

From idea to innovative market leader

**A roadmap for sustainable
marketplace lending growth**

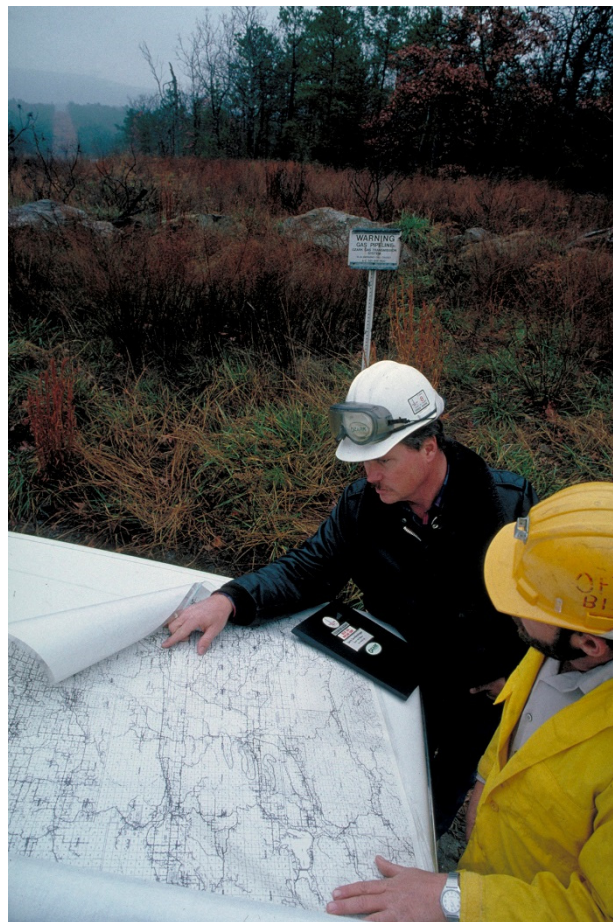
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A roadmap for marketplace lenders

Today’s “marketplace lending”¹ looks very different from “peer-to-peer” lending a decade ago; and the rate of change continues to accelerate. What was once little more than a great idea for a matchmaking service focused on individual borrowers and retail investors has transformed into a broad range of financing activities that cross asset classes and investor types.

Along the way, marketplace lending has become a viable business with enough promise that many traditional financial institutions big and small have taken notice and are beginning to actively respond. And marketplace lending continues to evolve – leading marketplace lending platforms (“platforms”) are now expanding from unsecured consumer and small business loans into other consumer lending asset classes and are also exploring new forms of innovation above and beyond their traditional lending market. Existing platforms should consider how they can continue to create new opportunities for growth and learn from the experiences of their peers, while new platforms looking to enter the market can smooth their path by avoiding common pitfalls that earlier lenders encountered.



Marketplace lenders typically share some key characteristics that have helped them accomplish this rapid evolution: agile technological capabilities, speed to market, and an innovative approach to evolve and learn over time. All of these have allowed them to refine their customer experience and offer more user-friendly mobile and online capabilities. They also face similar challenges as they compete for borrowers and for investors’ funding. Different platforms have been more or less successful in meeting these challenges – but the shared need to respond to these stakeholders has also driven many common elements in the paths that platforms follow, such as their emphasis on marketing and borrower acquisition and their development of dedicated investor relations functions.

We have worked extensively with marketplace lending platforms, investors, and other marketplace lending ecosystem partners, and we have seen how leading platforms have matured over time – as well as where opportunities remain. Additionally, we have helped traditional lenders in these same asset classes weather economic cycles and other major challenges – and to enhance their own experiences to keep up with customers’ expectations. Our work with both sides of the spectrum has allowed us to identify what makes marketplace lenders’ growth trajectories different from traditional lenders, the unique opportunities these differences present, and common pitfalls platforms might encounter along the way.

¹ For purposes of this paper, we use the term “marketplace lending” to broadly incorporate non-bank lenders which operate primarily through digital channels, regardless of business model. This includes traditional “peer-to-peer” lending, marketplaces which connect borrowers with institutional investors, and balance sheet lenders.

Based on the commonalities we have identified in marketplace lending platforms' development, we typically see marketplace lenders progress through a four-stage roadmap:

1. Build the foundation
2. Refine the core lending business
3. Expand and innovate
4. Look beyond core lending

However, this roadmap isn't always linear – and refining the core lending business remains an imperative throughout the remainder of the roadmap. Marketplace lenders should be keenly aware of the risks they face if they do not keep refining their business and expanding and innovating continuously – new platforms are always looking to disrupt their business with even newer technology and innovations. In a strange parallel twist, leading platforms become the incumbents at risk of disruption – and have to continue to hone their innovative chops even as they transform into large, multi-product companies.

Just as critically, it's important to recognize that one size does NOT fit all when it comes to marketplace lending. In fact, it's time to change the way we talk about marketplace lending. It isn't a single homogenous force that's collectively acting to disrupt the traditional lending industry – instead, it's a collection of many companies with their own strategies, capabilities, and challenges – each looking to disrupt the lending ecosystem in their own way and reach their own target markets. Because of this diversity in business models, strategies, and organizational maturity, there isn't a cookie cutter approach that every marketplace lender must follow to become a market leader – instead, each company needs to custom-tailor its own roadmap with their unique destination in mind, based on their business objectives.

The days of obtaining investor money with the goal of replicating a successful platform's business model are over; copycat approaches without true differentiation aren't enough to compete in today's competitive market.

