eBook

Fintech vs. Traditional FIs:

Trends in Unsecured Personal Installment Loans

Industry Background

Fintech. The word itself is now synonymous with constant innovation, agile technology structures, and being on the cusp of the future of finance – fintech challengers; companies who are disrupting existing financial models by leveraging data, advanced analytics and technology. Arguably, fintechs were born out of the desire to improve financial operations and enhance the customer experience, but regardless of the reason, these challengers have since inspired traditional financial institutions (FIs) to either emulate or collaborate. Consumers now, more than ever, have easy access to a variety of innovative financial products and services.

And with this evolution of technology fused with financial services, various trends in the market landscape point to the continued maturity of the fintech industry.

Increased Demand: As fintech challengers become more established, consumer awareness and adoption are also on the rise. In 2019, U.S. fintech adoption was 46% (up from 17% in 2015)[i].

Venture Capital Funding: In 2018, global fintech investment reached $39.6 billion. Meanwhile, early stage venture capital deals as a percentage, fell to a five-year low, with investors placing their bets on more established fintechs[ii].

Product Diversification: Established fintechs are becoming more aggressive in expanding their lines of business beyond their initial use cases.

- **SoFi** having first started in the student lending segment, expanded their product offering to include personal and home loans. Earlier this year, SoFi also announced[iii] its expansion into non-lending services with the introduction of SoFi Money™ and SoFi Invest™.
- **LendingClub** recently announced[iv] the broad launch of its balance transfer loans, tailored to borrowers who want to consolidate debt or refinance their credit cards at competitive rates.
- **PayPal** who entered the fintech lending industry from the adjacent segment of payments hit a recent milestone of $10 billion funded[v] to more than 225,000 small businesses around the globe in 2018.

Market trends identified above include fintech segments beyond unsecured personal installment loans.

Overview

With the disruption of the financial services space, how are fintechs faring against traditional FIs? Experian conducted an analysis to identify fintech vs. traditional FI trends in 2018 and the first quarter of 2019. The following pages will reveal trends in market share, portfolio composition and customer profiles.

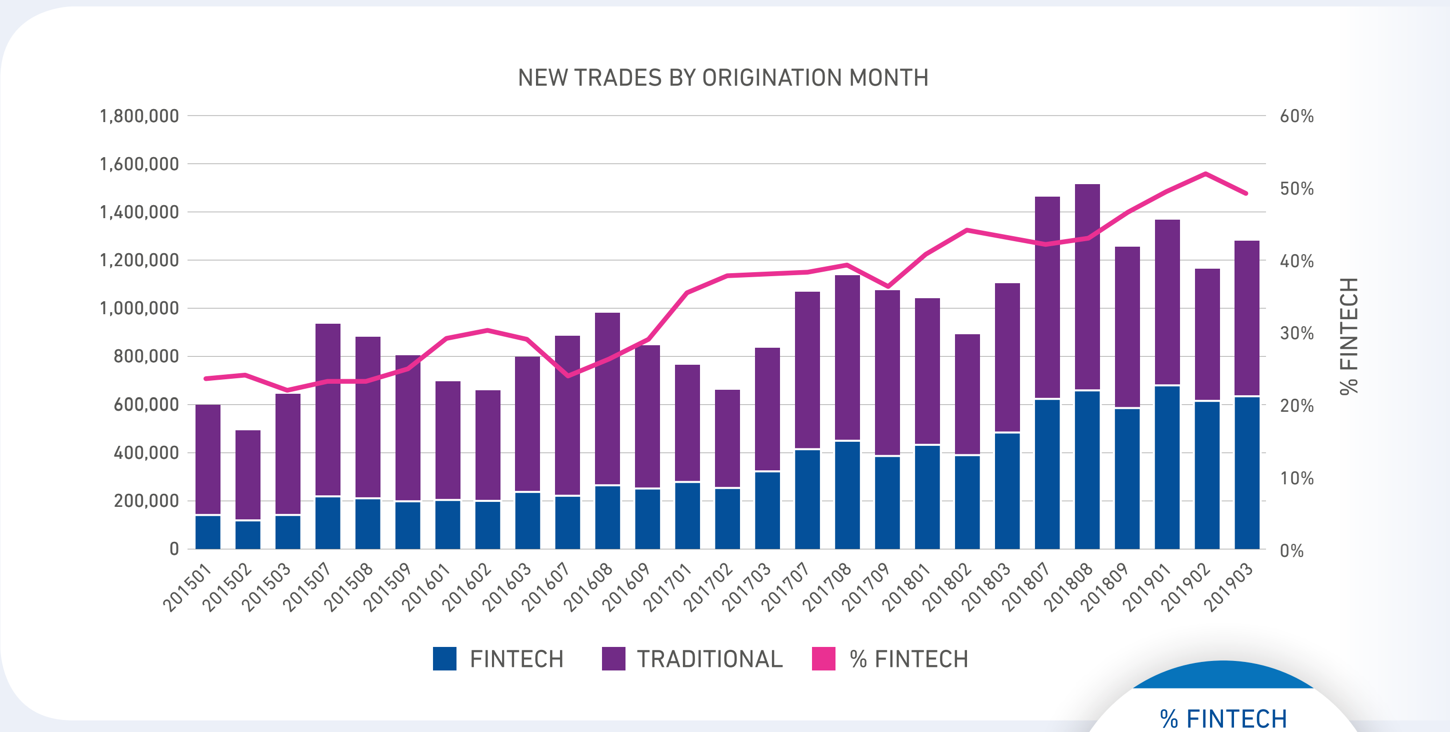
The fintech ecosystem is broad and comprised of multiple segments including lending, payments, wealth management, blockchain/crypto, etc.; however, the primary focus for this report is unsecured personal installment loans. Fintech lending is expected to grow as unsecured loan originations continue to gain popularity; in 2018 fintech originations reached $45.47 billion and are projected to grow to $73.75 billion in 2022[vi].

