PLUGGING HONG KONG'S SME CREDIT GAP

REINVENTING THE SME LENDING PROPOSITION WITH ALGO-BASED LENDING

MARCH 2024

QUINLAN & ASSOCIATES

EXECUTIVE SUMMARY

- Boasting 362,000 enterprises by the end of 2023, Hong Kong SMEs represent nearly 99% of all local businesses and make a significant contribution to the city's private-sector employment (44%) and GDP (50%). This critical sector for the local economy exhibits various credit demands, ranging from funding for daily business operations, to more specific purposes such as trade finance or franchising. However, despite robust credit demand, total SME loan balances in the city have remained stagnant at ~HKD 1.8 trillion since 2018.
- From 2018-23, only ~60% of SMEs with a need for credit applied for a loan. Over the same period, of those SMEs who applied for a loan, an average of 34% were either rejected or only partial approved. Based on in-depth interviews with over 30 established SMEs in Hong Kong (i.e. > HKD 30 million p.a. in revenue), much of this stems from various operational inefficiencies across the SME lending journey, leading to largely unsatisfactory experiences for many borrowers, including:
    1. **Acquisition:** SMEs face challenges when choosing between different loans on offer due to the lack of availability / limited transparency of loan details, requiring extra effort to visit / call lenders for more information. While preliminary approval timelines may be highlighted by lenders, the approval process itself remains undisclosed.
    2. **Onboarding / Account Setup:** Most SME lenders do not offer pure digital onboarding. Onboarding times also take considerably longer (i.e. up to 3+ months) than advertised, especially for traditional and virtual banks, a function of relatively opaque documentation requirements and regular back-and-forth meetings / calls with RMs. A number of traditional banks also continue to impose minimum deposit requirements (e.g. up to HKD 200,000+) to set up a business banking account.
    3. **Loan Application:** Traditional banks have yet to embrace pure online loan applications, with SMEs needing to fill out and submit considerable amounts of physical paperwork and conduct branch visits. Like onboarding, most local SME lenders also take much longer than advertised to process and approve loan applications. Moreover, stringent document requirements, recurring follow-ups, and collateral and/or personal guarantee ("PG") requirements create considerable borrower friction.
    4. **Account Maintenance:** Many lenders conduct annual or semi-annual account review processes to assess the financial health of their SME clients and adjust their loan terms accordingly. Reviews are often conducted at random and typically require additional documents to be presented during in-person visits or calls with RMs.
    5. **Loyalty:** Due to the lack of active engagement initiatives from local lenders, there is minimal ongoing engagement with most SMEs beyond transactional interactions, stifling long-term loyalty. As a result, all of the SMEs that we interviewed said they were open to switching to an alternative lender (i.e. their non-primary bank account) when presented with a more attractive loan proposition, smoother digital processing experiences, and/or enhanced service levels.
- We estimate the current addressable SME credit gap in Hong Kong to be HKD 170 billion. However, to tap into this lucrative opportunity, local SME lenders must reimagine the SME lending journey, including making better use of technology across the customer value chain. While conventional technologies like OCR and gamification can address certain operational challenges, such as streamlining onboarding and improving customer engagement, structural issues, such as those related to SME document availability, persist.
- We believe the key to plugging Hong Kong's stubborn SME credit gap lies in algo-based lending – in short, utilising alternative data (via targeted partnerships) to develop customised SME credit scoring models that can pre-qualify loans. This approach not only opens the ability to address previously underserved customer segments, but also helps to streamline the current SME lending journey. However, a fundamental rethink of lenders' current strategies and operating models is needed for this bold new approach to work.

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HONG KONG SME LANDSCAPE

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HONG KONG SME LANDSCAPE

Key Takeaways

Hong Kong is currently home to 362,000 small-to-medium enterprises ("SMEs"), with the number of SMEs in the city growing by a CAGR of 1.5% since 2017.

