MONEYLIVE OneSpan SMART COMMUNICATIONS

The Future of Customer Experience in Embedded Lending

Delivering growth by reimagining frictionless customer journeys

Embedded lending – the integration of lending into non-financial ecosystems – presents a major growth opportunity for lenders. As consumers embrace the uber-convenience of accessing the funding they need when and where they need it, 45% of loans could be taken out in a non-financial context within just five years.

However, research from **MoneyLIVE**, in partnership with **Smart Communications** and **OneSpan**, surveying over 350 senior executives from across the global lending industry, finds frictionless customer journeys will be critical to success as this market takes off.

In 5 years, **45%** of loans will be taken out in a non-financial context

Embedded lending is a major growth opportunity…

That is the view of 76% of our respondents, with more than one-in-four perceiving this opportunity to be massive. Indeed, the survey anticipates that:

Within just one year, **one in five** loans will be taken out in a non-financial context…

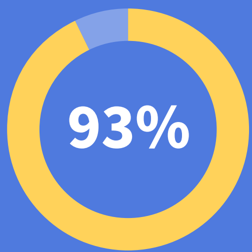
…**rising to 34%** in three years' time…

…**and 45%** in five years.

WITHIN ONE YEAR | WITHIN THREE YEARS | WITHIN FIVE YEARS

… for those who offer **frictionless experiences**

To capitalise on this opportunity, lenders must match the instant gratification expectations of today's online shoppers, who will abandon loan applications and their e-commerce carts if they are faced with unnecessary friction.

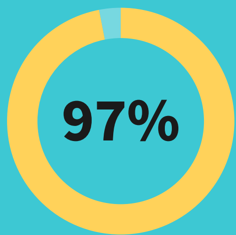


93% of our respondents believe the rise of embedded lending will make smooth and effortless loan applications not just a competitive differentiator but a survival factor.

Embedded lending's frictionless experiences will have implications right across the lending industry

98% of respondents predict that customers' experiences of low-friction embedded finance solutions will **raise customer expectations for all types of lending experience.**

These frictionless experiences must, however, be combined with new processes to ensure the customer truly understands the products they are purchasing

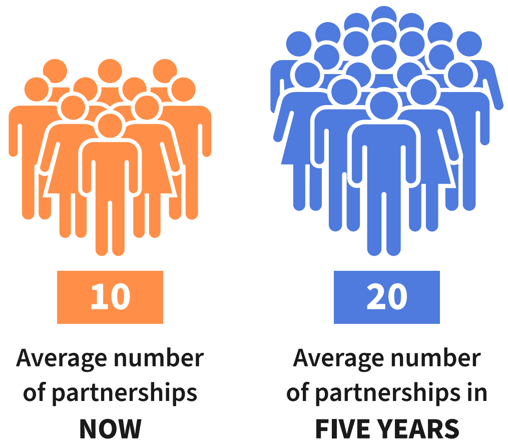


97% believe that, **unless the industry takes action to ensure that consumers truly understand** the embedded lending products they take out, **regulators will mandate processes that deliberately introduce greater friction** into the loan application process.

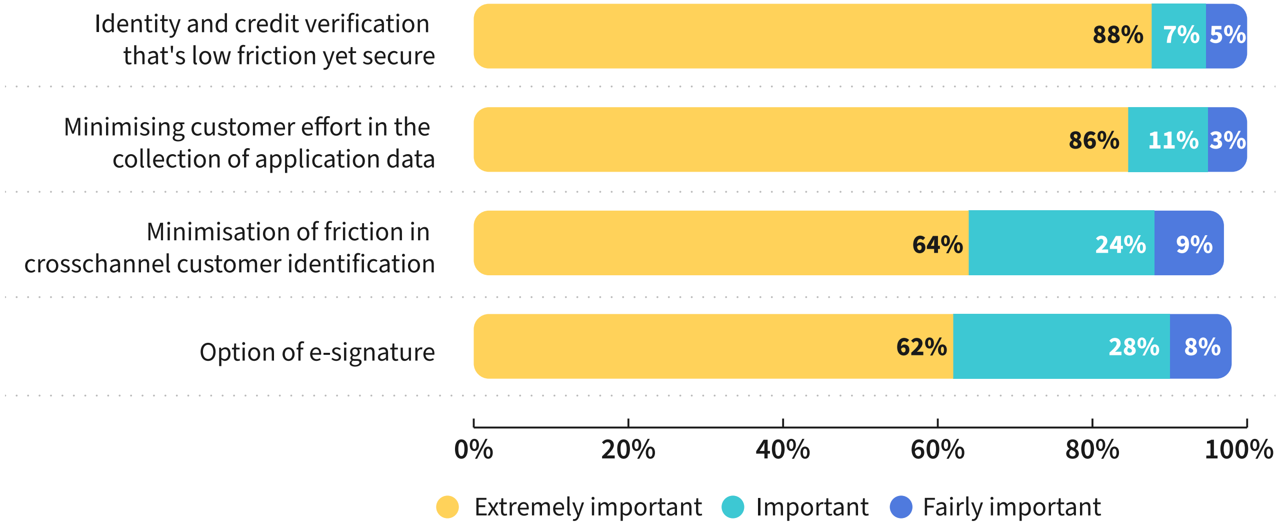
As the number of embedded finance partners grows....
lenders will come under intense pressure to reduce friction