Fintechs vs. Traditional Lenders

Market Share

The contribution of fintech to unsecured lending is increasing. A year over year comparison shows that in March of 2015 fintechs made up only 22% of the market, whereas in March of 2019 fintechs made up nearly half of loans originated.

Contribution of Fintech to unsecured lending is increasing



Source: Experian Data

% FINTECH MARCH

2015: **22.4%**
2016: **29.3%**
2017: **38.5%**
2018: **43.4%**
2019: **49.4%**

What is leading to this trend? An increase in consumer demand, VC funding and product diversification are just some of the trends contributing to the maturity of the fintech industry. It's also important to note the innovative ways in which fintech lenders are utilizing data and technology to enhance the digital customer journey and support overall growth.

Marketing
Customer acquisition remains a top priority for fintech lenders, many of which utilize advanced marketing models to identify the right channels to target borrowers known to fit their credit criteria.

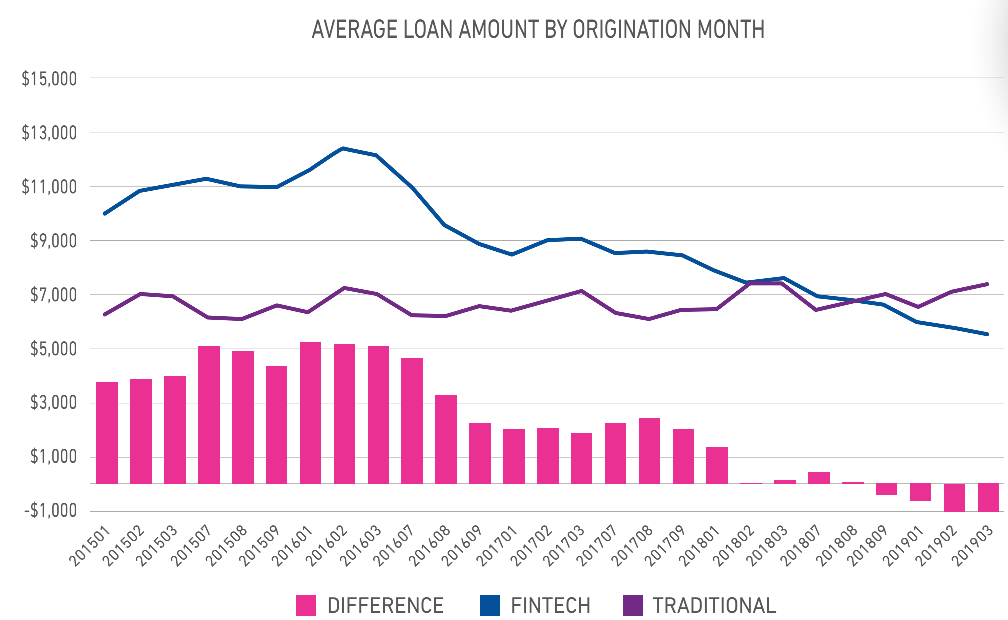
Automated Underwriting
Fintech lenders are known for developing sophisticated, automated underwriting models to speed up the loan approval process and provide customers with a fully digital loan experience. This competitive advantage continues to attract consumers looking for fast decisioning and ease-of-use.

