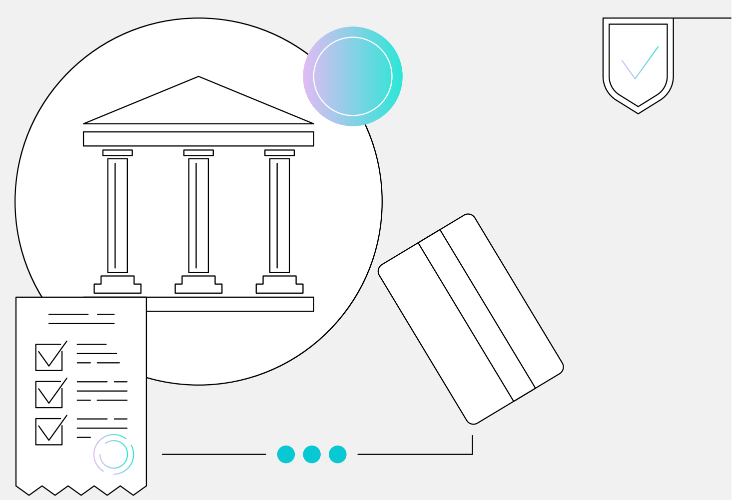
October 2024

The State of Digital Lending Readiness

PYMNTS INTELLIGENCE | AMOUNT

The State of Digital Lending Readiness



WHAT IS DIGITAL LENDING READINESS?

Digital lending readiness refers to the technological and operational capabilities that enable financial institutions (FIs) to process, approve and disburse lending products to end borrowers through efficient and secure digital lending processes.

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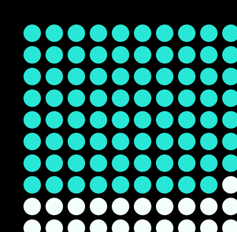
The State of Digital Lending Readiness was produced in collaboration with Amount, and PYMNTS intelligence is grateful for the company's support and insight. PYMNTS intelligence retains full editorial control over the following findings, methodology and data analysis.

WHAT'S **AT STAKE**

Mid-sized financial institutions (FIs), including community banks, regional banks and credit unions (CUs), are struggling with their digital lending readiness. Many decision-makers believe that lending process digitization and automation are key to unlocking operational efficiency and creating better application experiences. However, competing with larger FIs in meeting the needs of consumers and small to mid-sized businesses (SMBs) remains a challenge.

79%



of FIs worry about automation's impacts on the customer-banker relationship.

While most FIs rate their lending processes as very good or excellent, only 1 in 4 can fulfill the loan process — from application through approval to disburse funds — for both consumers and SMBs in the same day. Just 7% of FIs have an average application-to-fulfillment time frame of a few minutes for consumer loans, and even fewer can do so for SMB loans. These gaps in digital lending readiness hinder operational efficiency and limit an FI's ability to stay competitive.

Digital lending platforms promise faster fulfillment times, improved accuracy and potentially better customer experiences. However, community and regional banks and CUs continue to face challenges. Organizational reluctance and technical limitations, especially for smaller FIs, have slowed the adoption of digital lending platforms. Only 36% of FIs rely on digital lending platforms for more than half of their lending processes. Integration issues also persist, with nearly half of community banks and CUs citing difficulties in adopting automated systems. While digital lending readiness varies across FIs, the importance of overcoming internal and external challenges to fully digitize lending operations is undeniable.

These are just some of the findings detailed in the State of Digital Lending Readiness, a PYMNTS Intelligence and Amount collaboration. This edition examines how ready FIs of various types and sizes are to innovate their lending products and platforms. It draws on insights from a survey of 45 senior executives at FIs of various types and sizes conducted from Aug. 7 to Aug. 22.

This is what we learned.

KEY FINDINGS

01

AUTOMATION GAPS

Digital lending readiness varies significantly across FIs, with consumer lending processes far more automated than SMB lending processes in most cases.