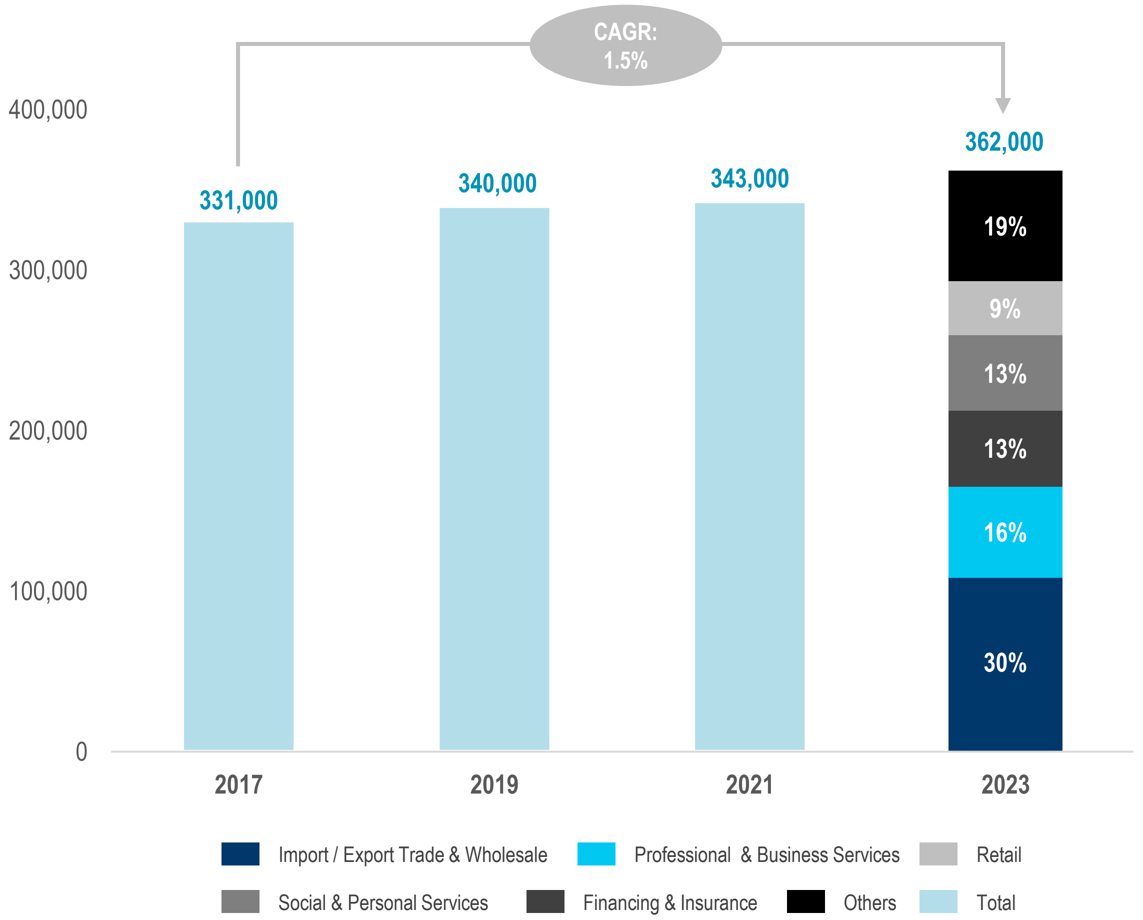
The import / export trade & wholesale sector accounts for ~30% of total SMEs in Hong Kong, followed by professional and business services (16%), retail (13%), and social and personal services (13%).

SMEs constitute nearly 99% of total enterprises in Hong Kong, contributing approximately 44% of private sector employment and 50% of GDP.

Hong Kong is home to 362,000 SMEs, who play a crucial role in driving the city's economic activity, including private sector employment and GDP

Number of SMEs in Hong Kong

#, 2017-2023, Breakdown by Sector



SME Contribution to Hong Kong Economy

%, 2023

98.5%
…of Total Enterprises

44.4%
…contribution to Private Sector Employment

50.1%
…contribution to Hong Kong's GDP

Source: Trade & Industry Department, Hong Kong Government, Quinlan & Associates analysis

SME LENDING LANDSCAPE

Key Takeaways

SMEs exhibit various credit needs, seeking funding for daily operations, cross-border trades, long-term asset purchases, and other purposes such as e-commerce or franchising.

To address this demand, Hong Kong is home to a diverse array of SME lenders, including:

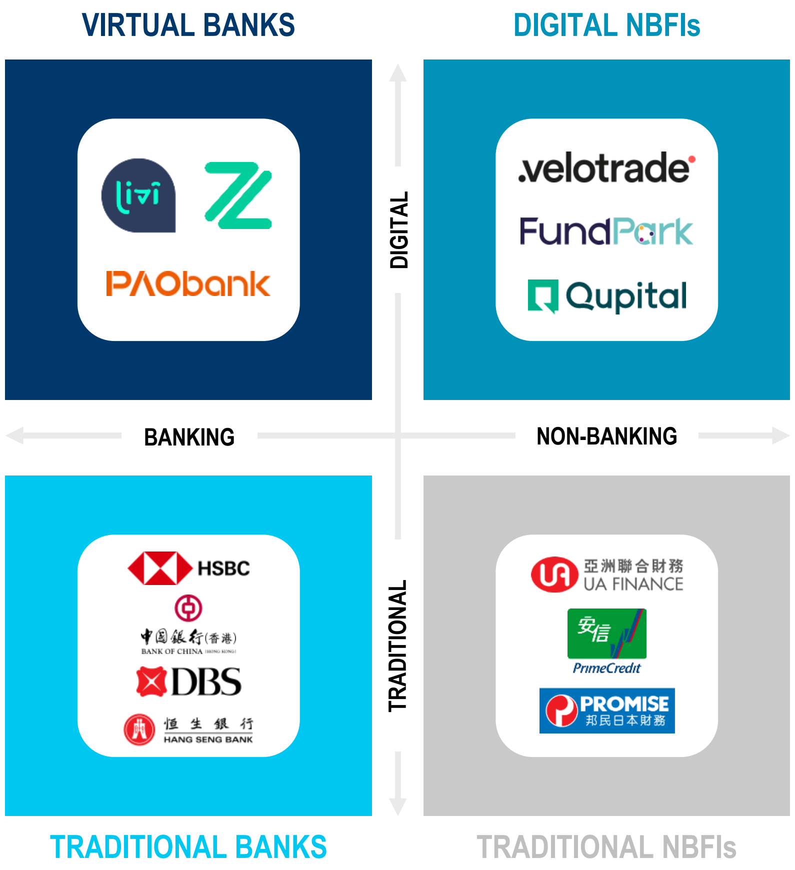
1. **Virtual Banks:** digitally-native, branchless banks that operate exclusively through online / digital service channels
2. **Traditional Banks:** non-digitally-native banks that are licensed to conduct banking business, with mixed digital capabilities
3. **Digital NBFIs:** digitally-native lenders that do not hold a banking license
4. **Traditional NBFIs:** non-bank lenders that do not rely on digitally-enabled operations