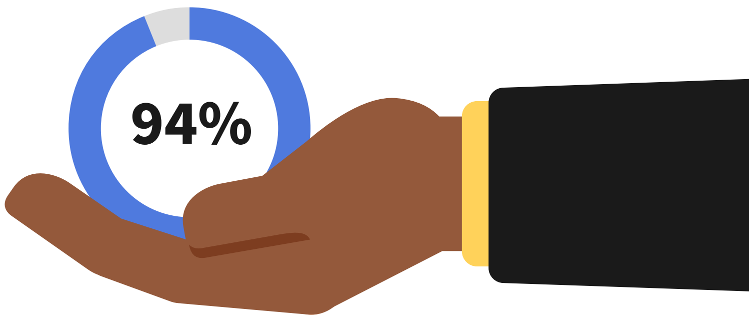
Already, our surveyed lenders have on average ten different embedded finance partners, a number expected to double in the next five years.

With these partnerships, comes unprecedented pressure to eliminate friction in loan applications so that lenders do not generate unwelcome road bumps that could jolt borrowers towards abandonment rather than continue in the otherwise smooth and effortless customer journeys curated by online brands.



How important are the following capabilities in order to be selected as a preferred financial partner in the embedded finance ecosystem?



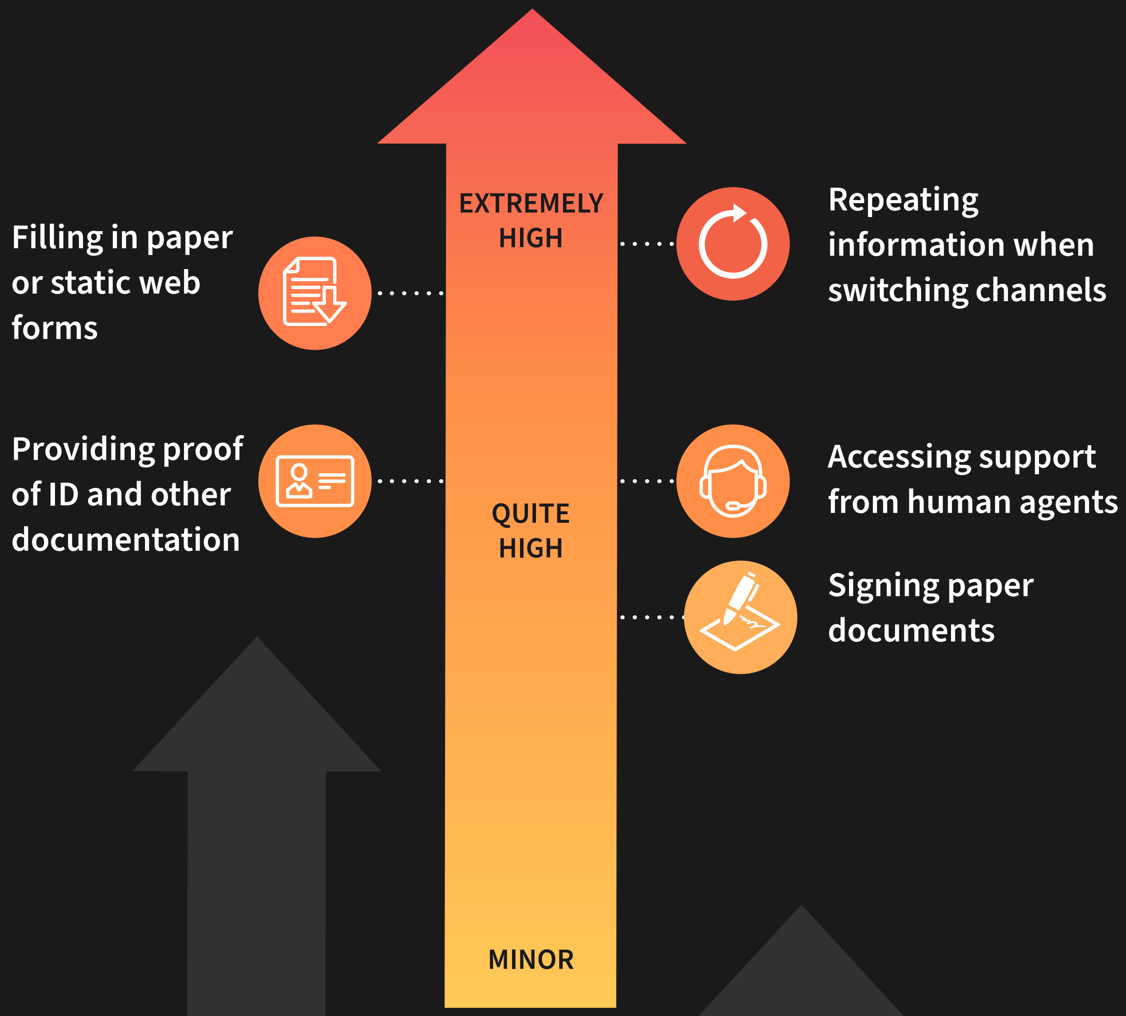


94% of respondents warn that embedded finance partners who offer loan products as part of the purchase of goods or services will become increasingly intolerant of any avoidable friction in loan applications due to the risk of abandonment of the wider transaction.

Abandonment risk due to friction is currently higher than embedded finance partners are likely to tolerate

Abandonment rates will be a key metric for embedded finance lenders and their online partners. Our research suggests the risk of abandonment is high at several points during the loan application process, signposting where lenders must focus their efforts to reduce unnecessary friction.