Similarly, platforms also vary significantly in how far along they are in this journey. Some platforms have matured rapidly – they've developed scale to originate billions of dollars per year, built robust compliance infrastructures, and launched additional products – while other new platforms are continuously entering the market. Others have stalled in their growth trajectory or even failed because they lacked a distinct value proposition to borrowers or investors. The days of obtaining investor money with the goal of replicating a successful platform's business model are over; copycat approaches without true differentiation aren't enough to compete in today's competitive market.

As a result, this paper isn't an instruction manual or a step by step playbook; instead, it aims to provide guideposts to help marketplace lenders, both existing and potential, make more effective strategic decisions, and to highlight potential areas of opportunity – and risks – along the way. We also provide insights on how to take these general guidelines and convert them into specific tactical next steps for an individual company. By applying these guiding principles, platforms can put innovation into action in order to enhance their operations and differentiate their offerings at each stage of their development. We also take a closer look at what today's leading platforms should be doing to prepare so they can continue leading the marketplace lending sector into the future as they look beyond core lending.

Lessons in innovation – following in the footsteps of previous generations of disruptors

Retail, transportation and many other markets have been disrupted by major technological advances. Cloud computing, mobile applications and the acceptance of technology in consumers' daily lives are transforming every industry. The financial industry is no exception to this.

While marketplace lenders offer financial products, many view themselves as technology companies, which, because of their innovative nature, are an effective parallel for marketplace lenders' growth trajectories. The evolutionary processes for many technology companies across different sectors aren't markedly different from those of marketplace lenders; they are often earmarked by a cycle of growth and refinement of the core business that eventually leads to the opportunity for expansion.

The world's most popular search engine today, for example, isn't just a search provider – but its initial success in search was key to its ability to transition into other markets. In hindsight, the roadmap is clear: become the best at search, grow that business and build consumers' trust, and then find complementary offerings to expand its market.

Similarly, the largest online retailer in the US progressed from providing a simple online bookstore into becoming one of the leading cloud service providers. This online retailer innovated the market for books through an online delivery platform and has continued to iterate on and refine many facets of that business; this continual stream of innovations has been key to their current market success. The company innovated in technology by bringing e-readers to market popularity. Product sourcing was innovated by developing an online marketplace to sell new and used books offered by third parties. Once it had mastered the fundamentals of that core business, it was time to expand – this online retailer continues to think big by leveraging its platform to sell a broad range of consumer products and by leveraging its brand to

The reason for these innovators' success was their ability to identify customer needs and apply their technology to deliver a better experience for those customers than their competitors.

compete for digital content delivery through its proprietary technology.

In both cases, operational excellence was the primary driver; and then, as their businesses matured, strategic partnerships and relentless innovation were keys to their growth along the way. The experiences of these leading enterprises illustrate the importance of constant innovation in building and sustaining market success. Marketplace lenders need to continually innovate in order to achieve a similar trajectory of market performance within, and beyond, lending.

But these success stories are not just driven by innovation for the sake of innovation – they weren't successful simply because they had good technology. The reason for these innovators' success was their ability to identify customer needs and apply their technology to deliver a better experience for those customers than their competitors. They found ways through technology to serve their customers more efficiently and lower costs, to provide better quality products, or to make their products easier to access and use. Being a great marketplace lender isn't defined by having the newest cloud-based loan origination system – it's defined by how well the platform can meet their customers' financial needs. That mindset of finding better ways to serve customers should drive every decision along the roadmap.

As marketplace lenders explore their own options to grow and innovate, the first step is to achieve operational excellence within their core lending business to effectively serve customers at low cost. Marketplace lenders need to think through all aspects of their operations – just as online retailers must consider customer service, distribution and logistics, marketplace lenders must look beyond front office processes and optimize back office functions as well. Once that objective has been achieved, it's time to begin looking to expand and scale their lending business; and eventually, opportunities should not be limited only to being the best at marketplace lending and growing that core market; they should also look at how the skill sets, expertise, and client bases they're building can be leveraged and applied outside of their traditional core market.

A marketplace lending maturity model: four stages



History might not repeat itself - but it certainly rhymes. While no two platforms' roadmaps to growth look exactly the same, many elements of those paths share key similarities. While an individual platform might reach a stage at different times or make different choices about the specific products they offer, geographies they serve, and customers they target, this roadmap should provide a guiding framework for what platforms should consider at each stage in their maturity, based on patterns identified from our analysis of a broad range of marketplace lenders.

Each marketplace lending platform will face a similar set of challenges: building credibility with investors, developing operational capabilities and enhancing them over time, and acquiring borrowers and establishing a brand in the market. Each platform addresses these challenges in the context of their own strategic goals and operations – but because of the nature of the market and expectations from borrowers, regulators and investors, platforms will generally face similar considerations at corresponding stages in their respective lifecycles.

The challenges faced along the way will shift as a platform matures; but one constant is that a platform will need to continue to re-address many of the same challenges throughout its lifecycle, and the capabilities built in the beginning will continue to influence the progression throughout the later stages.

