

Lending in the new normal series

Exploring the future of lending in a transforming economy

The importance of lending and why it needs to change today

The lending industry is almost as old as human civilization itself, dating back at least 4,000 years to when farmers first borrowed seeds or animals against the promise that they would deliver a much greater return in the future.

Today, it's the most significant part of the global economy. In the US, for example, the \$50 trillion of credit in circulation dwarfs the \$3 trillion of actual money.

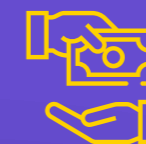
In early 2019, global debt stood at \$244 trillion – over three times the size of the global economy. Credit is the economic engine that keeps businesses – and the banks that lend to them – in business. The self-reinforcing cycle that credit creates is what drives the global economy.

However, lending is also a prime cause of economic volatility. It's the force behind both long- and short-term boom-and-bust cycles, the most recent of which (before the current pandemic) was the global financial crisis of 2007-8.

Here, relaxed lending rules encouraged unsustainable levels of lending: when the resultant bubble burst, the plunging value of securitized loans came close to taking down the banking system.

Since then, of course, stricter regulations designed to discourage risky lending have compelled banks to hold much greater capital reserves, limiting their room for maneuver and raising the cost of borrowing.

Lending today



\$50 trillion
of credit in circulation



\$100 trillion
global bond market



\$244 trillion
global debt

(as of early 2019)

About the author



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As Global Solution Lead for Lending at Finastra, Christopher Papathanassi is responsible for the overall line of business within the field, and works cross functionally to provide support with; deal execution, validation and execution of go to market activity, product strategy and bringing thought leadership to the market . With over 14 years' in the industry, he is an experienced commercial lending specialist.

Prior to his current role he worked on the bank side where he held a variety of roles within lending, both on the business and change management side. He holds a Bachelor's Degree in Business Management from Bournemouth University.

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The lending opportunity

This has changed the landscape of participants in the lending market, with buy-side firms stepping in to play a much more prominent role in the \$100 trillion global bond market. Supported by digitized platforms, hedge funds and other players are finding growth in lending markets as the sell side pulls back from it.

Given regulatory restrictions, how can banks back at the “coal face” of retail and corporate lending make it profitable? Much of the answer lies in technology. Lending remains one of the least digitized and most archaic financial services markets, dependent on face-to-face contact and paper documentation, even fax machines.

This is a drag on the lending industry's progress, slowing down loan pull-through and cycle times and making it difficult for lenders to react quickly to the demands of customers and regulators.

But if the lending process is digitalized from end to end, today's software can take the brakes off the lending process, speeding it up yet remaining within the necessary regulatory constraints.

There is huge potential for digitalization to improve levels of customer service and personalization, and to sharpen both credit and risk management.

Digitalization also has the potential to change business models in lending. All banks are familiar with the waves of “disintermediation” sweeping financial services as open banking and platform technologies are widely adopted.

This can be an opportunity as well as threat for incumbents, opening the door to collaborative business models and to broader service offers that help to cement customer relationships.

It's a long way from lending's simple origins. But today's software and platforms have the potential to take lending on the next step of its journey, so it can continue to be the engine of the world economy at a time when it's needed more than ever.

In our next article we'll look at how technology is transforming the “human side” of lending, and the role it plays in building client relationships and personalizing the lending experience.



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About Finastra

Finastra is building an open platform that accelerates collaboration and innovation in financial services, creating better experiences for people, businesses and communities. Supported by the broadest and deepest portfolio of financial services software, Finastra delivers this vitally important technology to financial institutions of all sizes across the globe, including 90 of the world's top100 banks. Our open architecture approach brings together a number of partners and innovators. Together we are leading the way in which applications are written, deployed and consumed in financial services to evolve with the changing needs of customers. Learn more at finastra.com

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