algoan x Skaleet

The Evolution of Credit

When credit becomes smart

algoan x Skaleet

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Editorial Comment

Credit is a high-value-added offering that strengthens customer engagement and retention while generating new revenue. This is why it is a critical issue for any financial institution. Credit is currently undergoing a revolution driven by both technology and the arrival of new players on the market. The players faced with these changes are forced to reinvent themselves constantly, with traditional players being no exception.

For some players relying on older technologies, creating new products or adjusting existing offerings can be very time-consuming and require significant human resources. On the other hand, fintech companies, newcomers to the market, rapidly implement solutions offering a greatly enhanced, 100% digital user experience with a record-breaking response time, thanks to advanced data processing, all to the detriment of legacy players' offers.

This is especially so given that neobanks' and, more generally, fintech companies' offers are increasingly appealing to individual consumers and small businesses. In Europe, 64% of consumers have adopted fintech companies for some of their banking needs, compared to only 16% in 2015 (source: Global Fintech Adoption Index, 2019).

To remain relevant in this competitive environment, financial institutions must innovate. This is mainly achieved by implementing technology that is more agile and resilient to change. Today, some technologies are modular, natively digital, and work in real-time. By breaking down and reimplementing the modules required to make the credit cycle work, established players are no longer dependent on monolithic systems. This allows them to intelligently create future systems to maximize speed, agility, and flexibility. Future lenders will be able to manage their risks better, have a real-time view of their positions, and offer an unparalleled customer experience while controlling their TCO (Total Cost of Ownership).

In this white paper, Algoan and Skaleet join forces to present the progression of credit technology and next-generation solutions. These include the Core Banking Platform with its innovative credit module and Credit Scoring Open Banking, both of which are responsible for creating new cutting-edge products.
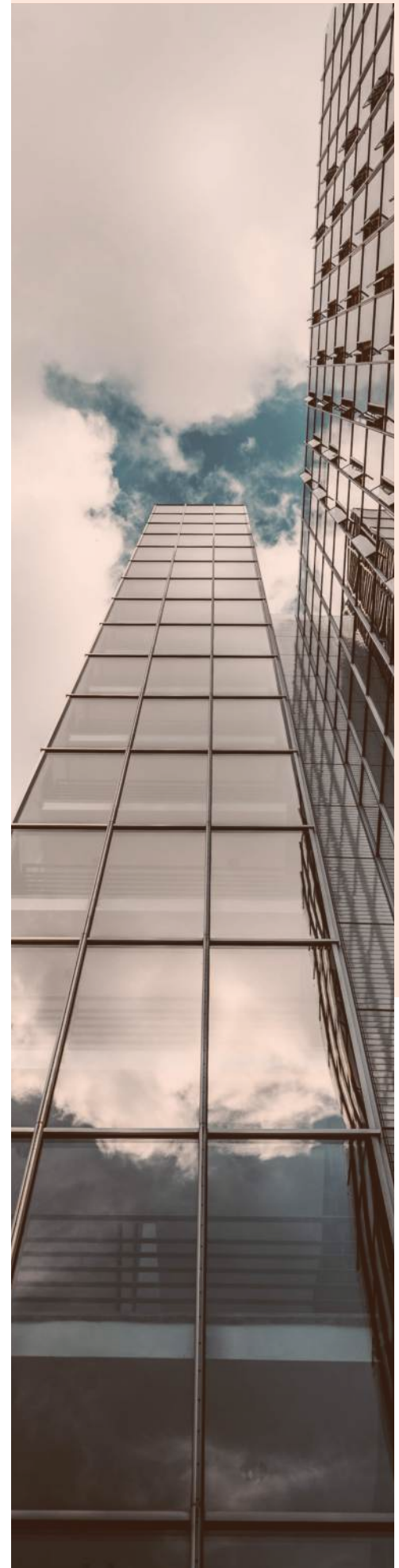
Part 1

Developments and trends in the credit market

Developments and trends in the credit market

Credit 1.0 : 1950-2008

At that time, loan applications were completed on paper and took several weeks to be processed. Repayments in a fixed amount were due on the same date each month for a set number of years. This first generation of credit was particularly opaque and risky for lenders.