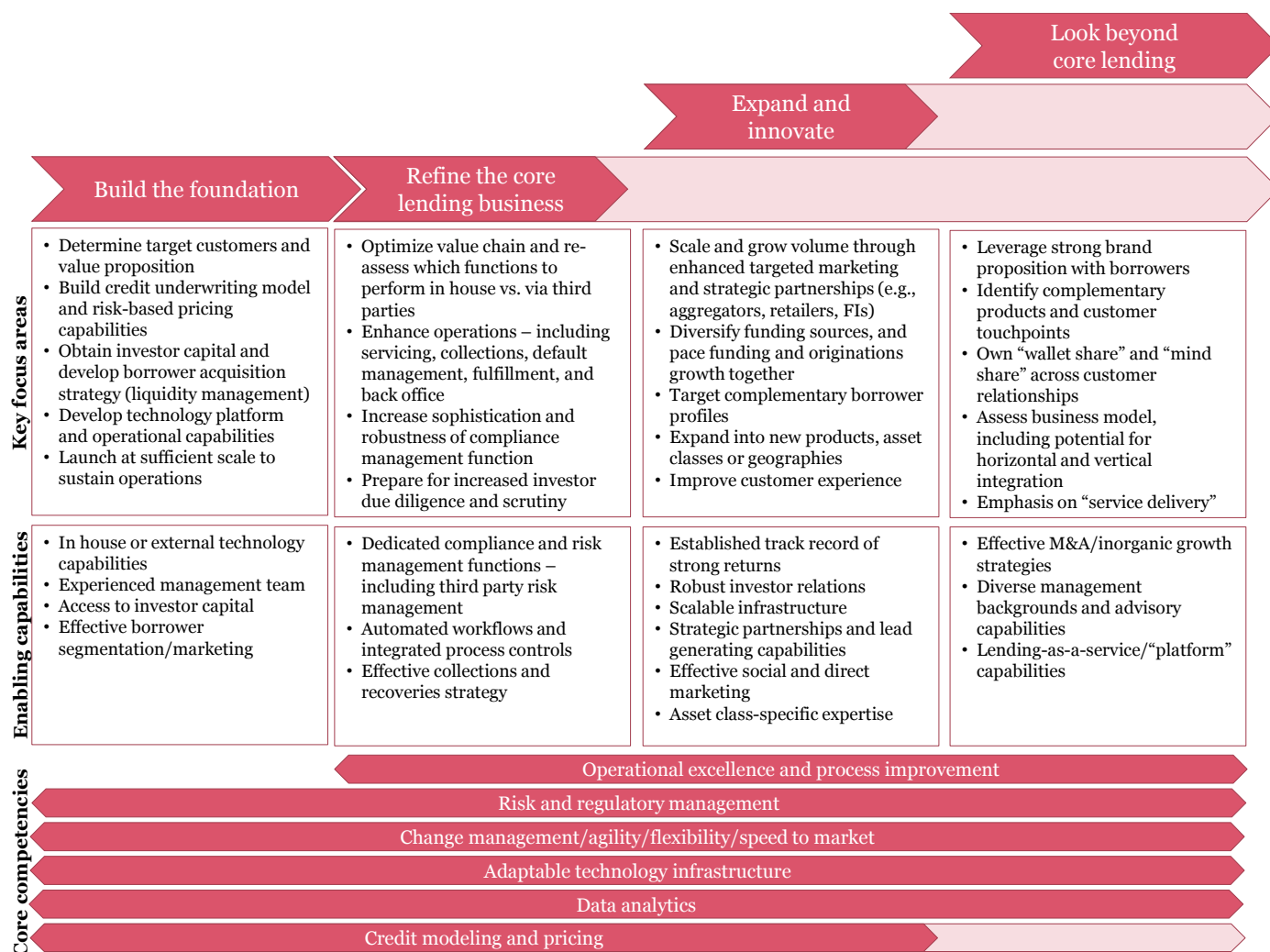
Our experience shows that platforms generally progress through the following stages:

- First, a platform must establish itself as a viable business and make the tough transition from “idea” to “business.” We consider this **building the foundation**, as the decisions made during this time period will set up the opportunities available for the remainder of the platform's lifecycle.
- Next, the platform will learn from its experience as a start-up, and in order to prepare for future growth, will need to **refine the core lending business**. Simply put, operational excellence in the core business needs to be the standard that is achieved before platforms can look for other growth opportunities or hope to effectively scale, given the high level of expectations from institutional investors and the high customer experience standards set by platforms' borrowers themselves. While this step needs to be mastered before moving on to the next phases, it will continue to be a key focus throughout the life of the platform to keep pace with its constantly evolving competitors.
- Once the platform has established operational excellence, it can turn its focus to the third phase, to **expand and innovate**. This can include scaling operations by focusing on new borrower acquisition tactics or new capital sources, such as securitizations and additional institutional investors, and can also include a broader range of growth strategies to expand the core business offering – strategic partnerships, new products or asset classes, new borrower segments, or geographic expansion.

A marketplace lending maturity model: four stages

- Finally, today’s leading platforms are just starting to embark on the next stage in their growth to **look beyond core lending**. These platforms are beginning to think more broadly about their role in customers’ financial lives, and are expanding into complementary businesses and increasing their customer touchpoints. They are also looking at other ways to monetize lending – and creating new products around Lending-as-a-Service and their ability to act as service providers in a B2B business model.

As platforms reach this final stage in the roadmap, they continue to innovate across all dimensions of their business – both within and beyond the lending market. We will now take a closer look at each stage – including key management focus areas, the skillsets and capabilities required to be successful at each stage, and examples of potential differentiators that leading platforms have used to distinguish themselves.



Key considerations for each stage

Stage 1. Build the foundation



While any new lender is faced with key strategic decisions, there are several unique considerations for marketplace lenders. Matching borrower demand to investor appetite is critical —and timing is everything when it comes to successfully getting a marketplace lending platform off the ground. Investors will want to know a platform is in position to utilize their capital once it's allocated – but a new platform can't begin courting borrowers until it's able to fund their loans, or will risk damaging their brand reputation right off the bat. This makes balance sheet structure a key determination.

