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5 reasons lenders need adaptive infrastructure

Fintechs, who have been this decade's primary instigators of lending innovation, might seem poised to be the primary and perennial beneficiaries of continued technological progress. But things aren't so straightforward. Many of today's fintechs are falling into the same trap established lenders did long ago: They're launching modern lending programs on rigid infrastructure designed for the present, not the future. We've seen the repercussions of this choice over the past decade, as established lenders hobbled by rigid infrastructure ceded market share to fintechs, who have gobbled up about half of all personal loan originations.

It's become expected for lending cores to bake in assumptions about loan configurations, ancillary software systems and regulatory requirements—these assumptions make cores cheaper and faster to build. But when markets shift and novel lending constructs emerge, established lenders find themselves handcuffed to outdated infrastructure, sometimes requiring years of retrofitting just to launch new lending programs.

To compound the problem, the rate of change in lending—as in all of technology—is accelerating. And so it will take even less time for today's modern-yet-rigid lenders to be eclipsed by the next crop of nimble upstarts with newer and better ideas. Rigid lenders will once again lose market share in the struggle to keep pace with a rapidly changing landscape.

> **Rigid infrastructure represents perhaps the single biggest long-term risk to established lenders. With an increasing pace of change in lending, lenders must find ways to stay nimble.**
>
> *David Albertazzi, Director, Retail Banking & Payments, Aite-Novarica Group*

But lenders have control over their fate, and can prioritize investments in **adaptive infrastructure** that enables them to:

1. continually test and iterate, even at scale; and
2. continually launch new lending programs with speed and flexibility.

For those lenders who fail to make these investments, there will be five major headwinds as lending innovation and market evolution continue their forward march.

RISK #1

Competitive innovation

Technology has lowered the barrier to entry in financial services, spurring a profusion of venture-backed startups with nothing to lose and everything to gain. Some of them have succeeded in disrupting existing paradigms and seizing market share from established lenders—one recent example being BNPL. While such innovations are net positives for borrowers, they can exact a heavy toll on existing lenders who can muster only a sluggish response to novel competitive threats.

However, existing lenders with established brands and loyal customer bases hold some important advantages against first-movers. They must complement these advantages with the agility to reconfigure loan behavior and to rapidly launch new products in a wide range of asset classes, including innovative constructs. While no one can perfectly predict the next disruptive trend, with North American fintechs alone having raised **$80.8B in 2021** it's certain that BNPL will not be the last novel construct to sap market share from slower incumbents.

RISK #2

Your evolving tech stack

If there's one thing that's certain about the array of software systems and vendors your lending programs depend upon, it's that what's ideal now won't be ideal in a few years. And this is part of the rub with rigid lending cores—when they ossify, so does your tech stack. This means you can be stuck with the same array of vendors long after they've outgrown their usefulness to you. The abundance of newer vendors adding value for lenders—from card issuance to fraud prevention to financial data—illustrate one of the opportunity costs of a rigid tech stack.

Instead, seek a core with modular architecture that supports your ability to switch vendors and add new ones over time, and to make other crucial updates to your software infrastructure. In this way, you won't be handcuffed by vendors you don't want.

RISK #3

Market disruptions

Recessions, natural disasters, conflicts and pandemics are just a few of the market disruptions we may face in coming years. If 2020 taught us anything, it's that everything can change overnight. During the COVID-19 pandemic, lenders were forced to enable remote servicing—quickly transitioning call center workforces away from an office environment. Lenders also had to find a way to offer repayment flexibility to borrowers facing hardship on a scale and in ways that were unprecedented.

Lenders can be better prepared the next time a market disruption occurs if they've invested in flexible servicing technology. Specifically, lenders should be able to address affected customers in batch, whether sorted by natural disaster zone, type of lending product or other hardship metric. By cutting spreadsheets and manual processes out of the equation, lenders can confront the next market disruption with greater confidence and lower cost—gaining an edge on the competition.