Alternative Data
Fintech lenders' early adoption of alternative data has differentiated their marketing and underwriting models, allowing them to expand their portfolio by providing credit to borrowers who may not be served by traditional FIs.

Portfolio Composition
The spread of average loan amount is increasing as fintech loan amounts continue to drop and traditional lenders' increase. Further analysis indicates that fintech average loan amounts have declined due to a few newer and fast growing fintech entrants that lend below the average. At the same time, fintechs are lending to borrowers with an average VantageScore® of 650 compared to 649 for traditional. Borrower's loan scores are defined as Super Prime: 781-850, Prime: 661-780, Near Prime: 601-660, Subprime: 500-600 and Deep Subprime: 300-499.

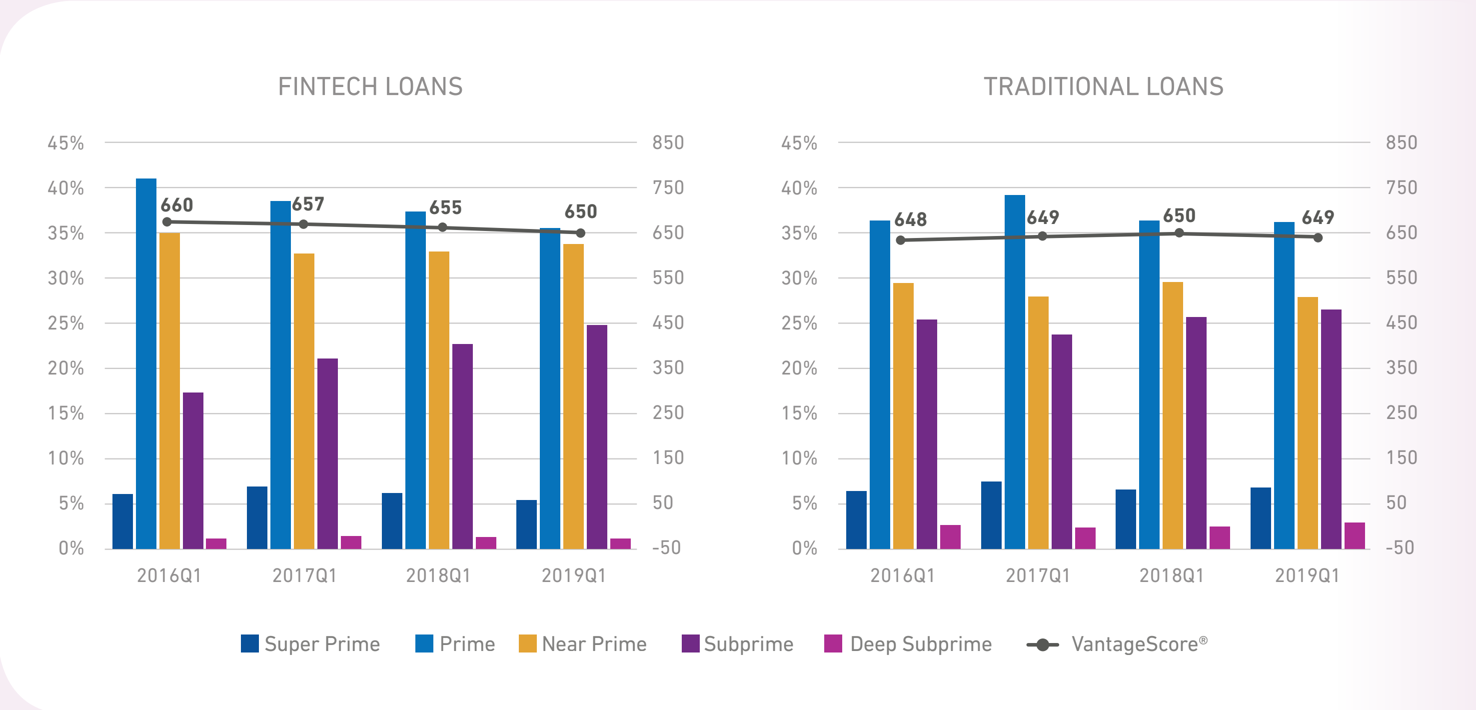