When sourcing capital, platforms should consider sustainability. Finding the right mix of stable funding sources that will remain accessible even in the event of an economic downturn will position the platform for long-term success.

To further complicate this difficult balancing act, platforms will need to determine whether they will target retail or institutional investors. Often, retail may be a necessary part of the strategy early on – many platforms need to start out with accredited retail or small institutional investors until they have enough of a track record to attract interest from larger investors. Finding capital can be challenging and time consuming. Building an “investor toolkit” with standard presentation materials that highlight the success and uniqueness of the platform will help ensure the company can continue to find enough funding to support your growth.

More broadly, a platform's initial “go to market” strategy – from how it structures its technology stack to which portion of the value chain it plays in – will impact key aspects of its operations and competitive position for much of the early growth of the platform. Building an effective foundation requires developing core operational capabilities and zeroing in on the platform's differentiators and value proposition – for borrowers and investors. That value proposition should not only exceed the capabilities of traditional financial institutions, but also create a unique position within the marketplace lending sector.



Key considerations in this stage include reaching an initial population of borrowers with effective marketing and supporting this initial volume with appropriate risk management and operational support. From the start, a platform should have a keen sense of who it's targeting and be focused on establishing a strong customer base – and in addition to marketing, effective pricing strategies are key to attracting borrowers. Credit modeling is also important here – because with hundreds of platforms to choose from, investors will not stick with a platform unless they quickly get the returns they expect.

Innovation in action – alternative credit modeling

Many marketplace lenders consider their credit models to be part of the “secret sauce” that differentiates their platforms. Lenders use a range of tools and techniques to supplement or replace traditional credit scores – to improve loan performance, and in some cases to expand their credit box to include borrowers without strong traditional credit profiles.

Alternative data plays a major role in many platforms’ models – this does not just mean social media data, but can include a range of non-traditional data elements sourced from third party providers as well as internal sources. From device and usage data collected during the application process to rental and utility data from credit reporting agencies, marketplace lenders use a wide variety of structured and unstructured data. In addition to the data sources, marketplace lenders

may utilize techniques such as machine learning to analyze the data differently.

But a more complex model is not always a better one – innovation in credit modeling should be thoroughly tested and rooted in an understanding of why the data is expected to have predictive value. Investor capital will gravitate towards strong performing credit models which are supported by appropriate model risk management. A marketplace lender which can clearly articulate their credit philosophy, demonstrate that they’ve performed robust stress testing and analysis on their model’s performance in different economic environments, and provide credit model monitoring data will likely be able to more easily obtain investor capital and effectively generate strong return performance.

Stage 2. Refine the core lending business



The second stage of a platform’s evolution begins when it has matured significantly enough to be able to re-tool and evolve its business model on the fly. This is the time to identify operational gaps and customer pain points, and rapidly improve and re-engineer systems and processes.

This is often a “test and learn” phase, in which new platforms must get up to speed quickly and adjust to the realities of their market. However, platforms cannot afford too much iteration before getting the model right, lest they suffer a reputational hit that can destroy investor and borrower confidence. Effective risk management should be a primary guiding principle that informs every decision made in this stage.

Every lending operation is likely to have process inefficiencies and gaps at the time of launch. What appears to distinguish effective marketplace lenders from traditional lenders is their ability to rapidly iterate and address those gaps through quick decision-making and effective change management.

The end goal of this stage is to achieve “operational excellence.” What we mean by this is to have effective, efficient, and well controlled processes in every dimension of the value chain – whether managed internally or through third parties. This is the time to optimize each component of the value chain, enhance the efficiency of the platform’s operations, expand its product offerings, refine its credit model, and better serve its core customer base.

75% of banks’ IT spend in 2015 was expected to relate to system maintenance or regulatory compliance, leaving little budget left for innovation.

Source: FinTech Breathes New Life Into Finance Sector. Global Finance. June 1, 2015. Avention. Accessed March 26, 2016.

Depending on a platform's capabilities and business model, it may want to bring certain functions in-house, or begin outsourcing others (with effective third party risk management); and may need to increase its backup capabilities to comply with investor expectations. Leveraging someone else's specialized knowledge in one of these areas so the management team can instead focus on building their own best-in-class capabilities elsewhere can be an extremely productive use of third party services. Lenders should assess which aspects of the value chain they have the capabilities to optimize, and which they are better served leaving to strategic partners.

Strong internal operations create value for borrowers and investors, which allows for further growth and development of new capabilities, creating a reinforcing cycle that sustains and strengthens leading platforms.



- Segment borrowers to allow for granular targeted marketing
- Develop a unique brand proposition that resonates with your target market
- Leverage strategic partners and lead generators

- Develop in-house competencies or partner with third parties for capabilities in originations and servicing:
- Credit modeling and underwriting
 - Customer service
 - Cost management
 - Collections/recovery
 - Risk management and compliance

- Provide transparent access to data for due diligence
- Instill confidence in your ability to survive a downturn
- Generate high returns through efficiency and effective collections

Innovation in action – driving efficiency and effectiveness in servicing and collections

Many marketplace lenders appear to focus primarily on optimizing their front-end application and origination process. While this is important and seems like a natural focus for companies looking to grow their origination volume, lenders should also recognize that their post-origination operations have significant impacts on profitability and the satisfaction of both borrowers and investors. The ability to deliver across the end-to-end loan lifecycle is paramount to success. Post-origination customer experience, portfolio management, and process optimization are all critical elements which are drivers of long-term, sustainable growth.