RISK #4

Regulations

Lending regulations are constantly evolving and inherently unpredictable, which is why 44% of bank executives cited their regulatory burden as **a top concern** in 2022, up from 18% in 2021. Even fixtures of the regulatory landscape like the CFPB and the CARD Act are new as of the past 15 years, while Regulation F only took effect in late 2021. When it comes to lending regulations, lenders need to be prepared for anything at any time—emphasizing the importance of flexible lending infrastructure.

Take Reg. F as an example, which imposes a number of requirements around fielding and honoring customer communication preferences. Without modular and flexible lending infrastructure, corner cases can quickly devolve into manual processes that become headaches for you and your customers, and which can expose you to regulatory penalties. For instance, if a customer asks not to be contacted between 3–5 p.m. on Tuesdays and Thursdays, and there's conflicting information about the customer's time zone, what's the best way forward? Compliance with applicable regulations must be handled in a scalable way, and the more it can be automated—ensuring efficacy and consistent application of your policies—the better.

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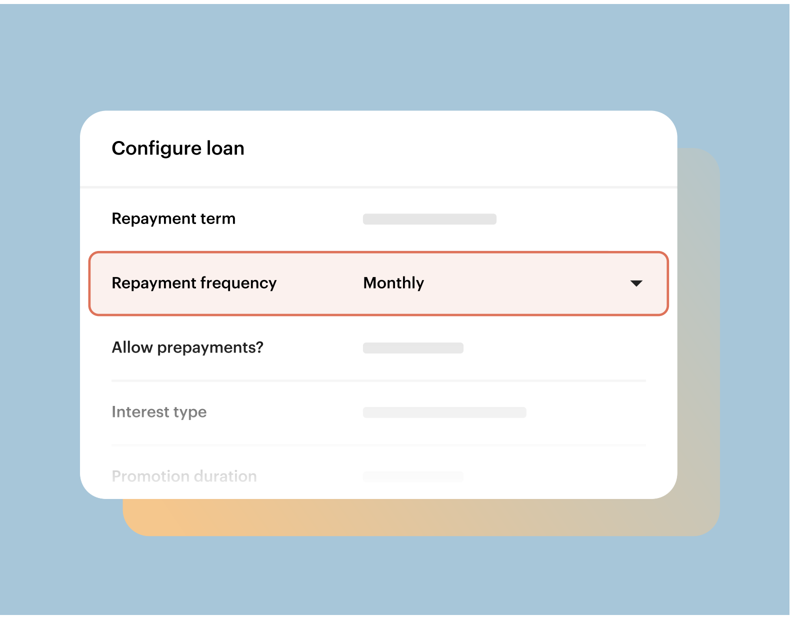

How lenders can invest in adaptive infrastructure

RISK #5
Stagnation

While competitive pressure may be the primary driver of the need to innovate, innovation has its own virtues. Firstly, it's synonymous with continual improvement of your products—one of the keys to customer satisfaction. Second, establishing a reputation for innovation is crucial for your brand, and has ramifications for customer engagement and loyalty. And third, innovation gives you the opportunity to position your company as a market leader—an aspiration that lenders with rigid infrastructure are often forced to give up.

Without adaptive infrastructure, these ingredients for sustained growth become extremely difficult to achieve, leaving an opening for more nimble players to win on brand, customer loyalty and market leadership. Those who invest in adaptive infrastructure, on the other hand, can be among the brands who stand out from the pack—remaining innovative and agile through the twists and turns of the market.

Lenders who fail to make investments in adaptive infrastructure will feel the full force of the five headwinds above. But lenders who are serious about positioning themselves for long-term success will prioritize investments that enable them to 1.) continually test and iterate, even at scale; and 2.) continually launch new lending programs with speed and flexibility.

For new lenders who don't have an existing core system, this can simply mean choosing an adaptive core solution that provides the necessary flexibility. Established lenders, whose legacy cores may present some challenges that need to be managed over time, can still choose to launch new lending products on an adaptive modern core that acts as a sub-ledger to their existing core system, providing the ability to innovate without a complete overhaul of lending infrastructure.

