

Perspectives 2024

Welcome to Lending Reimagined

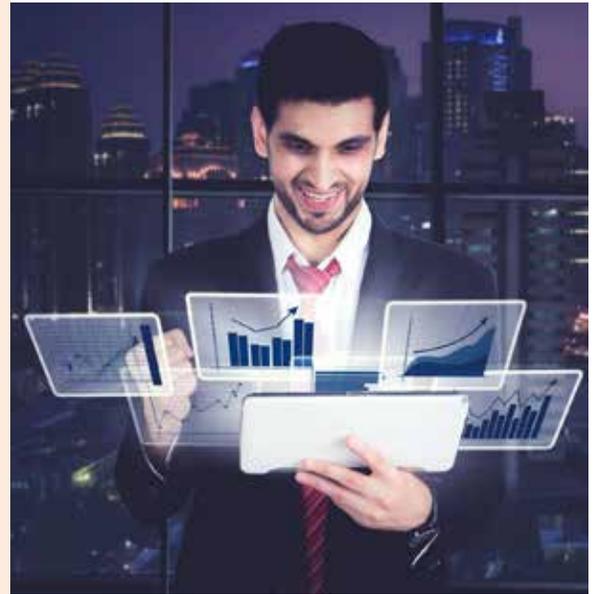


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The banking industry is taking an almost radical pivot in 2024, driven by rapid advancements in digital technology, new customer preferences, and challenging regulatory landscapes. The year points to a host of emerging trends in lending that will reshape the way banks will operate and interact with borrowers. From digital innovation to sustainable finance, these banking trends will have a profound impact on the industry.

Financial institutions are under enormous pressure to increase their pace of digitization to elevate customer experience and unlock new efficiencies, albeit checked by stricter lending standards and the higher risk in loan portfolios.



Customer Demand for Digital Lending Will Propel Growth

Digital lending will continue to gain traction in 2024 with its promise of quick and efficient loan disbursement, data analytics, and easy and quick credit scoring. [Smart phone adoption](#) has increased even among customers located in the farthest regions resulting in higher digital dependency and a [preference for online banking facilities](#). This combined with the increasing presence of fintech firms will also aid market growth. We will witness an overall uptick in the application of digital solutions across banking operations to streamline operations and processes, while improving the overall functionality and efficiency of the financial sector.

Financial Services to Get More Personal

The [trend towards personalized financial services](#) will gain impetus this year, thanks to large datasets and advanced analytics that will enable tailoring of services to individual needs unlike erstwhile cookie-cutter approach. Banks can expect higher customer satisfaction and loyalty with data analytics powering AI algorithms to create more personalized and customer-centric financial services.

Collaborative Growth in FinTech

[Collaborations](#) and [partnerships](#) are emerging as a key growth driver in the digital lending space and this will continue into 2024. Partnerships between traditional banks and FinTech firms are making it possible for the former to design and deliver new and innovative solutions that meet modern customer demands. In Egypt, growth in digital lending is already being spurred by factors such as higher smartphone adoption and an increasingly tech-savvy population. We can expect this year to show us many such

collaborations and synergies that will propel the lending industry forward.

AI Will Go Beyond the Basic

AI has already made a large impact in the financial services sector, bringing about higher efficiency, enhanced customer experiences, and enhanced security. And as AI continues to evolve with features like generative AI, we can expect even more sophisticated applications that will further transform the industry.

Traversing basic operations, financial institutions will begin using AI technology for more than process automation, customer support, service bots etc. Cross-border credit scoring, a process that seemed near impossible until now, will become easier with collaborations and AI technology, allowing banks to assess creditworthiness based on current transactional data. Unlike traditional credit scoring, AI will analyze the creditworthiness of potential lenders more efficiently and across a wider spectrum, using data like social media, asset ownership, or employment data. Lenders can ensure that customers with high credit rankings receive the best services. AI algorithms will become more sophisticated and we can expect newer, more creative data analysing capabilities. This means tailored lending solutions, customized repayment plans, and so on.

Microlending

Microfinance will continue to gain more impetus and is expected to reach [\\$271.4 billion by 2024](#), with Asia-Pacific and the Middle East emerging as the key markets. China is

expected to spearhead microlending growth in 2024 and is likely to emerge as the fastest growing regional market with a CAGR of 17.5%.

There will be continued support from governments to lower the existing high interest rates and promote microfinance especially as it's expected to have a tremendously positive impact on financial inclusion and economic development. The expansion of microlending will be higher in developing economies and will be driven by a rise in the number of small and medium businesses, lower-income groups including women, as well as government initiatives to promote industrialization and fair competition. Of course, this market expansion must be accompanied with better risk management and well-designed micro-insurance plans, which also will be a focus area in 2024. A challenge banks can expect would be shorter repayment schedules and steep loan processing fees as microlenders will focus on growing their earnings.

Buy Now, Pay Later (BNPL) Credit Will Get More Attention

The popularity and proliferation of the BNPL model in consumer payments has encouraged traditional banks and credit card companies to include BNPL in their offerings. Especially in developing economies and markets under heavy inflation, banks will continue to see the financial and operational benefits of BNPL compared to traditional credit products, driving lending volumes.

However, while BNPL products have helped many consumers get credit easily, experts feel this may create a problem of

overspending. According to the [CFPB](#), “[BNPL] firms have created their own gateways and digital, app-driven marketplaces, powered by personalized behavioural data, to lure their users into buying more products.” A Pymnts [survey](#) of BNPL users shows that 70% of respondents said they spent more than they would have without the BNPL payment option. In fact, BNPL debit will be accumulated by consumers heavily dependent on credit, and could amplify the credit problem further.

But with regulations and enhanced risk management to better shape the short term, small-ticket size loan, this year could usher in the next wave of BNPL maturity. Card issuers will be able to lower their fees and work alongside pure-play BNPL providers to elevate financial well-being of consumer by offering responsible credit. We are also likely to see deeper integration of BNPL across online and offline stores, as well as new markets and industries such as payment of utility payments.

Conclusion

As 2024 approaches, it's evident that the digital lending space is revolutionizing the way consumers interact with financial services. The integration of technologies like AI and generative AI along with trends like embedded finance and open banking, are reshaping the lending ecosystem into a more efficient, seamless, secure, and inclusive space. Financial institutions must remember that their customers are no longer just passive users of financial services, but active participants demanding personalized, convenient, and transparent solutions. In developing markets, the rapid increase in smart phone penetration and a significant unbanked population offer a ripe opportunity for digital lending.

The need for banks to innovate and create opportunities for deeper customer engagement with new business models will be a key focus area this year. Success for financial institutions lies in partnerships, technology adoption and innovation, and friendlier regulations that make credit more accessible, transparent, and tailored to the needs of the digital customer.





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