Given the short performance histories of many marketplace lenders, which encompass loans only through a positive credit environment, lenders can establish credibility with investors by building strong collections capabilities or partnering with service providers with a strong track record. This is especially critical for platforms looking to securitize or work with sophisticated institutional investors or banks. Effective collections practices can be a significant driver of loan performance, and the impact will be further magnified in the event of an economic downturn. Strong collections practices should be a baseline expectation that platforms will need to meet their investors' expectations and continue to generate strong returns.

But the opportunity in servicing and collections goes far beyond simply meeting investor expectations. Collections is an area ripe for continued innovation – automating collections workflows and providing self-service options can reduce call center volumes and increase repayment rates. Additionally, automation and transparency in servicing are key elements in providing a differentiated, leading-class customer experience.

Self-service is the wave of the future, and marketplace lenders are uniquely positioned to incorporate this functionality, given the online nature of their business model and their flexible technology stacks. Marketplace lenders can significantly alter the cost structure of servicing a loan by offering automated tools such as easy options to define your own repayment plans online. Pioneering leaders are even implementing interactive borrower education, gamification, and rewards-based strategies to optimize their collections efficiency. While there are regulatory compliance considerations which must be kept in mind, marketplace lenders can continue to push the envelope by more effectively integrating technology into their servicing and collections processes.





Stage 3. Expand and innovate

Once a platform's operations are in order and it is prepared for growth, it's important to strike while the iron is hot and take advantage of new opportunities. While there are many ways to grow, it's helpful to think of them in two categories: building scale, and adding breadth.

Building scale

Scaling the business sounds easy: Step 1 – Line up more capital. Step 2 – Issue more loans. But in reality, every aspect of the business needs to scale in tandem to support increased volume. Let's take a look at a few steps that platforms generally take to increase their lending capacity and origination volume:

Technology



Demands on systems and platforms will increase as companies scale and diversify, which may require more robust capabilities. System architecture should be designed to be extensible and allow continued growth beyond the current planned volume, so that the company is prepared to take on more business.

Capital



: Institutional investors should increasingly become a source of funds. Platforms should also consider diversification of funding sources to increase the probability of constant capital flow and sufficient availability of funds to meet borrowers' demands. Securitization can also be an attractive option.

Marketing



Borrower acquisition is a key area of focus – and increasingly a challenge for even the largest platforms. Effective customer segmentation and targeted marketing across an omni-channel approach have proven effective. Platforms can leverage direct mail, online advertising, and even find opportunities to provide physical footprints to more easily reach new customers, through strategic partners.

Organizational design



Roles and responsibilities often need to be re-thought. While a start-up can have jack-of-all-trades employees who take pride in wearing many hats, larger companies need an increasing number of dedicated functions.

Infrastructure



Similarly, processes and procedures need to become more formalized and official structures need to supplement the organizational culture to make sure operations have the capacity to meet demand in every step of the loan lifecycle, as well as in all back-office and support functions.

When is the right time for an IPO?

Several leading marketplace lenders are now publicly traded, and we expect more to follow in the near future. Once companies have built scale, they may begin to think about going public for many different reasons, including enhancing their credibility with investors and the visibility of their brand among potential borrowers. For some platforms, these potential benefits may be valuable enough to warrant an IPO even though public market valuations may not currently be at their peaks. However, lenders should be prepared for increased scrutiny and should make sure their operations are robust enough to meet the expectations of the market before considering an IPO. We suggest undertaking a thorough operational review and due diligence exercise to confirm that the company is ready to make the leap successfully. While there's no one "magic number" for the scale required to successfully go public, lenders should make sure they have built the right capabilities in operations and compliance before making that decision.



Adding breadth

Beyond simply doing more volume of the same business, marketplace lenders can also expand their offerings to cover a broader range of borrower needs. Whether through internal development or partnerships, lenders can explore a number of new opportunities within the lending sector:

Potential growth opportunities



Asset classes

A common trend is for platforms to move from unsecured to secured products of increasing complexity, or to expand coverage across both consumer and small business.



Products/loan characteristics

Even within an asset class, there are great opportunities to expand product offerings – offer a line of credit in addition to a loan, increase term and loan size options, or offer different payment characteristics such as fixed vs. variable rate. Marketplace lenders' flexibility can also enable even more sophisticated options such as performance-based pricing where borrowers' payment histories and behavior dynamically adjust their interest rate over the life of the loan, or different structures for rewards programs. Marketplace lenders have the flexibility to provide new options to borrowers, which traditional lenders' legacy technology platforms may not have been able to support.



Geography

Many platforms now offer loans to borrowers in multiple countries – and several others appear poised to enter new markets in the near future.



Borrower characteristics

Many lenders start with a particular credit profile, and then as their data analytics progress, find that they're able to effectively underwrite other segments of the borrower population – moving up-market or down-market, or even finding ways to better reach underbanked or “unscorable” consumers.



Strategic partnerships

Strategic partnerships allow a broadening of revenue streams by bringing in different sources of customers. Whether utilizing lead gen or aggregator sites, establishing referral models for customers who traditional FIs weren't able to approve, or through some other format, these partnerships can be a great way to diversify the ways in which the company reaches customers.

Other potential benefits of geographic expansion

Platforms which operate in developing countries with different regulatory regimes (e.g., those focused on promoting financial inclusion) may be able to serve as incubators and test proof cases before they launch in more mature geographies, especially in areas such as using alternative data to underwrite borrowers with limited performance histories.