No matter the size or category of your lending business, smart investments in lending infrastructure can ready you to adapt to evolving technologies, market conditions, trends and regulations—and open the door to establishing market leadership for decades to come.

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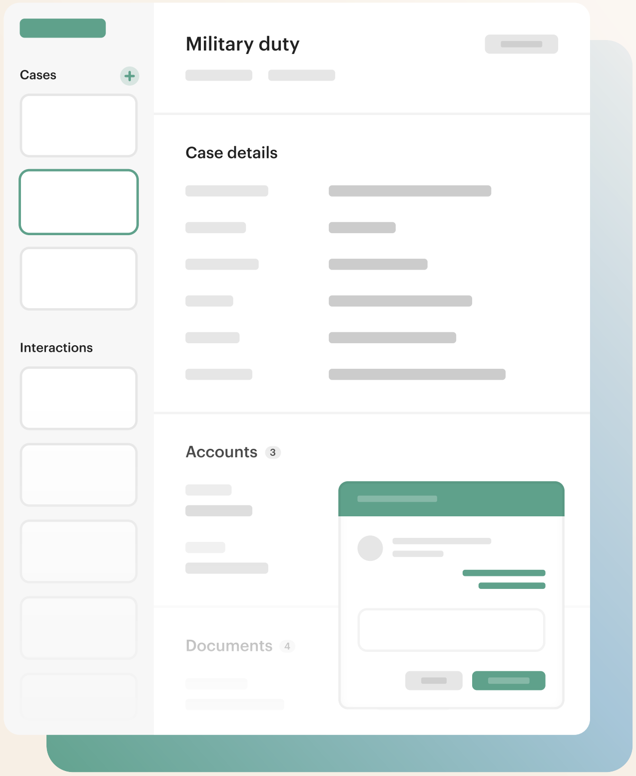
Infrastructure for tomorrow's lending products

Peach is a cloud-native lending technology platform that helps you quickly launch and confidently scale new lending products. We're the only lending platform built on an Adaptive Core™—designed to power the lenders who will thrive in our adaptive future.



Your unified lending technology platform

Adaptive Core™

A new paradigm in loan management, giving you comprehensive configurability and the power to launch and scale lending programs that stay ahead of evolving trends.

Servicing suite

End-to-end, fully integrated suite of proprietary servicing tools. Includes white-label borrower portal, lending CRM, communications and payment processing.

Compliance Guard™

Borrower status monitoring for bankruptcy, deceased, active military and FEMA disasters, plus scanning of outbound communications.

Stay ahead of the curve

Quickly launch new products

Our Adaptive Core supports 200+ configuration variables and virtually any asset class, including novel constructs. We're cloud-native and API-based, and we've made it as easy and quick as possible to stand up new lending programs.

Change products on the fly

Because our platform is configurable by design, scaling your products doesn't compromise your ability to continually test and iterate. Change fee structures, term options and a host of other product behavior configurations.

Adapt to any system or vendor

Our Adaptive Core is designed to be your modern lending core, or it can be a sub-ledger to your existing core system. Its modular architecture enables it to work alongside any system or vendor—so you can change them over time.

Stay compliant

Compliance Guard conducts borrower status monitoring and scanning of outbound communications, helping you stay compliant with federal and state regulations—even as they change.

Make retroactive changes

With Loan Replay™, you can make updates to the ledger at any time—past or present. Recalculations happen automatically while preserving immutability. Backdate payments, retroactively change interest rates and more.

Launch virtually any asset class

- Personal loans
- BNPL/SplitPay/POS
- Credit cards
- Charge cards
- Cash advances
- Retail installment contracts
- Credit-builder loans
- Home improvement loans
- Private student loans
- Auto and recreational
- Business loans
- Invoice financing
- Merchant cash advances
- Novel constructs