Credit 2.0 : 2008-2018

Enabled by Web 2.0 advances, consumers were more connected and demanded offers that were more personalized and fairer. On the other hand, lenders were motivated by the need to reduce their risk expense and manage fraud more effectively.
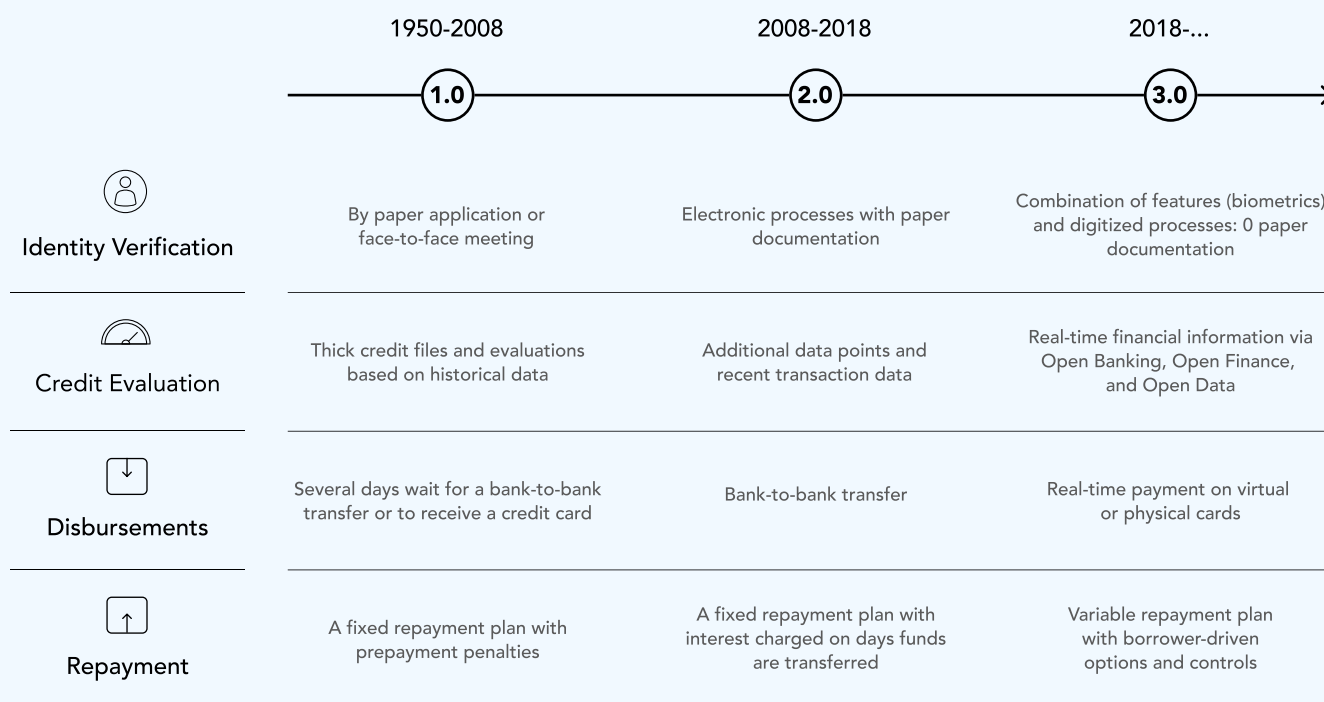
After the 2008 financial crisis, a new generation of lenders emerged. More digital, they began using self-reported consumer data collected by offering simpler and more convenient online applications. This development was accelerated by the 2010 Lagarde law, which now requires lenders to check the borrower's solvency.

We are in the second generation of credit, where digital technology is increasingly gaining a foothold in the customer experience. Supporting documents are always requested in paper format.

Credit 3.0 : 2018 to Today

Digital transformation and access to real-time data sources have brought new changes. Lenders have moved from digitizing analog processes to a 100% digital, automated borrower experience. They now rely on real-time financial data from a wide range of sources and artificial intelligence to make the credit decision more fair and inclusive for borrowers. In addition, workflow engines have been created, allowing you to personalize the entire underwriting process for the financial institution and the customer with just a few clicks, without any software development. Nowadays, you can incorporate third-party systems, such as electronic signatures, for an entirely paperless experience. Thanks to PSD2, new players such as Big Tech and fintech companies are shaking things up in the industry and sparking competition. Credit is also taking different shapes: micro-credit and installment payments which now require an update of credit regulations.