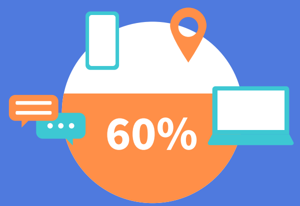
How high the risk of abandonment is at the following points of customer effort during the loan application process:



The tools for lenders to minimise abandonment are within reach…
… but adoption is still too low

Better channel integration is key to reducing abandonment, and the scope for improvement is huge.

The risk of abandonment is highest when applicants are forced to repeat information when switching channels. Consistent with this finding:



60% of our respondents expect the option to switch channels during the application process without having to start again will be viewed as very important by potential embedded finance partners. However, only…

9% of our surveyed lenders enable customers, irrespective of their choice of channels, to start an application on one channel and complete it on another without re-entering information, and…

one in **five** don't enable such seamless channel switching at all.

As embedded lending expands, omnichannel integration is set to become an ever more urgent priority.

E-signatures play a critical role in minimising abandonment

We asked those who offer the **option of e-signatures (34%)** extensively across their lending products whether they found signature to be an abandonment risk flash point. For these lenders:

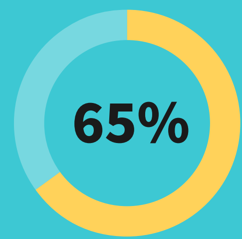
the risk of abandonment at signing was more than halved compared to those still requiring paper-based signing

Paper forms and long, one-size-fits-all web forms pose a major abandonment risk....

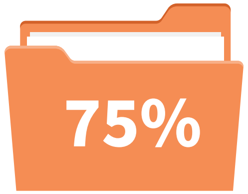
89% of lenders identify filling in paper forms or static web forms as trigger points for high rates of abandonment during loan applications. This is a potential commercial and reputational risk that many brand partners are unlikely to tolerate.

... yet they remain common

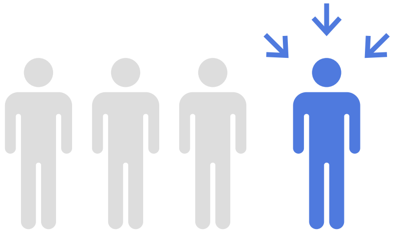
It is **still the standard practice among 65% of lenders to use static, one-size-fits-all forms**, rather than dynamic forms that adapt based on individual customers and their responses.



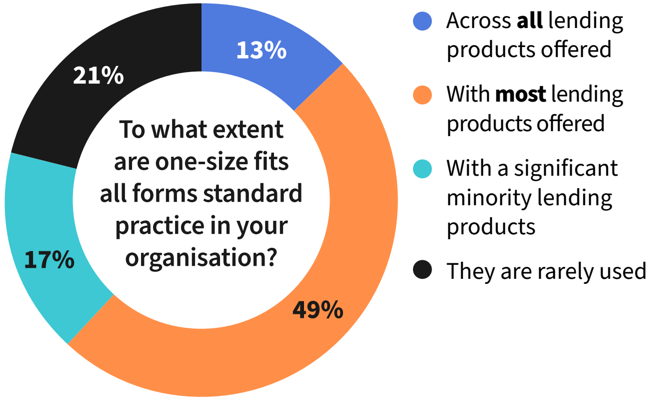
Customers are still having to work too hard to complete applications…

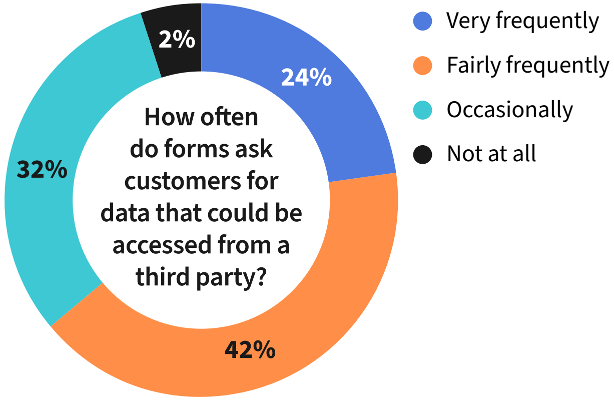


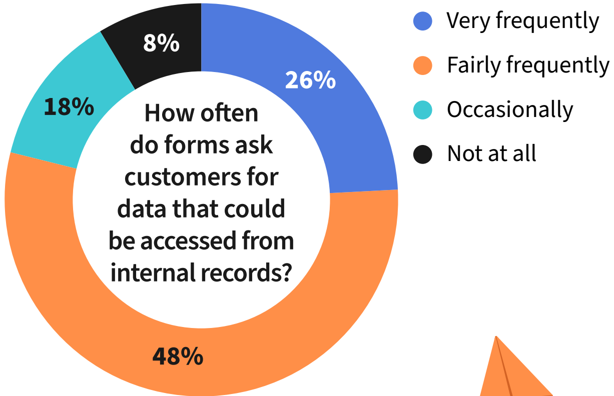
75% of our surveyed lending organisations **commonly ask applicants for data that the organisation already holds internally**.