Innovation in action – new business models and distribution channels

In the quest to reach more borrowers, one of the challenges for marketplace lending is that for the most part, their distribution channels have been limited to online originations. However, this isn't the only option for marketplace lenders, and leading platforms are exploring other alternatives.

Retail partnerships are one attractive option that can provide a physical footprint or distribution channel. They also allow marketplace lenders to move towards the Point of Sale. Rather than relying on borrowers to have planned ahead and obtained funding online before making a purchase, this allows lenders to reach borrowers at the time of purchase.

Lenders have also taken several other approaches to move towards the point of sale or develop a physical footprint:

- Marketplace lenders have partnered with auto dealers to enter into indirect auto lending. This provides a consistent source of leads through a distributed network, and taps directly into the purchase market.
- Offering credit cards provides another opportunity to move to the point of sale – and has the added benefit of being a recurring use product which

allows for more frequent customer engagement than a traditional installment loan. Marketplace lenders can use this method to lock in customers' recurring spending and target purchases up-front, so that they become the initial lender rather than relying on subsequent debt consolidation.

- Credit cards also offer an opportunity to take retail partnerships to the next level. Offering merchant services and co-branding credit cards could open a new range of potential retail partners who wish to offer financing options to their customers.

Marketplace lenders could also expand their services and begin offering merchant services and co-branded credit cards.

- Marketplace lenders in several countries have also partnered with companies that have broad networks of physical locations in order to leverage them as low-cost "proxy branches" which can support simple transactions such as making a payment in person. This allows companies to offer a hybrid digital and physical operating model without having to invest in a branch network.



Stage 4. Look beyond core lending

While consumer and small business lending is a massive opportunity, and marketplace lenders have only begun to scratch the surface of the potential market, leading marketplace lenders have already set their sights on new, bigger targets. But this degree of innovation requires new thinking – even for an industry as progressive as marketplace lending.

To date, most of the innovation has followed a natural progression that could be modeled by any company within any industry. Now, leading marketplace lenders have shifted the mindset from incremental enhancements to true “game changers”: they are looking to diversify revenue streams, change the way they engage with customers, and build complementary businesses which take advantage of the same capabilities that make them effective disruptors in this sector but can also be applied in other areas.

Business-to-Business opportunities

One of the first ways in which marketplace lenders have begun to expand beyond their core lending business is by offering Business-to-Business (B2B) services in addition to their consumer-facing offerings. For instance, marketplace lenders might provide a white labeled online portal for a bank which wants to offer loans online but doesn't have in-house capabilities to develop their own user interface.

Lending-as-a-Service is a model in which a platform offers one or more elements of the lending value chain on demand as a service provider. Marketplace lenders which develop best-in-class capabilities in one or more areas of the value chain have a significant opportunity to gain additional revenue from providing that service to other lenders – including traditional financial institutions.

These B2B product offerings can take many different forms – and in many cases are natural extensions of strategic partnerships with traditional FIs. Many smaller traditional FIs can't afford to develop the same level of technology in house, and are unable to profitably originate loans in these asset classes, so will want a full end-to-end white label solution. Other potential partners may simply want to outsource one particular function – such as the front-end user interface, or the credit decisioning model. By offering Lending-as-a-Solution, marketplace lenders can transition from being dependent on their own originations and continued ability to obtain funding at ever greater scale, and can instead begin to originate loans for others – and do so more efficiently than those other entities could on their own.

B2B collaboration could take different forms beyond this Lending-as-a-Service model, such as marketplace lenders leveraging their big data capabilities for other types of analysis. This option may prove particularly promising, since many traditional financial institutions struggle with data analytics, lacking both the tools/infrastructure and the talent to effectively analyze the robust datasets available to them. Marketplace lenders could potentially enter into mutually beneficial agreements providing them with access to banks' data in exchange for helping banks to better understand their own data, and hence their own customers, at the same time.

New value propositions for consumers

On the consumer side, marketplace lenders are also uniquely positioned to disrupt not just lending, but also customers' broader financial services relationships. There are FinTech providers threatening to disrupt every aspect of banks' traditional operations, and marketplace lenders have an opportunity to carve out a role for themselves across all of those products – or even beyond.

Marketplace lenders across the globe have begun offering non-lending products, from personal wealth management to credit score monitoring or fraud protection and analytics, and platforms are exploring new products in ever more different areas, such as insurance. Continuing that trend, a marketplace lender could easily enter into the payments and transactions space, or obtain a bank charter to offer deposit products.

There are many routes to developing these capabilities, including acquisition and organic growth. Alternatively, a marketplace lender could continue to pursue strategic partnerships with providers of these services, and build integrations between their own service and these other providers. Partnering with neobanks, personal wealth management applications, and other digital service providers can replicate the same type of network in a multi-provider environment – and partnerships of this type are beginning to form. This could lead to the “rebundling” of financial services as marketplace lenders expand their offerings or partner with other companies to merge disparate value chains in a way which creates new connections that benefit customers.

By expanding into ancillary services or at least owning the gateway by which customers interact with these other financial products, marketplace lenders can increase their touchpoints with customers, build new bases of prospective lending customers who begin using their other products even when they do not currently need a loan, and obtain new and valuable sources of data to analyze borrowers' behavior. Depending on the service, these opportunities may even be self-reinforcing: for instance, helping a borrower more effectively manage their budget increases their likelihood of successfully repaying a loan; marketplace lenders may even find reason to incentivize their borrowers to utilize these other services.