70%

Share of FIs that report having mostly automated consumer lending, but only around one-third have done so for SMB lending

02

AUTOMATION AND DELINQUENCY

Automation in lending processes is linked to faster loan fulfillment and lower delinquency rates, especially for FIs using digital platforms.

2.1%

Delinquency rate for consumer loans from FIs relying less on digital lending platforms, compared to 1.2% from FIs relying more on digital lending platforms

03

INTERNAL ROADBLOCKS

Organizational reluctance, technical integration issues and budget constraints hinder many FIs' adoption of digital lending platforms.

$186M

Estimated amount the average mid-sized FI plans to invest in lending innovation over the next 12 months

04

AUTOMATION PLANS

FIs are starting to focus on expanding automation to improve both consumer and SMB lending processes.

61%

Share of FIs highly interested in moving to fully automated lending processes, with half aiming to do so within two years

THE FULL STORY

Leaders at mid-sized FIs view lending digitization as essential for boosting efficiency and improving customer interactions.

Digital lending readiness varies significantly across FIs, with consumer lending processes more automated than SMB lending processes in most cases.

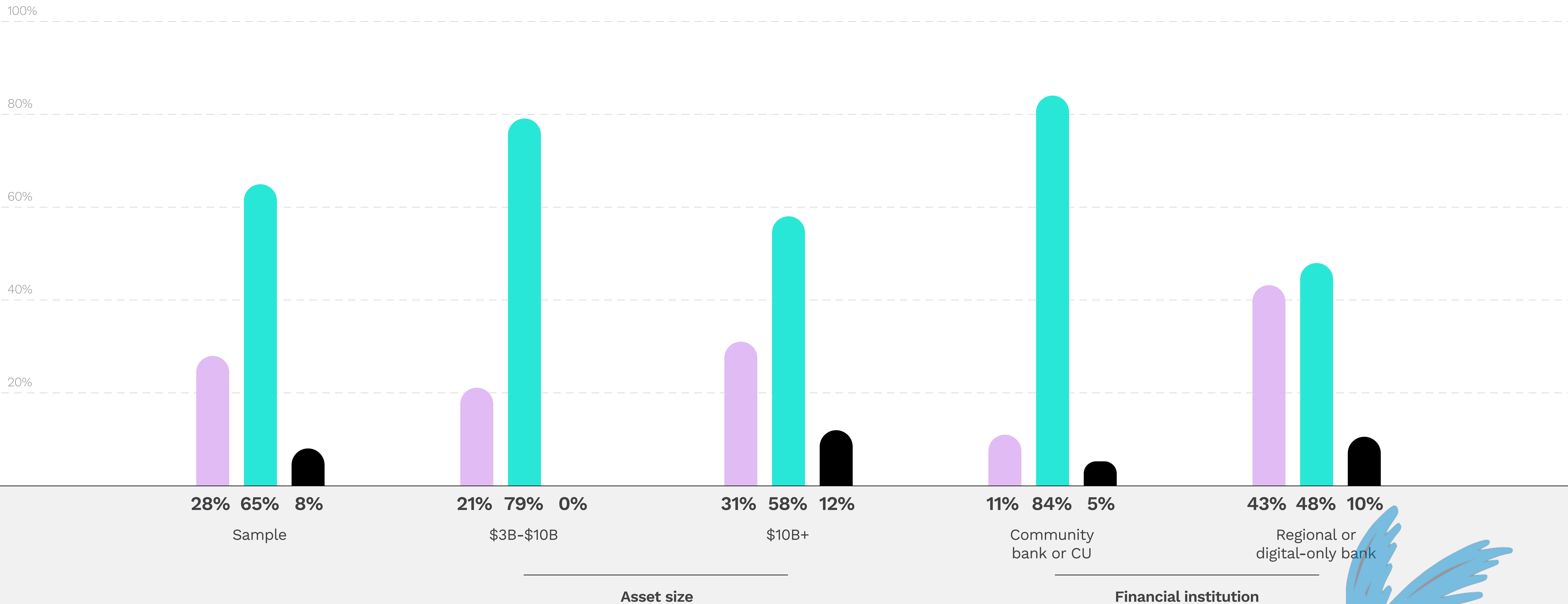
The digital lending landscape reveals a clear divide between consumer and SMB lending. While 70% of FIs have mostly automated consumer lending processes, only one-third have done so for SMBs. Regional and digital-only banks lead in automation, with 91% automating consumer lending and 38% doing so for SMBs. Community banks and CUs are more likely to rely on manual processes.