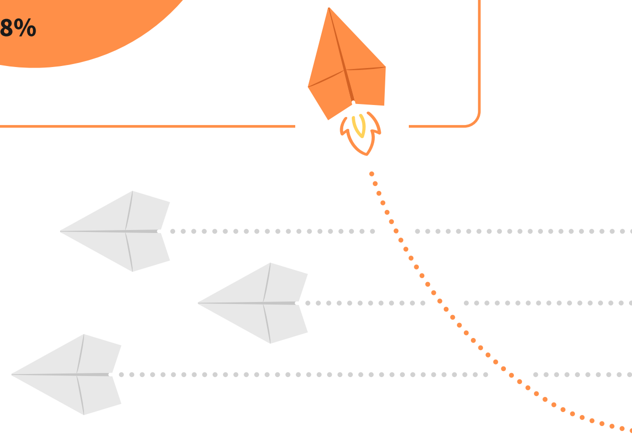


Three-quarters continue to ask customers for information that could be **readily drawn from third-party sources**.









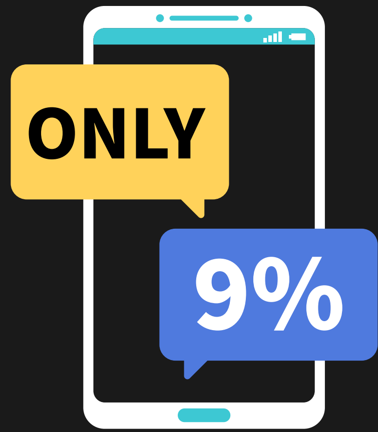
…but change is coming

Respondents recognise that these practices need to stop as embedded lending expands: on average they expect their organisations to **stop** using static **one-size-fits-all web forms** and to stop asking for **data that could be drawn from third-party sources within 3 years**.

Easy access to human assistance will be crucial to create seamless two-way conversations for successful embedded lending

80% of our respondents identified the **capability to provide human assistance** during a digital loan application **without the need to change channel** as an important factor in securing embedded finance partnerships.

88% of our respondents agreed that providing **the option of communicating with a human agent seamlessly within the same channel** as the loan application is an essential tool in avoiding abandonment.



MANY LENDERS RISK FALLING BEHIND:

Only 9% of lenders enable a **seamless switch to human interaction within all their digital channels**, and only 33% have achieved this across the majority of their channels. One in five don’t offer this facility at all.

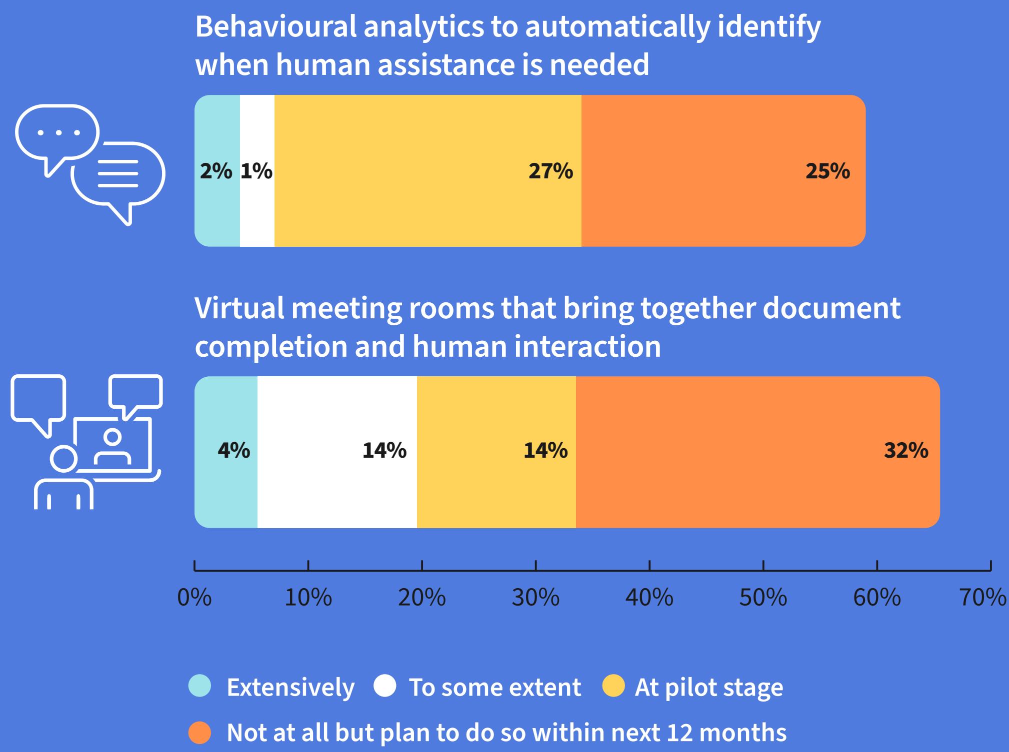
Investment targets smart solutions that seamlessly embed human assistance into the lending journey

Our research shows there's still much progress to be made to provide customers with easy access to human assistance across all channels.

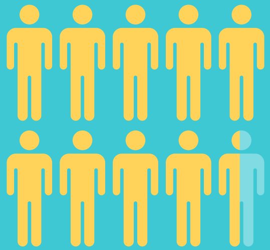
Encouragingly, however, **more than half (55%)** of our surveyed organisations are investing or planning to invest in behavioural analytics to automatically identify when human assistance is needed.

And **almost two-thirds (64%)** have investments already in hand or planned to build virtual meeting rooms that seamlessly combine digital document completion with a human agent.

To what extent have you introduced the following into the loan application experience?