The Evolution of Credit

	1950-2008	2008-2018	2018-...
	1.0	**2.0**	**3.0**
Identity Verification	By paper application or face-to-face meeting	Electronic processes with paper documentation	Combination of features (biometrics) and digitized processes: 0 paper documentation
Credit Evaluation	Thick credit files and evaluations based on historical data	Additional data points and recent transaction data	Real-time financial information via Open Banking, Open Finance, and Open Data
Disbursements	Several days wait for a bank-to-bank transfer or to receive a credit card	Bank-to-bank transfer	Real-time payment on virtual or physical cards
Repayment	A fixed repayment plan with prepayment penalties	A fixed repayment plan with interest charged on days funds are transferred	Variable repayment plan with borrower-driven options and controls

Part 2

Open Banking & Machine
Learning: when credit
becomes smart

Open Banking & Machine Learning Regulation

Until the advent of PSD2 in 2018, credit risk analysis was based on self-reported or not-so-recent data obtained from the consumer. However, this data was unreliable because the borrower often exaggerated amounts. In addition, because the data was not recent, it usually did not provide an accurate financial picture of the loan applicant at the time of the application.

Today, it is now possible to inform credit decisions with predictive models based on Open Banking data.

Open Banking Data

Open Banking data is obtained directly from a bank after the consumer provides consent for the lender to access their bank account information. This data generally corresponds to three months of banking history and includes financial transactions identical to those on a traditional bank statement.

This data, which is exhaustive because it is retrieved directly from the financial institution, drastically reduces the time required to process the loan candidate's application. Open Banking data now replaces the supporting documents previously required for processing credit applications. Data such as salary, expenses, loan and credit payments, or living expenses are now discoverable within the Open Banking data.

The customer experience is thereby streamlined, and the credit application can be completed in just a few minutes and automatically processed.

Protection against fraud

The supporting documents were also more easily falsified by borrowers. According to Younited (see white paper), fraud cases have been substantially reduced or limited because of Open Banking data. The bank is the only source of data. Therefore, it is more difficult for the borrower to falsify the information on their credit application. A godsend for lenders.

The guardian angel of risk management

Open Banking data displays all its power when processed using algorithms developed by Algoan. These algorithms categorize bank transactions, separate the good and bad profiles and determine a 12-month probability of default. The results provided by these algorithms are constantly being fed by machine learning, which makes it possible to cut credit risk in half.

This single-source data is difficult to falsify. In addition, it is obtained right when credit information is requested. Therefore, it provides a more accurate measure of risk, ensuring a more reliable probability of default and superior cost-of-risk-management. Another significant advantage regarding the customer experience is that the lender can deliver a highly tailored offer quickly, drastically reducing the time between the request and the payment of funds ("Time to Cash").

Boosting the approval rate

In France, the decision to grant credit is partly based on social demographics that exclude some people from access to financing, and for the wrong reasons.
Credit bureaus establish a risk score in other European countries based on consumers' credit history. Those who do not have a history because they are too young or new to the country are denied access to credit. They are called 'thin files.'

Using Open Banking data in the credit decision allows a lender to include these people based on three months' banking history. This makes access to credit more inclusive and more responsible because it is based solely on the individual's financial behavior. Algoan reports that approval rates have increased by up to 40% without increasing risk when making credit decisions based on Open Banking data.

Part 3

Core Banking Platform & next-generation credit module for an optimal customer experience

Core Banking Platform Principles

A Core Banking Platform is a SaaS banking engine that continuously powers innovation. It is a more agile and scalable alternative to traditional Core Banking Systems. This new generation of Core Banking is a driving force in creating configurable architectures and API-driven workflows that allow third-party financial institutions to quickly leverage the best technologies to offer new business value.
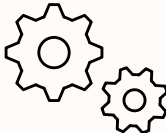
Ability and ease in configuring products, processes, and data for greater customization

Focus on developing better, more competitive financial products

Cloud-first and API-driven development to facilitate energizing an ecosystem of best-in-class partners in the market

Application and infrastructure services managed directly in the cloud to gain flexibility and agility

These principles are built into the credit module included in the Core Banking Platform. They are designed to handle the entire life cycle of all types of loans, from origination to servicing. In order for the financial institution to be 100% autonomous in its product strategy, the credit module affords a high degree of configuration. You configure your consumer credit, BNPL, payday advance, or micro-credit in a no-code logic.