Three-quarters of mid-sized community banks, regional banks and CUs rate their digital lending readiness as very good or excellent. However, only 28% can fulfill loans to both consumers and SMBs the same day. Just 7% of FIs can fulfill consumer loans within minutes, on average, while only 2.4% do so for SMBs. For 74% of FIs, SMB loan fulfillment takes two or more days, reflecting significant delays.

FIGURE 1:

How quickly FIs can fulfill consumer and SMB loans
Share of FIs reporting average time from loan application to fulfillment for both consumers and SMBs, by demographic

- Both consumers and SMBs within a day
- Consumers within a day, SMBs more than a day
- Both consumers and SMBs more than a day



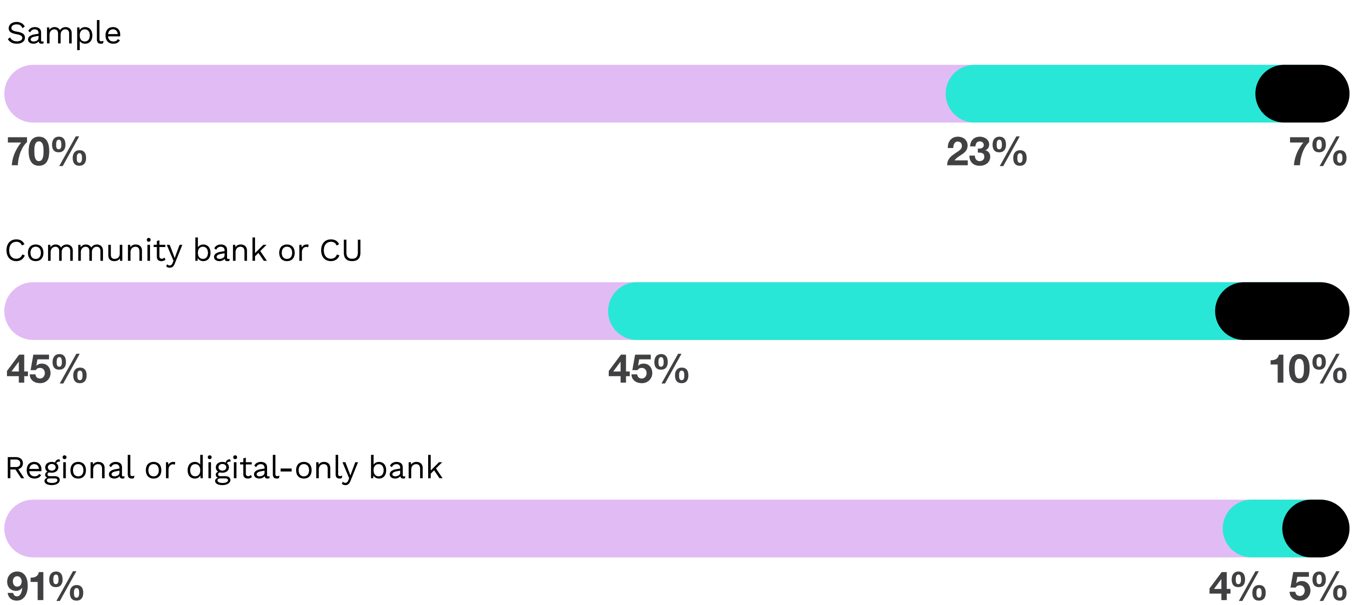
Source: PYMNTS Intelligence
The State of Digital Lending Readiness, October 2024
N varies based on the number of FIs that provide lending products to select types of borrowers, fielded Aug. 7, 2024 – Aug. 22, 2024