Average Loan Amount

MARCH 2019
Fintech $5,548
Traditional $7,383



Source: Experian Data

Average VantageScore®

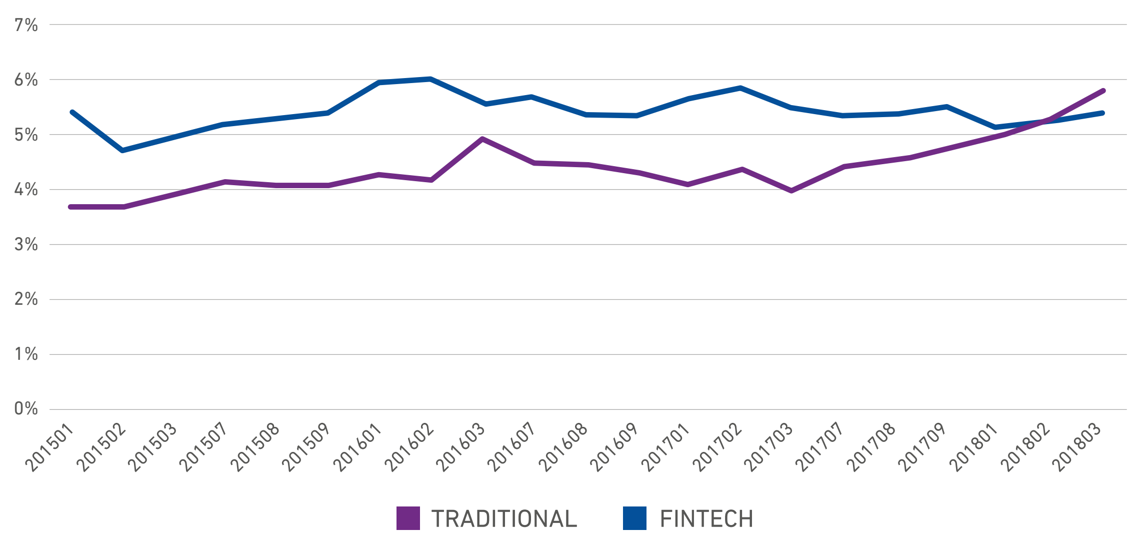


Source: Experian Data

In March 2019, the average fintech loan amount was $5,548 while traditional lenders' average loan amount was $7,383. This is a stark difference from the 2016 peak where fintech lenders' average loan amount was closer to $12,000.

Meanwhile, traditional lenders' loan delinquencies are increasing while fintech remains somewhat steady – this shift narrows the gap between traditional and fintech percentage of total delinquencies. A year over year (YoY) analysis reveals 5.7% of traditional loans are 90+ days past due, representing a 46% YoY increase. Fintech lenders have a similar percentage of overall delinquencies (5.4% 90+ DPD), representing a 2% YoY decline.

