Tap into Tech to Make Your Business a Market Leader

"FinTech" is a term most of us hear too many times every day. But how is FinTech relevant to IFA members? I suspect most members—factoring companies, ABL, cash flow and other similar lenders—rightly focus on the nuts and bolts and "grind it out" of generating new business, underwriting properly, servicing and collecting, which for most seems to be either no or low tech and not applicable to most of what FinTech promises to offer. I think that might be a mistake, and IFA member companies may be missing out on opportunities to utilize and adopt the best practices of FinTech for their business.

BY JEREMY BROWN

FinTech is a way for the market to categorize all finance businesses—not just lenders—that use technology as "disruptors" of existing business models. It is such a broad category of businesses that are called FinTech that the concept can be intimidating to many lenders and, as a result, either disregarded or thought to be of little use or benefit to more established business lending models.

A better way to think about FinTech is that the application of technology can make your business a market leader; it has the potential to increase market share and revenue, reduce losses, streamline operations and back office costs, enhance productivity, and most importantly, generate higher profits. By embracing technology, you may also be able to enhance your exit strategy and generate a higher multiple in a future equity event.

At RapidAdvance, ("Rapid") we approach technology by identifying existing processes that are repetitive in nature and can be well defined, and therefore technology enabled or enhanced, and modifying business processes so that they are able to be automated. We invest about $3 million annually on technology and employ a staff of 40 developing, implementing and improving our technology and automation platform. It seems like our needs are never ending as our "wants" migrate to needs.

One of our end goals is constantly improving the customer experience, achieved through (a) speed of process (machine instead of human) and (b) accuracy and consistency of process (algorithm-based decision instead of human judgment). We also say a key goal is to "eliminate the friction" in the application, underwriting and boarding process.

In my experience, direct lenders employ technology in three broad areas: customer engagement; underwriting; and servicing or portfolio management. Take customer engagement, for example, and think about the process your company goes through to prospect, underwrite and onboard a new client, and where technology might make that process in some way better.

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Rapid is a high volume lender. We typically close and fund in excess of 600 loans or advances each month to both, and in some months in excess of 800, to new and existing customers. To maximize internal efficiency we identified a technology goal of flagging and potentially eliminating fraudulent applicants as well as applicants that have a higher likelihood of non-payment, and doing that as early as possible in the process. We don't want to waste valuable human resources on applicants we are not ultimately going to do business with.

We have developed an upfront process that involves three separate digital fraud scrubs before a human reviews a file. These processes literally take seconds and are invisible to the applicant.

First, we validate the applicant's device and IP address against known third party databases suspected of fraud or flagged for high risk. Secondly, we verify the applicant's personal data against national databases to reduce or eliminate the possibility that an identity is stolen or that the applicant is falsifying information. Social security number, current address, date of birth are all cross-referenced, and then "out of wallet" questions are generated online for the applicant to answer as a secondary confirmation.

The first two scrubs are integrations with third party applications. The last upfront scrub we do is an in-house application that we call Lynx. It is an internal cross-reference of the applicant to all leads, customers, and applicants we have interacted with and are in our CRM. That database has about 500,000 names. We cross reference the applicant by address, tax ID, social security number, bank account, and IP address. We want to identify people that have transacted with us in the past in any capacity or under any business or personal name, whether we had a successful or unsuccessful experience previously.

These three scrubs can be online or with a sales agent on the phone with the prospect, where the applicant's data is entered by the sales agent with the customer on the phone.

After the applicant scrub, and prior to moving to underwriting, we gather as much information as possible electronically. As a cash flow lender, gathering and analyzing bank data is essential, and doing so in a customer-friendly manner results in better outcomes. We use a third party integration to gather up to 12 months of detailed banking information on the applicant. We can also deploy OCR technology to do the same process if we receive paper statements. We literally receive every line item—deposits, checks, in electronic format from the customer's banking history. We have customized algorithms that parse the banking data, extract key information, and summarize the monthly data in a format that allows for easy review by an underwriter. The results of our bank statement analysis feed into our scoring algorithm.

Credit information is similarly pulled electronically, parsed for key statistics, scored and stored. Legal databases (Clear, Lexis Nexis, and Westlaw) are scoured and summarized electronically. We no longer need an underwriter to manually review and look for UCC's, tax liens, past bankruptcies, etc. Along with various other information collected from the application and other data sources, we have a credit and scoring model that will then price the transaction, present offers for the customer's approval, and if accepted, generate all contracts electronically for customer online acceptance and signature.

If it all seems a little magical, frankly, to me it is. We are on our sixth generation scoring and pricing model. But any company embracing technology can't rely on technology alone. We have a monthly Credit Committee meeting and our team of credit analysts compares predicted results to actual results, expected loss curves to actual loss curves, down to the product level (we have about 25 different product offerings).

By the time a file gets to underwriting, for us a big chunk of the processes we used to perform manually in underwriting has been completed. The likelihood that an underwriter will say "no" has been greatly reduced. Underwriting now is a human being making sure that the deal makes sense as a whole, looking for things that may not be covered or picked up by the machine or for inconsistencies that might require further analysis. Depending on the dollar amount of the loan, there are interviews conducted with the client and possibly other creditors, and also financial statement and tax return review for transactions over a certain size. The underwriter's job is generally not to reprice or question the scoring of the account. It is either "thumbs up" or "thumbs down."

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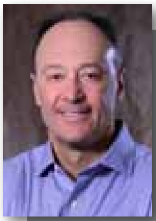
As we continue down the yellow brick road of Rapid funding, when the underwriter pushes the "approval" button, conditions (if any) to final closing are generated for the sales agent to follow up. Once all conditions are cleared, the deal funds. If we choose to, the deal can fund without a human touch.

Servicing is the final piece of our technology platform. All loan payments are collected electronically, without human intervention. A current project is to automate the reconciliation of payments posted to deposits recorded in our bank accounts, saving hours of monthly time by the accounting department.

The servicing platform utilizes customized algorithms to identify loans that are not performing as expected or have missed payments. Flagged loans are populated automatically into collector's cues for follow-up, and prioritized again by a customized algorithm.

If you are overwhelmed and wondering where to start the FinTech journey, my suggestion is "start small" and then "think big." We began our current platform development five years ago with a simple goal. Our sales agents used spreadsheets to quote customers. We wanted to replace spreadsheets with a system that incorporated data lookups and a rules-based pricing engine. Fortunately, our software development guru thought big, and utilized technology that would allow that initial project to become a building block for every subsequent technology implementation so that it all functions as one unified system, accessible anywhere and at any time.

Good luck! •



Founder and former CEO of RapidAdvance, **Jeremy Brown** has over 30 years of management experience as an entrepreneur and executive running small and mid-sized businesses across various industries, including specialty finance, retail, construction and hospitality. RapidAdvance has funded $1.5bbn to over 25,000 customers throughout North America and the United Kingdom since 2005.

Jeremy speaks at industry events as a leading voice on alternative finance and small business, as well as an author and industry expert on funding solutions for small business. Jeremy is a CPA and holds a bachelor's degree in economics from Duke University. A lifelong resident of the D.C. area, Jeremy enjoys spending time at the beach with his family, working out, and futile attempts to improve his golf handicap. He can be reached by email at jbrown@rapidadvance.com or by phone at 240-514-2002.