As FIs look to improve efficiency, the need for digitized lending grows. FIs with higher levels of automation report faster loan fulfillment times, which likely leads to improved operational performance. Consumer lending processes are significantly more automated than those for businesses. This suggests SMB lending is more complex. SMB loan approvals currently require additional verification, which slows the automation process for this category of lending.

While 70% of FIs have mostly or fully automated consumer lending, only 33% have achieved similar automation for SMBs. Community banks and CUs are particularly reliant on manual processes, with 29% using manual or mostly manual systems for SMBs. In contrast, 91% of regional and digital-only banks have fully or mostly automated consumer lending, and 38% have automated SMB lending. Notably, only 20% of FIs with assets between $3 billion and $10 billion have mostly automated SMB lending, compared to 41% of those with $10 billion or more in assets.

FIGURE 2A:

Levels of lending process automation
Share of FIs, by level of automation of the lending process for consumers

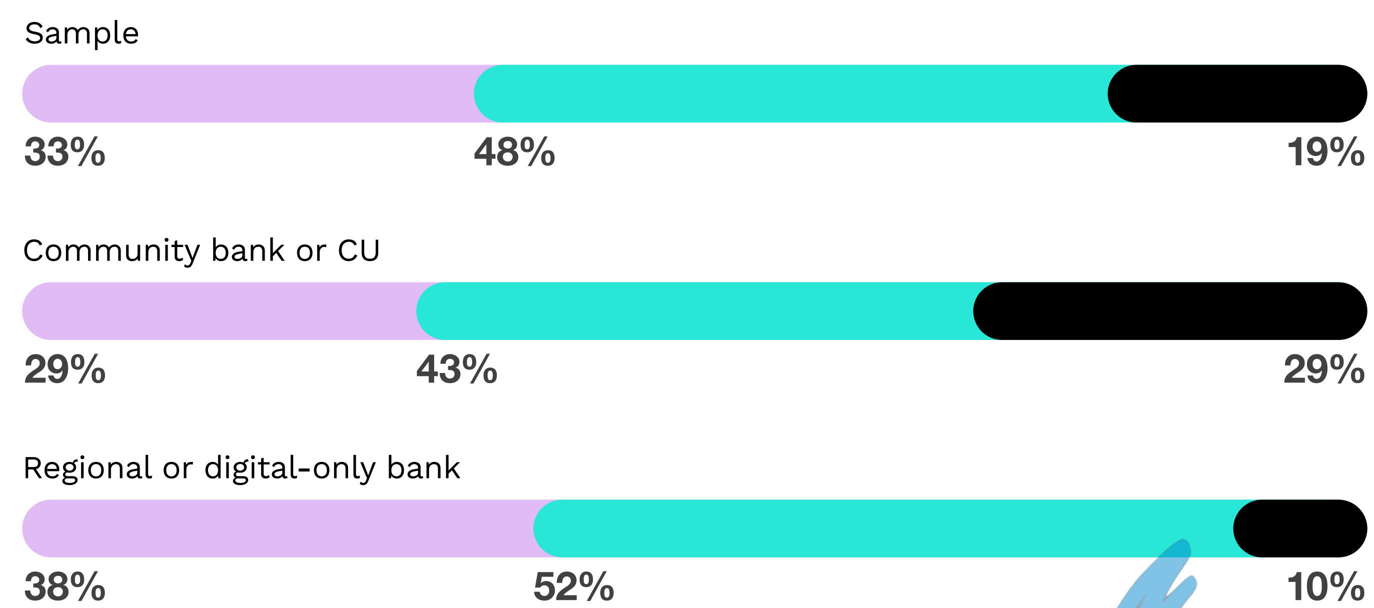


- Entirely or mostly automated
- Both manual and automated
- Entirely or mostly manual