Meeting channel requirements of embedded finance partners also poses a major challenge to many lenders



Embedded finance lenders must satisfy not only online customers but also their partner brands. In fact:

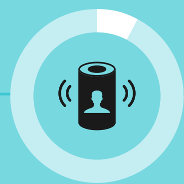
Over 9 out of 10 (94%) of our respondents see the ability to match the channel choice offered by a potential partner organisation as an important factor in being selected.

However, few lenders offer the cutting-edge digital channels that have already attracted significant investment from retail brands. Currently:

Only 15% of our respondents **offer messaging apps such as WhatsApp** as an application channel.

Only 18% offer loans via social media platforms. Yet research shows 49% of retail brands plan to invest in social commerce in 2022, with social commerce sales around the world expected to almost triple by 2025.*

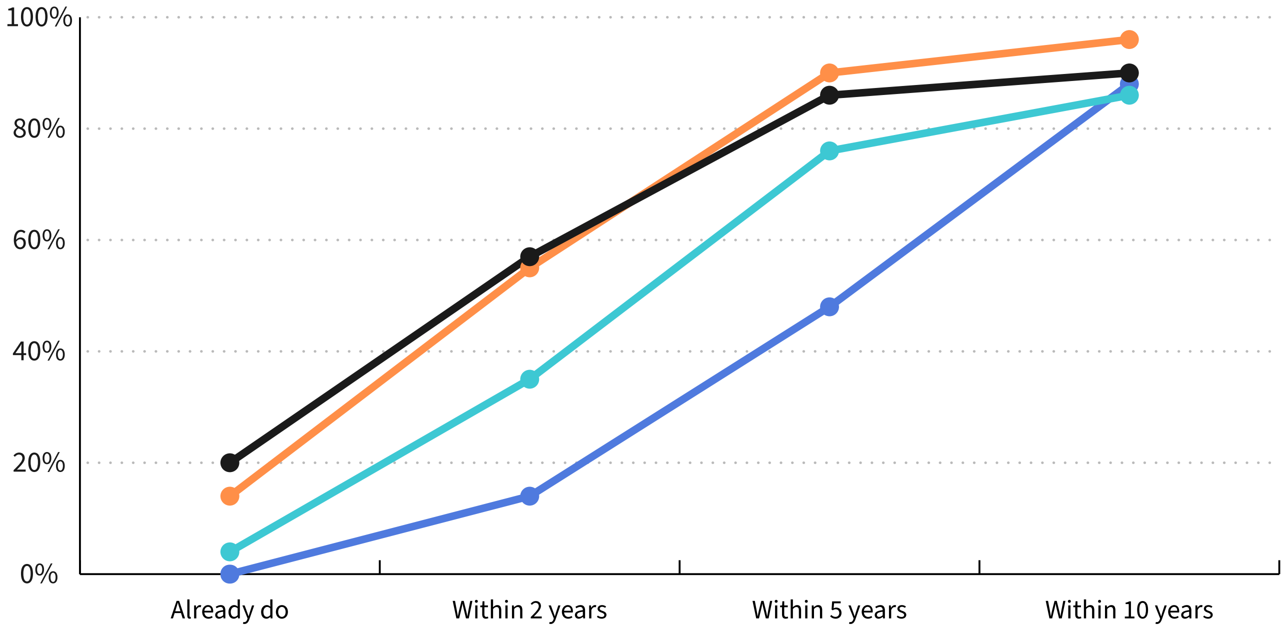
Only 8% of lenders **enable applications via voice-activated digital assistants**, despite the voice commerce market being predicted to grow at a compound annual growth rate of 24% between 2021 and 2026.**



*Source: Shopify **Source: Technavio

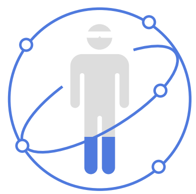
Lenders are ready to invest to meet channel expectations

How soon do you expect to enable loan applications via the following channels?

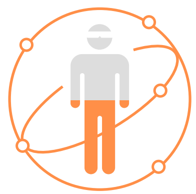


- Messaging applications (e.g. via WhatsApp)
- Voice-activated digital assistants (e.g via Alexa)
- Social media platforms (e.g. via Facebook)
- Augmented reality platforms (e.g. via metaverses)

Augmented reality platforms, such as **metaverses, are also expected to become major channels** for embedded loan distribution:



1/4 expect to take loan applications that way within just two years...



...rising to **more than half** in 5 years' time.

Lenders are pursuing the feature judged most critical by brand partners – low friction identity verification

According to our research, **low friction and secure credit verification is the most critical factor that brands require from an embedded lending partner.**

Yet, as cyber-crime-related fraud risk intensifies, there is pressure to make identity verification even more secure, potentially at the price of greater friction.

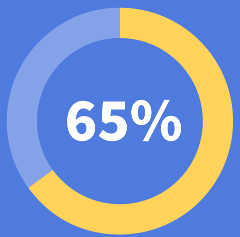
Knowledge-based verification – whereby details provided by the loan applicant are matched with internal data or information held by credit reference agencies – is coming under increasing scrutiny.

Of the lenders surveyed, 87% agree that, given the hackable nature of customer data, **switching away from knowledge-based verification must be a high priority**.

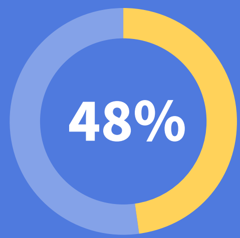
Digital identity verification provides the security lenders and their new brand partners expect

Digital identity verification – which ascribes identity based on "something you have", such as a government issued ID, and "something you are," such as facial biometric, voice biometric, or fingerprint – provides greater security, and the overwhelming majority of lenders are moving to exploit its potential.