This model can even be enhanced by a workflow orchestration tool that allows you to quickly and autonomously configure a workflow for a given credit product or to add third-party partners to enrich the process (e.g., purchasing insurance when buying real estate).
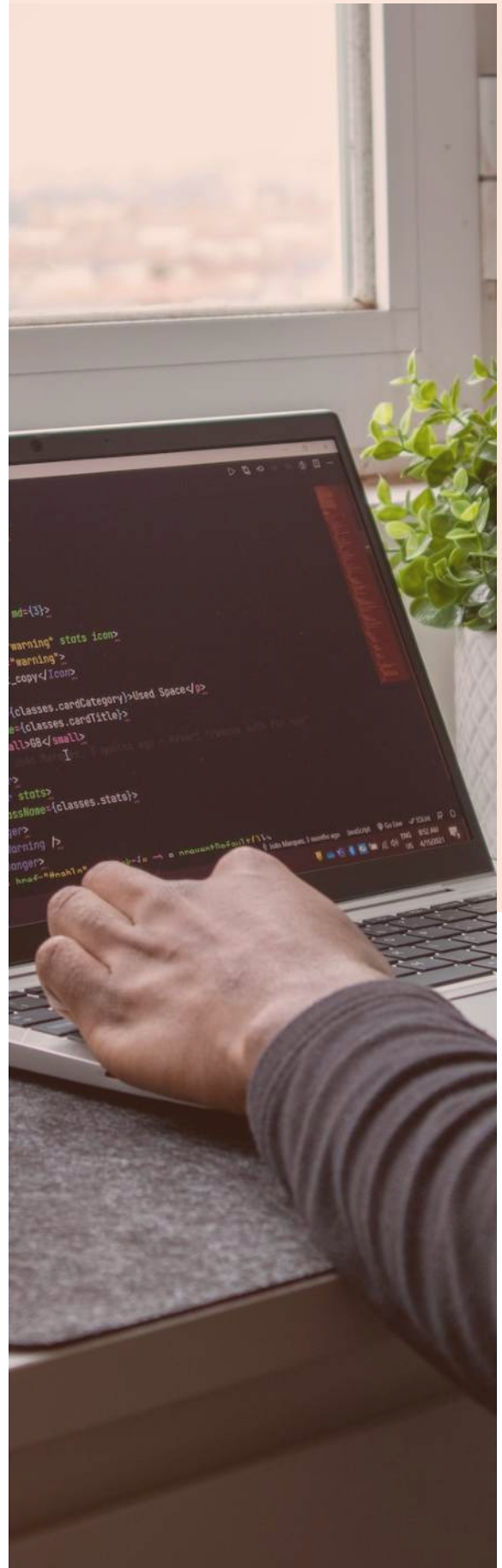
This autonomy given to financial players ensures that they can adapt quickly to market changes and respond effectively to the needs of today's and tomorrow's customers. It also promotes the development of more innovative, more agile credit operations, creating conditions for continuous innovation and facilitating the implementation of new business models.
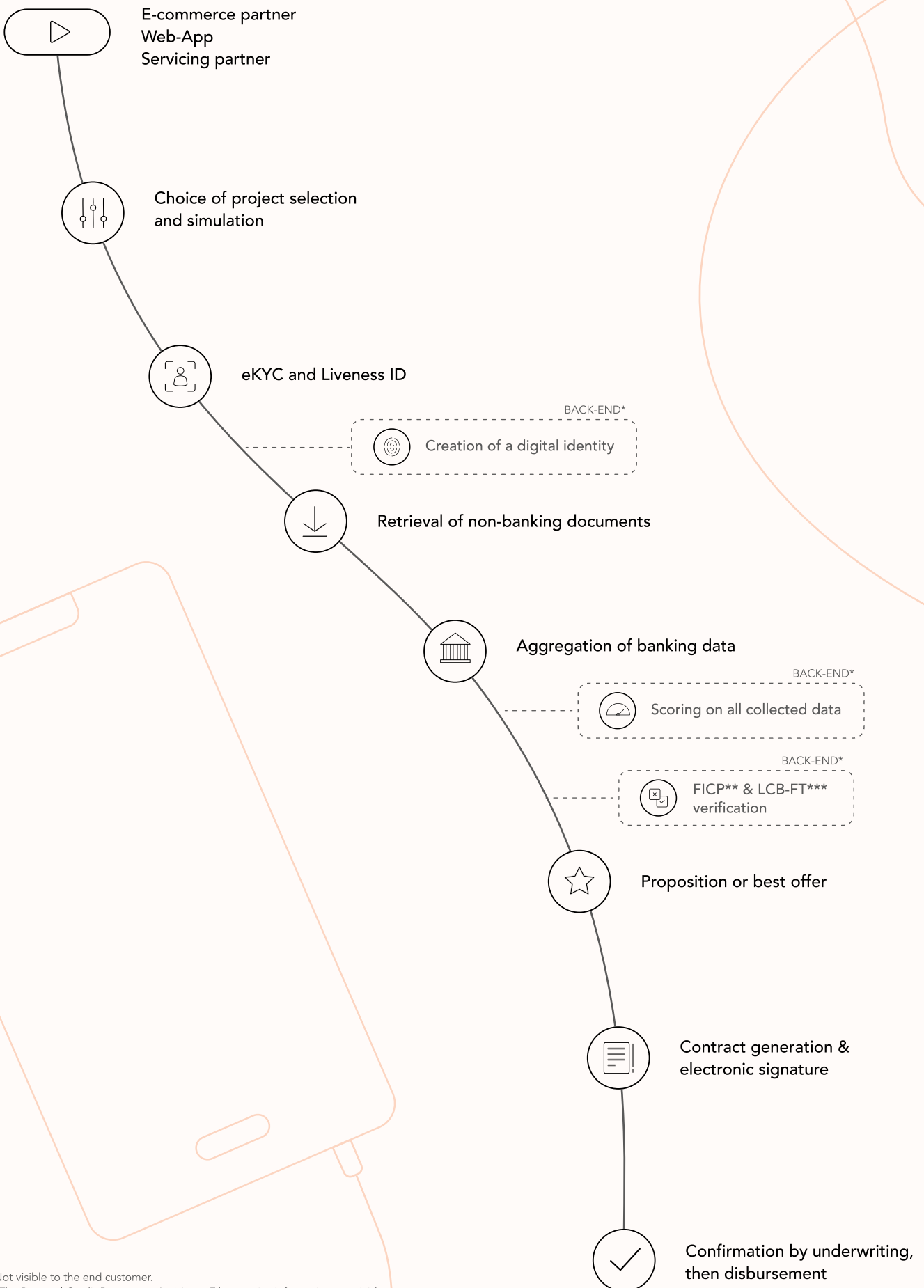
A fully optimized customer experience