Source: PYMNTS Intelligence
The State of Digital Lending Readiness, October 2024
N varies based on the number of FIs that provide lending products to select types of borrowers, fielded Aug. 7, 2024 – Aug. 22, 2024

FIGURE 2B:

Levels of lending process automation
Share of FIs, by level of automation of the lending process for SMBs



- Entirely or mostly automated
- Both manual and automated
- Entirely or mostly manual

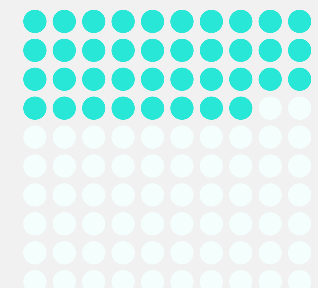
Source: PYMNTS Intelligence
The State of Digital Lending Readiness, October 2024
N varies based on the number of FIs that provide lending products to select types of borrowers, fielded Aug. 7, 2024 – Aug. 22, 2024

Automation in lending processes is linked to faster loan fulfillment and lower delinquency rates, especially for FIs using digital platforms.

FIs that automate their lending processes gain several key advantages. For example, those using digital lending platforms to automate more than half of their lending are three times more likely to fulfill loans to SMBs within minutes, compared to those with less automation. Specifically, 13% of FIs using digital lending platforms for most of their lending can fulfill consumer loans in minutes, on average, compared to just 4% for those relying on manual systems.

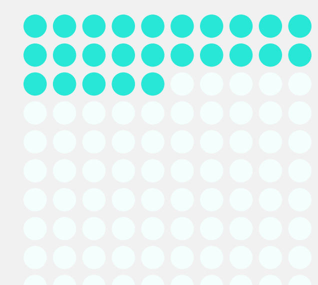
Moreover, FIs with automated lending processes are 54% more likely to fulfill loans to both consumers and SMBs within the same day. For example, 31% of FIs that heavily rely on digital platforms fulfill loans faster, compared to only 26% of those that rely on digital tools less.

AUTOMATED LENDING ALLOWS FIs TO DISBURSE FUNDS FASTER



38%

of FIs with mostly or entirely automated lending processes can approve and disburse to both consumers and SMBs within the same day, on average.



25%

of FIs with mostly or entirely manual lending processes can approve and disburse to both consumers and SMBs within the same day, on average.

FIGURE 3:

More automation and faster, more streamlined lending
Share of FIs with select lending efficiency metrics, by digital lending platform utilization

		Less than 50% of lending using a digital lending platform	More than 50% of lending using a digital lending platform
SHARE WITH AVERAGE APPROVAL-TO-FULFILLMENT TIME FRAME OF A FEW MINUTES	Consumers	4%	13%
	SMBs	0%	8%
APPROVAL RATES	Consumers	61%	60%
	SMBs	60%	58%
DELINQUENCY RATES	Consumers	2.1%	1.2%
	SMBs	1.6%	0.9%

Source: PYMNTS Intelligence
The State of Digital Lending Readiness, October 2024
N varies based on the number of FIs that provide lending products to select types of borrowers, fielded Aug. 7, 2024 – Aug. 22, 2024

57%

of FIs that rely on a digital lending platform for most of their lending can offer an entirely digital consumer application experience.

Higher digital lending readiness allows FIs to perform all the steps involved in approval and fulfilment quickly without compromising accuracy. Digital lending platforms help reduce errors in credit evaluations, ensuring risk is effectively managed. As more consumers and businesses expect their FIs to offer fast and frictionless loans, automation becomes essential for staying competitive.