Ensuring customers are able to upload ID documents within the same channel they are using for their loan application is crucial to keep friction in digital ID verification at a level partner brands find acceptable:



Two-thirds (65%) of the lenders we surveyed already have this capability, with a **further 26%** having active plans or pilots in the technology.



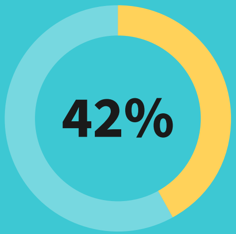
Nearly half (48%) have also automated the capture of data from identity documents in the application process.

This not only speeds up the verification process but also reduces friction and customer effort by enabling the prefilling of information that customers would otherwise have to manually enter during the application process.

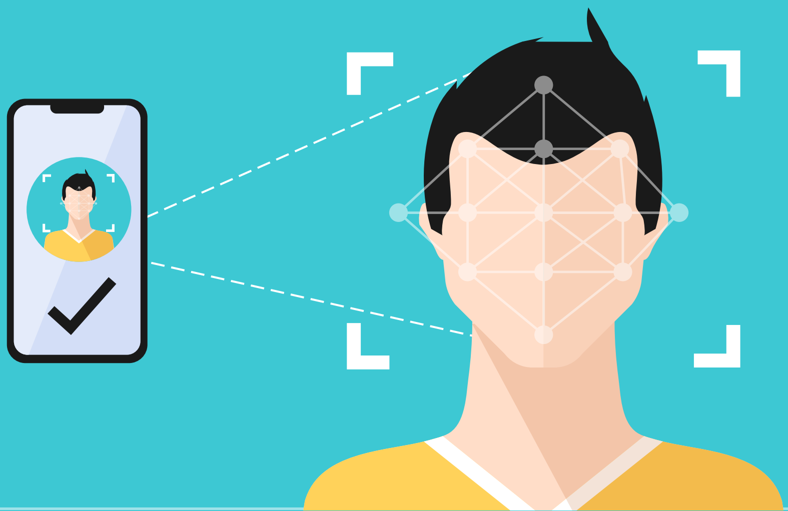
Swift progress in biometrics will be required to meet the low-friction embedded lending challenge

Facial biometric recognition

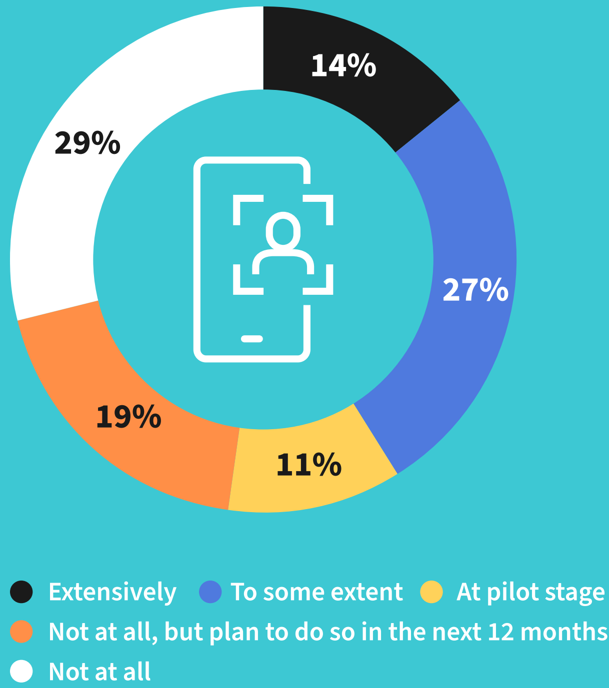
Facial biometric recognition can establish that the person presenting the ID is the same individual whose portrait appears on the document. However:



42% of the lenders we surveyed have operationalised facial recognition during the loan application process. And this falls to a mere **14% that have done so extensively across the loan product range.**



To what extent do you use facial recognition to reduce customer effort during the authentication and verification process?



Behavioural biometrics will be critical to deliver low-friction anti-fraud checks…

Behavioural biometrics analyses the way an individual interacts with their device – the angle at which they hold their phone, finger pressure, swipe patterns, keystroke dynamics, and more.

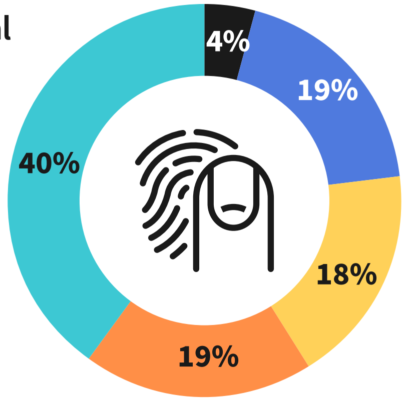
Anomalies in the way someone enters their data can flag indicators of potentially fraudulent activity without intruding on the customer experience. Analysing movement patterns rather than a static biological trait allows for persistent authentication throughout the application process, thereby enabling a seamless cross-channel experience.

Little wonder, **more than 8 out of 10 (83%) of our respondents agree** that behavioural biometrics will become crucial to preventing fraud without unacceptable friction in the embedded lending experience.

…but it's still a work in progress

To what extent do you use behavioural biometrics to reduce customer effort during the authentication and verification process?