90+ in first 12 months by booking month

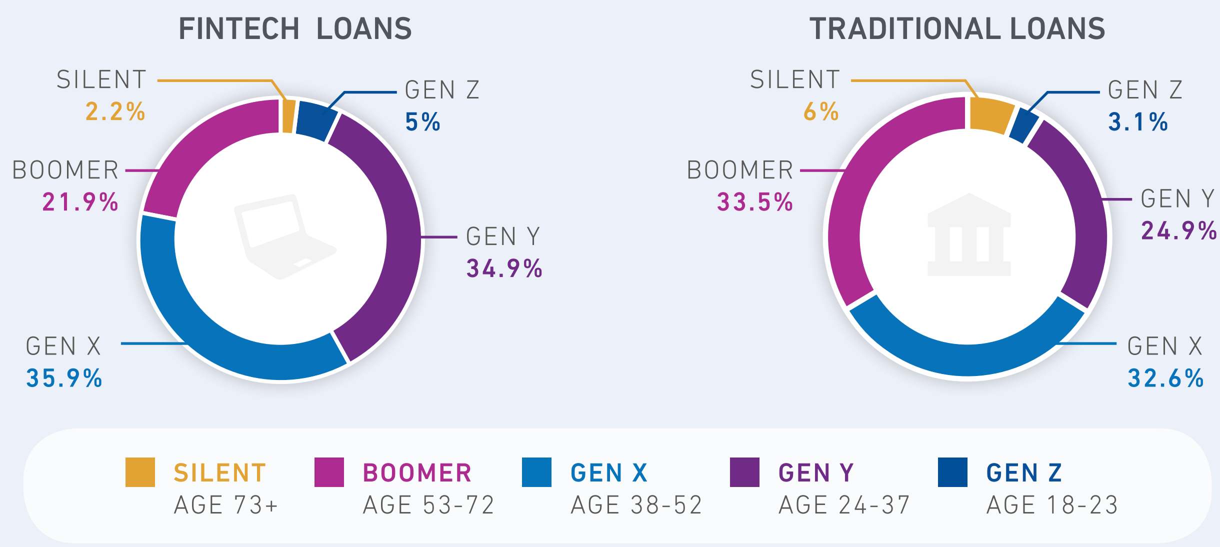


Source: Experian Data

Customer Profiles

It's easy to assume that fintech lenders generally appeal to millennials but given the digital maturity and increasing demands of the overall consumer market (thanks to the likes of Amazon and other "Big Tech" firms), fintech lenders are seeing adoption across multiple generations. In older generations, where most of the new volume is today, the fintech market is higher balance, lower risk. Fintech balances decline in the Gen Y and Gen Z generational segments.

Who is taking these loans?



Source: Experian Data (charts include population with known ages; ages as of 2019)

Consumers with a New Unsecured Personal Loan by Generation

	Silent Age 73+		Boomer Age 53-72		Gen X 38-52		Gen Y 24-37		Gen Z 18-23	
	FINTECH	TRAD	FINTECH	TRAD	FINTECH	TRAD	FINTECH	TRAD	FINTECH	TRAD
Avg VantageScore© for those with a new loan (consumer level)	719	697	677	668	654	645	650	639	642	631
Avg loan amount (consumer)	$10,177	$7,636	$11,112	$8,489	$10,865	$8,813	$7,075	$6,829	$1,692	$3,487
Avg loan balance (consumer)	$9,419	$6,461	$10,388	$7,294	$10,174	$7,732	$6,641	$5,939	$1,440	$2,979
Avg loan amount (trade)	$9,255	$6,512	$8,974	$7,229	$7,841	$7,461	$4,674	$5,830	$984	$2,936
Avg loan balance (trade)	$7,433	$4,687	$7,471	$5,398	$6,564	$5,796	$3,808	$4,464	$693	$2,212
% consumers 90+ on new loans (2018 Q1 originations)	2.9%	3.4%	2.9%	3.4%	3.7%	5.2%	4.7%	5.7%	9.0%	8.8%
Avg # of open trades	8.5	6.6	9.7	7.5	9.3	7.6	7.5	6.1	3.0	2.7
Avg # of originated personal installment trades	1.1	1.2	1.2	1.2	1.3	1.2	1.4	1.2	1.5	1.2

Source: Experian Data; ages as of 2019

Generational segments aside, we looked at other interesting consumer trends that span across both fintech and traditional lender portfolios.