Regardless of who provides each service, the key question is who will own the relationship. While marketplace lenders can easily fulfill this role, so too could any other ecosystem player – from traditional banks to any of the other FinTech providers who currently own customer touchpoints; or, it could be a separate entity altogether. By aggressively moving to stake out their position in this re-bundled ecosystem, marketplace lenders can preserve their importance and value proposition in the eye of the customer – and grow their mind-share and wallet-share.

Innovation in action – expanding customer touchpoints

Lenders have begun to think more broadly – not just in terms of how to replicate a broader spectrum of existing bank products, but also to find new ways to address customers’ pain points and serve their needs in new ways where products didn’t previously exist. By designing around consumers’ lifestyles and the way they interact with money and their own finances, marketplace lenders can change the way consumers use financial services.

Marketplace lenders can even begin to think bigger and consider how consumers’ financial lives intertwine with other aspects of their day-to-day life. Digitization hasn’t just disrupted consumer finance – as we saw earlier, it’s a fact of life in many industries. Marketplace lenders can explore opportunities to link their products and customer experience to other interactions outside of finance – but to do so will truly require thinking outside of the box.

For instance, some marketplace lenders have begun thinking about customers’ financial well-being similarly to how customers think about their physical fitness. Rather than just linking to financial relationships, marketplace lenders could carve out a place in a broader customer lifestyle engagement model – with financial health and well-being just one component alongside physical and mental health dashboards. The next step could be even more exciting – marketplace lenders could identify other areas where customers are reliant on apps – mobility, shopping, and entertainment, to name just a few – and find ways to integrate their expanded product offerings with those other digital players. The next frontier for marketplace lenders might not be limited to financial services – it might be a lifestyle play instead.

What these different paths all share as common themes are leveraging competitive strengths and building complementary business models. Most successful marketplace lenders are good at many things, with a major focus on the interface between technology and the customer experience: application development, customer acquisition, and customer service. By understanding where these strengths can be applied to customer pain points, both within and outside of today’s marketplace lending market, these innovative leaders can push forward and expand the horizons of the industry.

Sustainable innovation

Innovation can take many forms –in its simplest form, it may just mean finding a new way to manage an existing process more efficiently or with less risk; however, this type of incremental innovation is much more likely to help a successful business remain competitive than it is to grow a new business. Replicating an existing marketplace lender or bank’s business model with only incremental enhancements on the margin may not be enough to carve out a unique value proposition. However, marketplace lenders’ innovative cultures also make it possible for them to re-disrupt their own business model with better technology and processes.

What does successful innovation look like?

1) Improve or expand upon how you operate your core business. 2) Take what everyone else is doing and do it better. 3) Do something no one else is doing.

Innovation and growth present substantial opportunities, but only if managed correctly. Market participants who have established themselves as leaders have done so by defining their value proposition and market strategy, executing on the fundamentals, and cultivating their key strengths and core competencies to build a strong platform that can seize upon these growth opportunities without undermining their core operations. Quality and performance in a platform’s core operations will continue to be the standard by which their investors and partners weigh their merits. Platforms should never jeopardize their ability to meet these expectations and should balance new ventures appropriately.

The following considerations will help make sure that a platform innovates in a way which is sustainable and which positions the platform for continued success.



Keep your eyes on the road ahead

Many of the processes and approaches which served a platform well as a start-up can become significant obstacles which need to be overcome in order to achieve scale. Platforms which think they are ready for Stage 3 may find when they begin to plan for their expansion that elements of their approach need to be refined before that’s possible. Platforms should keep their future roadmap in mind, and begin planning today for future opportunities.

Most importantly, platforms should keep a long-term strategic mindset to make sure that the decisions they make today will position them for the opportunities they want to have available once they’ve reached the right level of scale and maturity.



Balance risks and opportunities

One of the biggest potential risks for a marketplace lender is to jump into the next phase and try to scale before they're ready. While further enhancing operations can and should take place in parallel to scaling, a platform's fundamentals need to be rock solid before they contemplate rapid growth. Companies need to make sure they have the risk management, regulatory compliance, and operational capabilities, as well as the necessary capital, to be able to scale before they actually start to grow. But at the same time – a platform can't be too careful, or it will stagnate and fall behind.

A few “common sense” key themes emerge to help platforms strike that balance and guide companies through the roadmap – but they bear repeating because neglecting these basics can be the difference in causing a platform to veer off track:

- **Walk before you run:** Achieving operational excellence in the platform's core business is the most critical step. In our view, a platform should not consider how to scale or broaden its horizons until it has built a strong foundation with effective risk management and efficient operations in its original area of focus. If a company's operations aren't fine-tuned, mimicking leading platforms' growth strategies in other industries won't fix its problems. For instance, the most amazing borrower acquisition program in the world isn't going to do a company much good if their technology platform can't handle the volume and crashes when all of their new potential customers attempt to log on.
- **Don't forget your roots:** While the “next big opportunity” on the horizon may be alluring, platforms can't afford to forget what got them to this point in the first place. Platforms need to keep up their commitment to the same (or higher) level of operational excellence in their core operations at the same time as they pursue any growth opportunity. Platforms need to be careful not to bite off more than they can chew; pacing growth investments will let them master one before moving on to the next.
- **Always remember your brand promise:** Just because an opportunity made sense for a platform's competitor doesn't mean that it's right for them. Each company should think through what they bring to their customers and why customers should trust their brand. If an opportunity is not the right fit with a company's values and doesn't help them deliver a better outcome for their customer, it's not a good investment – no matter what the short-term impact on the bottom line.
- **Never get complacent:** While risk management is absolutely critical, being afraid to continue to take risks could put marketplace lenders in the same position many traditional FIs are in today, eclipsed by the next round of even more innovative competitors. Establishing continuous innovation as part of the company's organizational DNA is critical in an industry where the next generation of platform is always lurking, ready to disrupt the original disruptor; a key differentiator today may be commonplace and a baseline expectation tomorrow.
- **Embrace the need for speed:** A related consideration is that the faster a company can master the first steps of the progression, the better able it is to take advantage of opportunities when they present themselves. In many cases, being the first marketplace lender to lock down an exclusive agreement with a key strategic partner, or the first to offer a new feature or product, will be critical to establishing first mover advantage and taking ownership of that market niche. While each platform needs to build from the ground up, it's important to remember that moving fast is one of the key differentiators of marketplace lending.