Approval rates are similar regardless of an FI's automation level. However, delinquency rates reveal a clear difference. FIs with more manual lending processes for SMBs report delinquency rates higher than those with automated systems. For consumers, the delinquency rate is 2.1% for FIs relying less on digital lending platforms, compared to 1.2% for those automating at least 50% of their processes. For SMB lending, the delinquency rate is 1.6% for less automated FIs, but 0.9% for those with greater automation. This suggests digital readiness has a positive impact on risk management.

Organizational reluctance, technical integration issues and budget constraints hinder many FIs' adoption of digital lending platforms.

Despite the potential benefits of automation, barriers remain, particularly for community banks and CUs. Organizational reluctance presents a significant obstacle, with 79% of FIs concerned that automation could disrupt the personal connection between bankers and customers.

Smaller FIs also face unique challenges, including limited budgets and the difficulty of integrating new technologies into existing systems. Forty-three percent of community banks and CUs struggle integrating automated systems into legacy infrastructure, making it harder to transition away from manual processes. Regulatory and technical concerns, though present, are less pressing compared to an organization's cultural and financial obstacles.

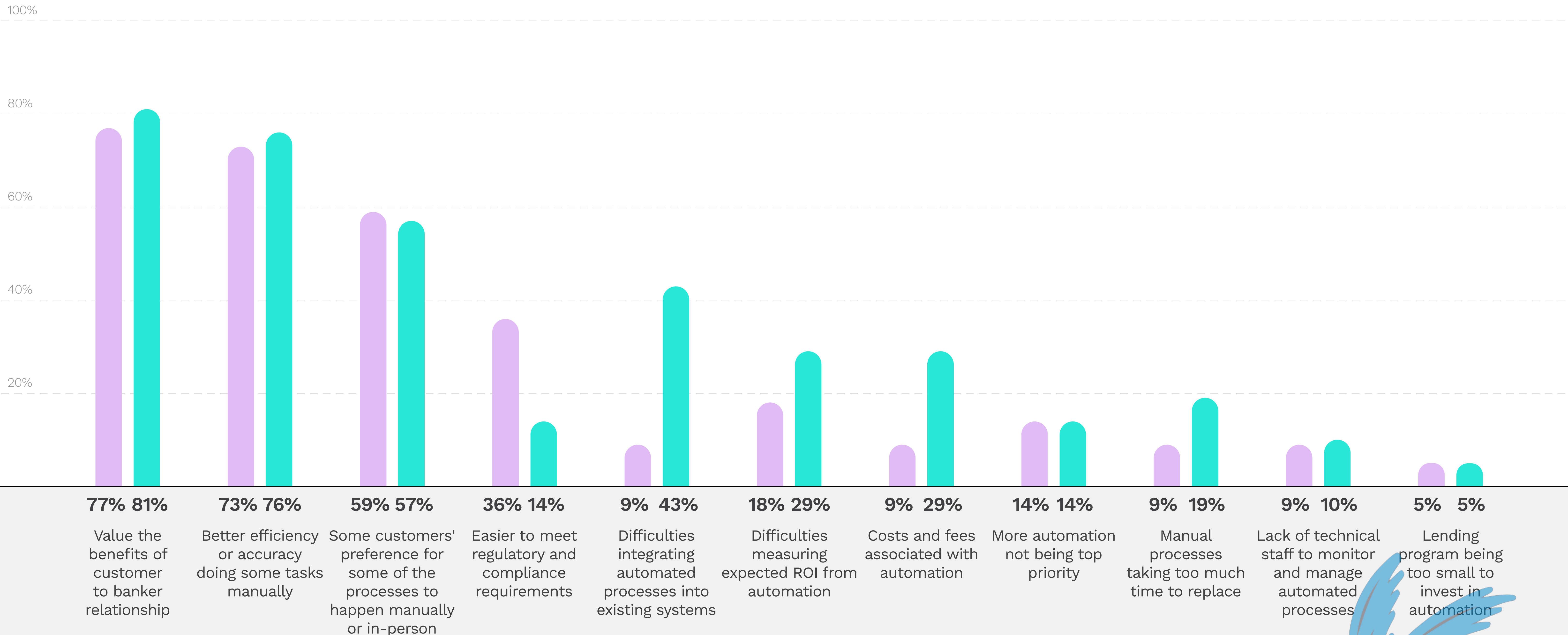
FIs need to commit to digital transformation, which requires more than investing in the technology. Balancing concerns about automation with the operational benefits of digital lending platforms is key to unlocking their full potential. Budget constraints still pose significant obstacles, particularly for community banks and CUs. Fifty-five percent of these FIs say budget limitations restrict their reliance on digital lending platforms. Additionally, 29% of FIs use digital platforms for less than one-quarter of their lending, while only 36% automate more than half of their lending. Beyond budget concerns, technological constraints (41%), organizational reluctance (45%) and concerns about platform performance (27%) further hinder adoption, particularly among community banks and CUs.