Geography

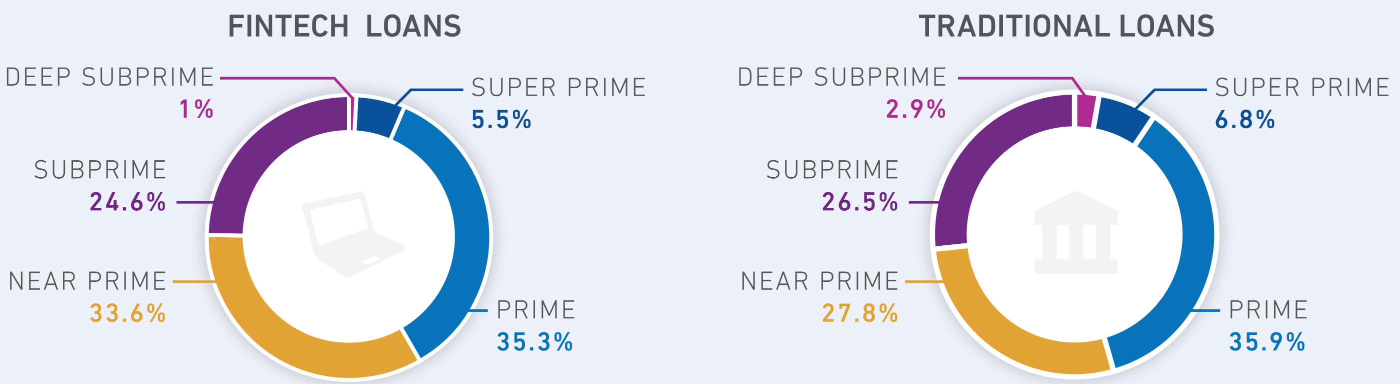
Fintech is winning with consumers in the West and showing higher proportions of loans in Mid-Atlantic region and New England as compared to traditional FIs; the highest state for fintech unsecured personal installment loan originations is California (2018 originations).

VantageScore® Band

Fintech loans have more near-prime consumers. It is not uncommon for fintech lenders to focus on borrowers within a specific credit range, and while prime and near-prime make up the majority of fintech lenders' portfolio, some cater to borrowers with weaker credit.

- LendUp[vii] touts that "good credit is not required" and "just because your credit score may be 'not-so-great' doesn't mean you can't get approved."
- Personal lender LendingPoint[viii] offers loans to customers with credit scores as low as 585.

Consumers with a New Unsecured Personal Loan by VantageScore® Band



Source: Experian Data (Q1 2019 scoreable data)

Marketplace Threats

While fintech contribution in unsecured lending is increasing and fintech loan originations are expected to grow through 2022, it is important to be aware of potential threats in the marketplace that could impact how both fintechs and traditional financial institutions operate in the future.

Big Tech

Big Tech companies (such as Apple, Facebook, Amazon, and Google) are looking to expand their footprint in the financial services market. By now, we've all heard of Apple and Goldman Sachs' credit card launch[ix]. This is one example of Big Tech's entrance into the financial services space, and only time will tell how this may impact the market share of both fintech and traditional lenders. Outside of the scope of online lending is Facebook's Libra cryptocurrency project, which has stirred up its fair share of industry buzz, having fintech executives call to question Libra's threat to governments and regulators[x] at a recent Citigroup-hosted event.