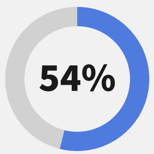
- Extensively
- To some extent
- At pilot stage
- Not at all
- Not at all, but plan to do so in the next 12 months



Unlocking powerful insights

Behavioural analysis uses behavioural biometrics scoring and multiple other data points to create a behavioural and risk profile of an applicant. The risk analytics engine uses this profile to decide whether an application requires further authentication measures or should be blocked.

To deliver a low-friction borrowing experience, the speed of this analysis will be critical. Many lenders are well-prepared:



54% already have real-time fraud risk analytics in active use, with a further 13% at the pilot stage.

However, lenders' best efforts to reduce friction could be defeated if regulators are provoked to intervene

Regulators worldwide are increasingly concerned about the risks of consumers making snap financial decisions without fully understanding the cost of credit.

In July 2022, the UK Financial Conduct Authority, for example, announced a new Consumer Duty requiring every financial firm to ensure that "it includes appropriate friction in its customer journeys to mitigate the risk of harm and give retail customers sufficient opportunity to understand and assess their options". The Dutch Payments Association has also suggested that such "positive friction" should be introduced into the Buy-Now-Pay-Later (BNPL) payment journey. Similarly, the Consumer Financial Protection Bureau (CFPB) in the US and Australian Prudential Regulation Authority (APRA) are increasing regulation of lender communications.

The prospect of greater regulatory intervention in embedded lending seems real, with an **overwhelming consensus** among our respondents **that the industry must take action to ensure that consumers truly understand the embedded lending products they take out** or face regulators mandating the introduction of "positive friction" into the application process:

97%

97% of the lenders we surveyed agree that, in the low-friction world of embedded finance, **responsible lending will require more tailored and digestible customer communication about affordability and the cost of credit to ensure that borrowers make informed decisions.**

Advanced analytics and AI are set to be the go-to tools as lenders step up their efforts to protect consumers from making inappropriate borrowing choices

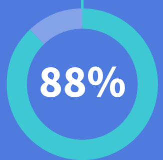
To ensure they fulfill their responsibilities to treat borrowers fairly and meet the concerns of regulatory bodies around the world, lenders will need to ensure their communications are clear, concise and understood on a customer-of-one basis.

This facility to hyper-personalise loan communications creates opportunities to identify potentially vulnerable customers, underscore an individual's understanding and, as a result, may well reduce the risk of regulatory intervention in embedded lending…

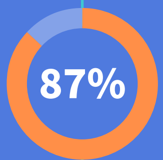
without increasing friction...

... and while simultaneously delivering lower default rates.

85% believe greater personalisation significantly **improves engagement**, increasing customers' understanding of product suitability and also reducing abandonment risk.

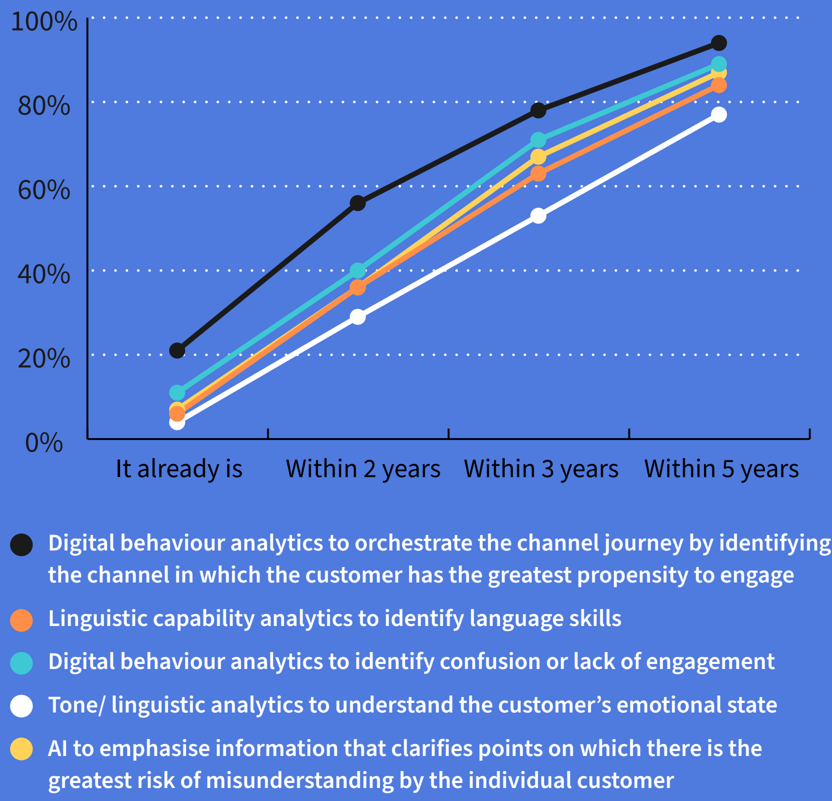


88% agree that lenders who highlight important information on a personalised basis to avoid customer confusion reduce the **risks of both regulatory intervention and customer default**.



87% expect a more personalised digital loan application process would **significantly reduce customer effort**.