45%

of community banks and CUs say organizational reluctance limits the degree to which they use digital lending platforms.

FIGURE 4:

Reasons FIs continue to use manual lending processes
Share of FIs citing select reasons for relying on manual lending processes, by type of FI



Source: PYMNTS Intelligence
The State of Digital Lending Readiness, October 2024
N = 43: FIs whose lending processes include some manual handling, fielded Aug. 7, 2024 – Aug. 22, 2024

FIs are starting to focus on expanding artificial intelligence (AI) and automation usage to improve both consumer and SMB lending processes.

While most FIs view the use of digital lending platforms as a cornerstone of digital lending readiness, just 36% currently use these platforms for 50% or more of their lending. However, we find that most plan to move to fully automated lending processes, with many planning to do so within the next two years. AI technologies play a significant role, with 74% of regional or digital-only banks and 45% of community banks and CUs viewing adopting AI as a key strategy to improve the customer experience. Likewise, 48% of regional or digital-only banks and 41% of community banks and CUs view adopting AI as a way to improve risk management and underwriting.

FIGURE 5:

How FIs are boosting their lending preparedness
Share of FIs citing strategies they rely on to improve lending readiness, by type of FI

		Regional or digital-only bank	Community bank or CU
OPERATIONAL EFFICIENCY AND AUTOMATION	Utilizing digital lending platforms	83%	64%
	Streamlining onboarding and underwriting process	74%	45%
	Utilizing automated process	61%	50%
	Improving access to market data and economic conditions	30%	23%
PRODUCT AND MARKETING ALIGNMENT	Improving alignment of lending products with market demand	57%	73%
	Adding more products to the lending portfolio	48%	45%
	Engaging with third-party providers	22%	14%
RISK AND FRAUD MANAGEMENT	Utilizing AI technologies in risk management/underwriting	48%	41%
	Reducing fraud	26%	36%
	Reducing risk	17%	32%
	Improving management of regulatory compliance	22%	18%
	Utilizing AI technologies to improve customer experience	74%	45%
	Improving staff skills and training	35%	32%
	Ensuring adequate liquid assets for loans without compromising liquidity position	4%	0%

Source: PYMNTS Intelligence
The State of Digital Lending Readiness, October 2024
N = 45: Complete responses, fielded Aug. 7, 2024 – Aug. 22, 2024

The reliance on digital lending platforms underscores the banking industry's commitment to technology as a strategic tool for improving their lending processes. FIs that adopt AI in both customer experience and risk management position themselves to handle lending more efficiently, speedily and accurately.

FIs are focused on streamlining their lending processes while expanding their digital capabilities. Adopting sophisticated automated tools that assess consumer and SMB risk profiles can improve decision-making processes. As FIs embrace these technologies, they position themselves to serve both consumers and SMBs more efficiently and at scale.

77% of community banks or CUs plan to innovate in digital lending in the next 12 months.

65% of regional or digital-only banks plan to innovate in digital lending in the next 12 months.