Interestingly, in response to Facebook's Libra announcement, not only did both the House and Senate Finance Committees schedule hearings to examine the tech giant's planned cryptocurrency, but the U.S. House of Representatives Financial Services Committee also introduced a draft bill[xi] to limit Big Techs from becoming FIs, defining Big Techs as a "large platform utility," or a tech company that earns annual global revenues in excess of $25 billion. Moreover, in July, the U.S. Department of Justice launched a probe[xii] into top "online platforms" for search, media, and e-commerce to determine whether they are stifling competition and innovation. And while specific companies to be included in the investigation were not cited, the announcement left many speculating about Facebook, Amazon and Apple.

Regulatory

Regulation is being developed to govern fintechs, but it is unknown as to how it will evolve – leaving many in the industry awaiting greater clarity. One area of discussion includes the Office of the Comptroller of the Currency's (OCC) greatly-debated national bank charter[xiii] for fintech companies. According to the charter, non-depository fintechs that are engaged in "the business of banking" (e.g. paying checks or lending money) would be eligible to apply for special purpose national bank charter – allowing them national operations as opposed to operating under a network of state licenses. The charter is facing opposition from many in the banking community, who oppose its fundamentals and question the OCC's authority. In May, a federal judge ruled that the New York State Department of Financial Services can proceed with its lawsuit to stop a new federal bank charter for fintech firms[xiv].

Economic Downturn

Traditional banks have greater experience with full credit cycles, whereas many fintechs, being newer to the market, do not. In a recent American Banker article[xv] VC investors warn that not all fintechs will survive an economic decline, especially those who do not have the credit data or robust models to adjust when a downturn comes. In this scenario, preparation is key.

The article outlines how fintech lender, CommonBond, for example, used credit bureau data to test their models in both a normal economy and a depressed economy. They found that their delinquencies and defaults were lower when compared to both large public and private low-risk lenders. Fintechs who don't have the technology or data to stress-test their models or automate their business operations (e.g. underwriting, risk and portfolio management) may be vulnerable should an economic downturn occur.

Experian Solutions

The nature of information and how it's being used is rapidly changing and Experian is at the forefront of this revolution. In today's era of data empowerment, we understand our customers' need for analytical platforms that provide insights to confidently build products and scale business operations. It's not just about having access to big data – it's about having access to the best data.

As the fintech market continues to mature and traditional FIs leverage digital transformation strategies, Experian offers robust solutions to help our customers stay ahead of constantly changing market conditions and demands.

Marketing Solutions	Automated Underwriting	Alternative Data
Leverage data to identify more consumers and small business owners	*Safely underwrite loans while gaining real-time, automated efficiencies.*	*Gain supplemental credit data to enrich decisions across the credit spectrum.*
• Drive loan growth	• Reduce underwriting friction	• Gain visibility to the underbanked
• Expand universe, acquire customers	• Make better and faster decisions	• Improve access to affordable credit
• Diversify loan mix, improve yields	• Decrease underwriting risk	• Identify and prevent fraud
• Improve campaign performance	• Identify improving credit trends	• Mitigate risk

To learn more about Experian's solutions, visit **Experian.com/fintech** or contact your Experian Account Executive.

Is there a certain fintech trend you want to hear more about?
Email **Brittany.Peterson@Experian.com** and let us know.

[i] *Global Fintech Adoption Index 2019 (p. 8, Rep.). (n.d.). EY*

[ii] *2019 Fintech Trends To Watch (p. 6, Rep.). (n.d.). CBInsights*

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[xiii] *OCC Begins Accepting National Bank Charter Applications From Financial Technology Companies. (2018, July 31). Retrieved from https://www.occ.gov/news-issuances/news-releases/2018/nr-occ-2018-74.html*

[xiv] *Witkowski, R. (2019, May 02). N.Y. regulator's suit to stop fintech charter gets green light. Retrieved from https://www.americanbanker.com/news/ny-regulators-suit-to-stop-fintech-charter-gets-green-light*

[xv] *DiCamillo, N. (2019, June 28). Which fintechs are best positioned to handle a recession? Retrieved from https://www.americanbanker.com/news/take-the-froth-out-of-the-market-how-fintech-would-fare-in-a-recession*

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