Optimization of the customer experience is made possible by the agility of the Core Banking Platform technology and its credit module.

Indeed, this technology's modular, 100% API-based architecture and the ability to create customized and scalable workflows facilitate the lender's ability to accommodate customers' needs. Accordingly, the customer experience can easily be enriched with a partner catalog containing products that not only support the credit products and services but also enhance them. One of the main goals is to streamline customer payment and credit management systems.

This allows the creation of 100% digital and configurable credit workflows with integrated partners, a "time to yes" or an immediate "time to cash," based on real-time approval.

100% digital consumer credit

E-commerce partner
Web-App
Servicing partner

Choice of project selection
and simulation

eKYC and Liveness ID

BACK-END*

Creation of a digital identity

Retrieval of non-banking documents

Aggregation of banking data

BACK-END*

Scoring on all collected data

BACK-END*

FICP** & LCB-FT***
verification

Proposition or best offer

Contract generation &
electronic signature

Confirmation by underwriting,
then disbursement

*Not visible to the end customer.
**The Personal Credit Repayment Incident - File contains information on inicidents
involving the repayment of credits to individuals
***Anti-Money Laundering/Combatting the Financing of Terrorism

Part 4

The Benefits of an Algoan and Skaleet Solution

The advantages of an Algoan and Skaleet solution

Implementing the Algoan/Skaleet technological diptych provides several advantages to financial institutions wishing to improve their credit offer:

Customization of the customer experience

✓ Advanced autonomy in the design and configuration of new credit products due to the ultra-configurability of Skaleet's credit module.

✓ Ability to create custom, highly configurable workflows for any credit product you want to market with the help of Skaleet Process Automation (SPA).

Complete credit management

✓ Coverage of the end-to-end process of the credit life cycle: from simulation to disbursement of funds to management for the life of the loan.

✓ Ability to incorporate the partners of your choice and fortify your offering and your various customer experiences.

Time savings and reduced costs

✓ 100% digital customer experience requiring no human intervention.

✓ Accelerated time to cash with the ability to reliably approve a credit application within minutes.

✓ Cost optimization (reduced human intervention, accelerated time to market, native cloud platform on a dedicated instance).

Open Finance, Embedded Lending. What is the future of credit?

While Open Banking is becoming the norm for financial institutions, a new approach is already making news. We are referring to **Open Finance**. The Financial Conduct Authority (FCA), the supervisory authority for financial institutions in the United Kingdom, is working on a regulation for greater access to financial data. Open Finance will go beyond payment account information to include "read" access to all financial data, such as savings account information.