> **"AUTOMATED SYSTEMS MINIMIZE DATA ENTRY ERRORS AND IMPROVE ACCURACY."**
>
> – Director of finance of a community bank with $10 billion to $20 billion in assets

> **"DIGITIZATION WOULD ALLOW MEMBERS TO APPLY FOR LOANS AND CHECK STATUS ANY TIME, IMPROVING ACCESSIBILITY."**
>
> – CFO of a CU with $3 billion to $5 billion in assets

We find that 61% of mid-sized FIs — including community and regional banks as well as CUs — are highly interested in fully automating their lending processes, with 44% planning to partner with digital lending platforms to address existing challenges. Although 51% of FIs plan to achieve full automation in the next two years, only 7% expect to fully automate within the next 12 months. Regional and digital-only FIs lead the charge, with 68% having concrete plans to pursue automation within two years, while 52% of community banks and CUs lack specific timelines. The average FI plans to invest 1.4% of its assets in lending innovation, prioritizing efficiency over portfolio expansion.

ACTIONABLE INSIGHTS

01

FIs risk falling behind in SMB lending if they wait to automate key processes. Currently, only 33% of FIs have automated SMB lending, compared to 70% for consumer lending. By closing this automation gap, FIs can reduce fulfillment times, as only 28% can deliver same-day fulfillment for both consumers and SMBs. FIs that increase automation can improve their operational efficiency and competitiveness, especially in SMB lending.

02

FIs should transition away from manual processes to improve efficiency. The belief that manual systems provide better accuracy can hinder long-term growth. Data challenges this assumption. Approval rates remain similar regardless of automation, but delinquency rates are higher for FIs relying on manual processes for both consumer and SMB lending. FIs must consider the advantages of digital lending platforms and overcome organizational reluctance to improve outcomes.

03

FIs need to accelerate their automation plans to meet market demands and customer expectations. Sixty-one percent of FIs are interested in moving to fully automated lending processes within the next two years. In the near term, FIs should weigh the costs and benefits of investing more than the industry average of 1.4% in assets to achieve full automation.

04

Adopting automation in lending by leveraging digital lending platforms can improve decision-making and reduce fraud while enhancing the customer experience. Embracing digital lending automation technologies will allow FIs to enhance loan quality and operational performance. With most FIs planning to fully automate lending in the next two years, FIs that let institutional inertia slow the process of digitization risk falling behind their competitors.

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METHODOLOGY

The State of Digital Lending Readiness, a PYMNTS Intelligence and Amount collaboration, is based on a survey conducted from Aug. 7 to Aug. 22. The survey captured responses from 45 senior executives across mid-sized FIs — including community banks, regional banks and CUs — with assets ranging from $3 billion to $30 billion. Respondents represented various functional areas, including credit underwriting, lending, customer acquisition, consumer banking and commercial banking.

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ABOUT

PYMNTS INTELLIGENCE

PYMNTS Intelligence is a leading global data and analytics platform that uses proprietary data and methods to provide actionable insights on what's now and what's next in payments, commerce and the digital economy. Its team of data scientists include leading economists, econometricians, survey experts, financial analysts and marketing scientists with deep experience in the application of data to the issues that define the future of the digital transformation of the global economy. This multi-lingual team has conducted original data collection and analysis in more than three dozen global markets for some of the world's leading publicly traded and privately held firms.

AMOUNT

Amount is a global digital origination and decisioning SaaS platform powering high-velocity consumer and SMB deposit and loan origination for financial institutions. Developed by lending industry experts, Amount helps banks and credit unions drive profitability and achieve a performance advantage with a fully integrated and flexible platform underpinned by enterprise bank-grade infrastructure and compliance – enabling financial institutions to deliver new and differentiated offerings within months, not years. With Amount, banks and credit unions can optimize performance across product categories while tapping into various service offerings including customer acquisition, funnel and performance assessments, and risk analytics. Amount clients include financial institutions collectively managing just over $3.1T in US assets and servicing more than 50 million U.S. consumers. Visit www.amount.com for more information.

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