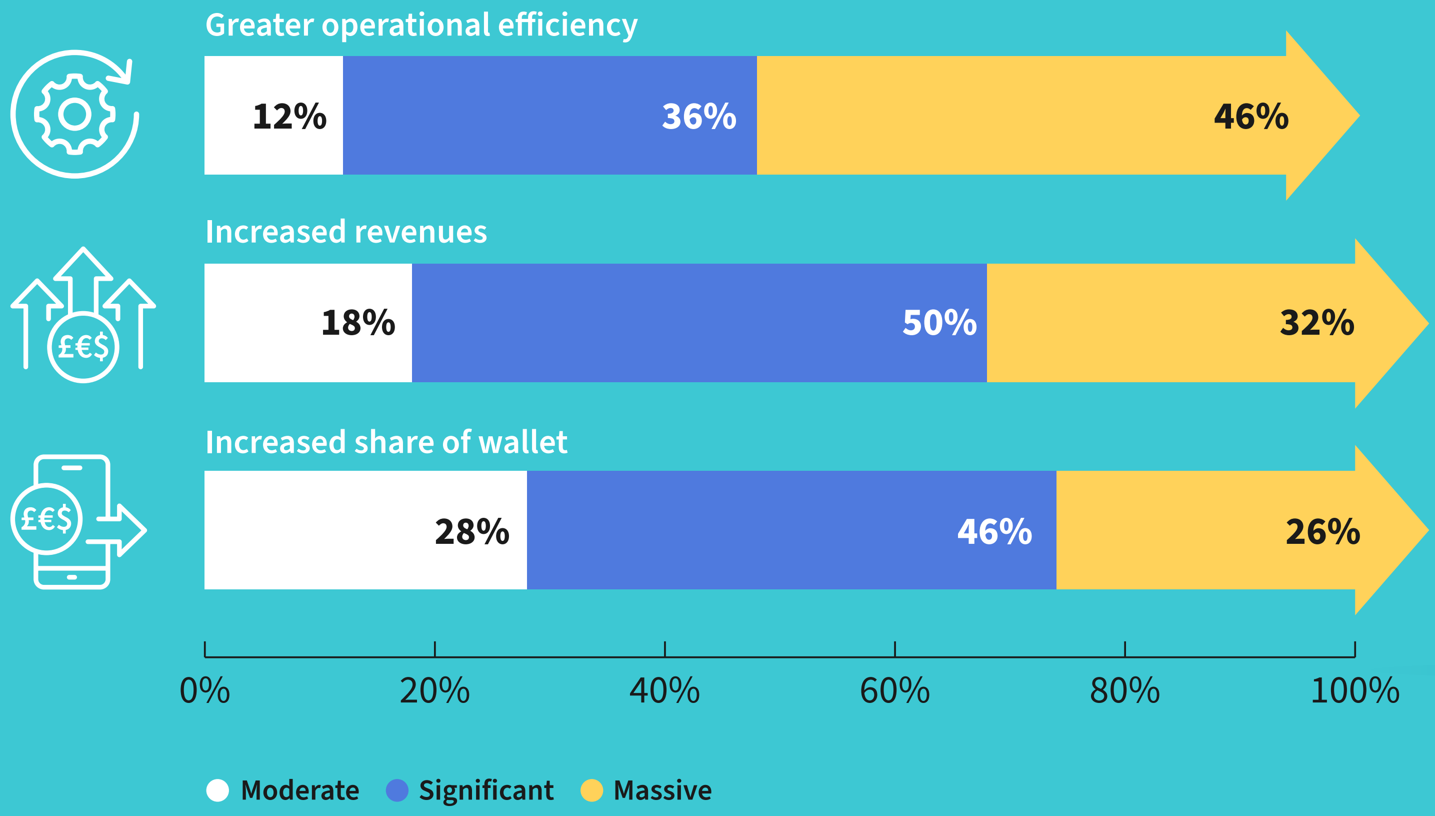
How soon will it be mainstream industry practice to use the following technologies to ensure customer understanding of lending products and their suitability?



Our research shows minimising friction in loan applications *can* and *must* be the future of embedded lending...

... and the benefits will be felt both in embedded lending and beyond

Expected benefits of a lower-friction loan application process:



Viewpoint

Embedded finance: raising the bar for all types of lending.

For two decades, the evolutionary arc of our connected world has trended towards solutions that are ever faster, smoother, and convenient, from one-click shopping to car rides hailed at the swipe of a smartphone. So, it is of little surprise to find that embedded finance, which offers consumers the uber-convenience of accessing credit where and when they need it most, is rapidly gaining traction.

This massive opportunity will favour lenders who can match the best-in-class customer journeys of the leading online brands. As our research shows, this means lenders need to prioritize low-friction, omnichannel experiences, removing any potential trigger points for abandonment, whether that's lengthy, complex forms, document signing, or difficulties accessing human assistance. Lenders must move quickly to embrace new technologies that minimise customer effort, such as dynamic forms that adapt based on individual customers and their responses and e-signatures, which our research shows more than halves the risk of abandonment at signing compared to processes that still require paper-based signing.

Importantly, lenders must also optimize identification and authentication using solutions like mobile authentication and behavioural biometrics, securing the customer journey without sacrificing convenience. This must, however, be mirrored by increased attention to customer transparency, with lenders investing in advanced analytics and AI to make sure their customer communications are clear, personalised in the right language and brand, and compliant with regulatory guidelines. These advances will be essential not only for treating customers fairly but for demonstrating to regulators around the world that embedded lending does not risk customer detriment. Embedded lending will not only improve accessibility to credit for many consumers, potentially helping them better manage their finances, but will also accelerate the roll out of tailored and digestible customer communication about affordability and the cost of credit for all types of lending. Embedded finance promises to transform customer expectations of what's possible, and all lenders will need to take note.

For more information:

OneSpan

Smart Communications

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