This will provide customers with the following:

- A fully holistic view of their finances

- Control over all financial data

- More insightful, competitive, affordable, and effective solutions.

Applied to credit, Open Finance will improve the reliability of approving credit applications and provide real protection against fraud and over-indebtedness. However, the regulations as implemented must protect consumers by requiring free and informed consent. In addition, the duration of consent, if extended (today, Open Banking consent is six months), will prolong the ability to analyze the probability of default due to updating over the life of the loan/credit.

Embedded Lending is also a significant trend and complementary to Open Finance. It allows any company (financial or non-financial) to access a vast and secure credit infrastructure to facilitate financing their customers seamlessly while strengthening customer loyalty. For lenders, the integration makes efficient delivery at a low cost possible and achieves profitability while leveraging valuable predictive data.

Launching a credit offer requires setting up a technical platform that manages complex processes, from loan underwriting to loan management over the life of the loan. Developing this type of solution in-house requires a high level of technical and human resources expertise and can turn out to be very time-consuming.

In order to accelerate the development of your credit business and help you build your ultra-customized and scalable credit offer, Skaleet has designed its highly configurable credit module in a no-code logic. This 100% API-based module draws on the technical power of Algoan to make credit decisions faster and more reliable.

With this solution, you can provide your customers with an optimal customer experience, one of the most powerful in the industry.

About

Skaleet

Skaleet's SaaS Core Banking Platform gives financial institutions the power to change continuously. The platform provides the technical power to launch innovative financial services that respond to the new ways customers are using them. Skaleet manages the technology while financial institutions focus on what matters most: creating new offerings and strengthening the creation of new financial services and customer relationships.

The scalable, API-first Core Banking Platform enables financial institutions to connect to a broad ecosystem of product, technology, and regulatory partners. This next-generation solution is resilient, meets the highest security standards, powers more than 40 regulated financial institutions, and manages over 10 million accounts worldwide. Its robust architecture helps financial institutions leverage their data better and gain speed and agility to manage day-to-day operations while launching new offerings in minutes. Skaleet has over 60 employees in Boulogne-Billancourt (near Paris, France) and has raised €28.5 million from Société Générale and Long Arc Capital.
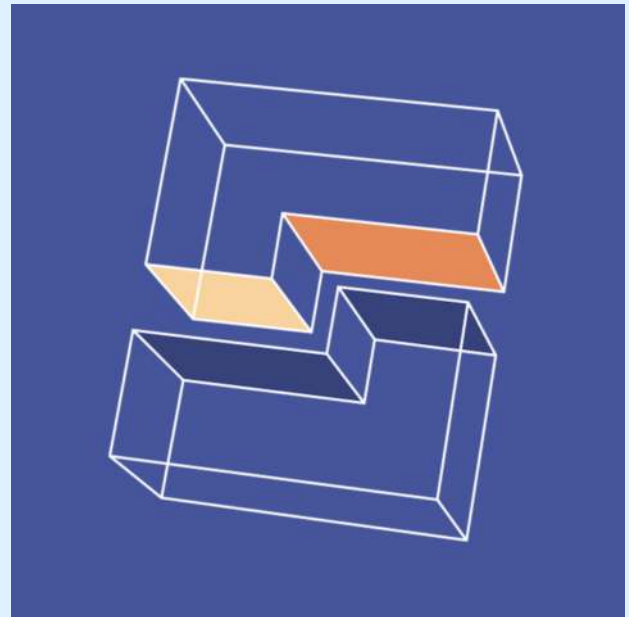
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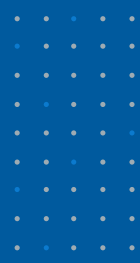

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Algoan

Algoan is a French fintech company that is revolutionizing the credit industry in Europe through the power of Open Banking. Algoan innovates at all stages of the credit life cycle (approving, consolidating, repurchasing, etc.), drawing on proprietary technical bricks developed by a team of about 40 professionals, techs, UX, and data scientists. Based on the strength of its Credit Decisioning Open Banking solutions (a decision support engine based on the secure sharing of borrower banking data), Algoan provides near-instantaneous response and analysis, greatly improving approval rates and risk management. Algoan's solutions result in a much more refined and efficient risk analysis than traditional methods, allowing for more inclusive and fair credit with controlled risk (GINI score up to 80%).

Algoan's ambition is simple: to make credit more accessible.

www.algoan.com

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www.skaleet.com