- **Avoid unnecessary complexity:** As marketplace lenders grow, they face the risk of impeding their ability to continue to rapidly innovate. Platforms shouldn't develop silos, lock themselves into core technology platforms that can't scale or adapt, develop more layers of organizational hierarchy than needed, or fall into any of the other legacy issues now facing many traditional financial institutions which will limit flexibility and prevent effective innovation in the future. Maintaining a culture of innovation and the infrastructure to support it will drive continued success.



Defining your platform's roadmap to growth

As you apply this roadmap to your own organization, it's important to frame the roadmap in the context of your operational capabilities and your specific value proposition to investors and borrowers. The strategic choices you make and the growth opportunities you decide to pursue may vary, but the capabilities necessary to take advantage of those opportunities will look very similar from lender to lender.

As you explore the roadmap presented in this document, consider it a general progression to guide the types of capabilities and growth opportunities that marketplace lenders typically focus on at each stage in their transition from idea to start-up to successful, sustainable business. Depending on the maturity of your individual platform, this roadmap offers targeted considerations to guide your strategic decisions, based on our experiences with a broad range of consumer lending institutions.

Regardless of what stage you're at in your progression, you will need to continuously refine your approach to build lasting success – whether enhancing operations to improve efficiency within your core products, or innovating across the lending value chain and exploring new, complementary opportunities.



How we can help

Many marketplace lenders have established innovative cultures that can help drive rapid change and outside-of-the-box thinking. However, even the most innovative companies can fall into their own habits and thought processes that limit their ability to create something new or recognize their current weaknesses. Alternatively, others may have potentially game-changing new ideas but aren't able to successfully execute on them, or have offsetting challenges in other operational areas which prevent them from taking full advantage.

We have helped marketplace lenders and innovative leaders across industries address these types of challenges:

Shoring up operational gaps and instilling operational discipline

Marketplace lenders can't afford to have gaps in their operational capabilities – a single issue, be it slow application processing, ineffective collections, insufficient compliance oversight, or poor investor relations, could be enough to steer the platform's development off-course. We have significant experience with both marketplace lenders and traditional lenders in effectively addressing challenges that might arise in each of these areas. We can help you to identify industry leading practices – and how those practices can be tailored to fit the nuances of your business.

Operational efficiency is especially crucial as organizations refine their core business and prepare to scale, and other industries provide great insights into how to drive efficiency. Manufacturing physical products and lending might not appear similar at first glance, but loan originations can be thought of as a production line for loans. Operations management has raised traditional manufacturing to a science – with robust productivity metrics, consistent standards, and reliability driven by predictable and repeatable processes. We can help you apply lean principles and process engineering techniques to systematically trim waste from your processes – both in origination and in all other aspects of the loan lifecycle.

We can help:

- Design effective use of third party data integrations and workflow automation to minimize manual underwriting and verification, such as automated clearing of stipulations using OCR technology
- Identify and eliminate or reduce non-value-added activities such as document processing through self-service and automated options
- Develop detailed reporting on productivity and defects, including individual-level performance metrics
- Assess third party and vendor solutions and facilitate build vs. buy/internal vs. external assessments for key capabilities, such as when to use collection agencies and debt buyers

- Enhance capabilities in specific disciplines such as:
 - Direct marketing and borrower acquisition
 - Support for investor due diligence
 - Loss mitigation and collections and recovery management

Nurturing innovation

Innovation doesn't occur on its own, and can be stifled by a lack of supporting infrastructure just as easily as it can be by bureaucracy. While marketplace lenders may have inherent advantages in their lack of outdated legacy technology and organizational silos, they can also suffer from limited experience or lack of insights into factors such as regulatory expectations that have driven industry approaches.

We can help:

- Provide subject matter knowledge on considerations for any new venture, including regulatory and legal implications, technology requirements, and available third party/vendor capabilities
- Perform market scans to identify competitive position and customer needs and expectations in potential new markets
- Support change management and program management, including enhancements to associated governance and risk management structures
- Identify opportunities and call attention to competitive threats requiring strategic response
- Develop an approach and tactical implementation plan for key strategic initiatives such as market entry strategy, new product launch, or changes to your operating model
- Assess strategic partnership opportunities and perform reverse due diligence on potential partners
- Enhance your organizational structure to accommodate new products and capabilities without developing silos or slowing innovation

Making the roadmap your own

Our tailored services can be configured specifically to suit your stage in the maturity model and your entity's operations. Whatever challenges you face as you progress along your individual road to growth, we can co-develop a solution to speed you along your way. Whether you're building your foundation, refining your core lending business, expanding and innovating, or looking beyond core lending, our team of subject matter specialists can help you innovate sustainably and guide you through successful growth.



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