To meet their financing needs, a wide variety of SME lenders operate in Hong Kong, including traditional and virtual banks, as well as non-bank financial institutions (“NBFIs”)

Credit Demands
SMEs

CREDIT DEMANDS	PRODUCTS
General Operations Cover SMEs’ day-to-day operational expenses, addressing their short-term liquidity needs	• SME Cards • Working Capital Financing • Invoice Financing • Overdraft Facility • Revolving Loan
Trade Finance Provide support for SMEs to engage in smooth cross-border trade, such as ensuring payment security	• Supply Chain Financing • Purchase Order Financing • Letters of Credit
Long-term Assets Provide funds for purchasing / leasing office spaces, warehouses, retail outlets, and equipment	• Commercial Mortgages • Equipment Financing
Other SME Loans Loans for more specific uses / available to certain niche segments	• E-commerce Financing • Franchise Financing • Etc.

Types of SME Lenders
Categorisation and Examples*



*Examples of SME lenders are not exhaustive
Source: Quinlan & Associates analysis

TRADITIONAL BANKS

Key Takeaways

The primary participants in the local SME lending sector are traditional banks.

There is currently a 3-tier hierarchical structure of authorised institutions in Hong Kong, including: (1) licensed banks, (2) restricted licensed banks, and (3) deposit-taking companies.

The vast majority of SMEs are serviced by Tier-1 licensed banks, who offer current and savings accounts, accept deposits of varying sizes and durations from the general public, and handle the issuance and collection of cheques from clients.

Hong Kong maintains a three-tier system of authorised institutions (“AIs”), with many of the market’s Tier-1 licensed banks offering services to SMEs

Hong Kong Traditional Banks

Three-tier System

	TIER	SELECT EXAMPLES
TIER 1	**LICENSED BANKS (148)*** • Operate current and savings accounts; • Pay / collect cheques from customers; and • Accept deposits of any size and maturity from the public	HSBC; standard chartered; 中國銀行(香港) BANK OF CHINA; NCB 南洋商業銀行; BEA 東亞銀行; 中国建设银行(亚洲) China Construction Bank (Asia); 中信银行(国际) CHINA CITIC BANK INTERNATIONAL; 恒生銀行 HANG SENG BANK; ICBC 工银亚洲; DBS
TIER 2	**RESTRICTED LICENSED BANKS (10)** • Principally engaged in merchant banking and capital market activities; and • May take deposits of any maturity of HKD 500,000 and above	ALLIED BANK; 中銀國際 BOC INTERNATIONAL; 上海銀行(香港) Bank of Shanghai (Hong Kong); KDB Asia Limited; ORIX
TIER 3	**DEPOSIT-TAKING COMPANIES (12)** • Mostly owned by, or associated with, banks; • Engage in specialised activities, including consumer / commercial lending, securities; and • May take deposits of HKD 100,000 or above with an original term of maturity of at least three months	BPI; WOORI GLOBAL; Hana Financial Group; 創興銀行 Chong Hing Bank

Traditional Banks Servicing SMEs

*excluding the 8 Hong Kong virtual banks

Source: HKMA, Quinlan & Associates analysis

VIRTUAL BANKS

Key Takeaways

Six out of the eight virtual banks operating in Hong Kong target SMEs, either exclusively or in conjunction with their retail banking offering.

PAOBank and Ant Bank are SME-focused, extending their services to a diverse range of sectors, including import / export, hospitality, and information & communications.

livi bank, ZA bank, Fusion bank, and Airstar bank all provide SME banking services, with the first focusing more on the retail and tech / FinTech segments for the SME banking services.

Six out of the eight Hong Kong virtual banks currently serve SMEs, targeting companies in the retail, Fintech, import / export trading, and eCommerce sectors

Hong Kong Virtual Banks

Target Customer Segments

		RETAIL-FOCUSED		RETAIL-SKEWED				SME-FOCUSED	
		mox	WeLab Bank	livi		FusionBank	airstar	PAObank	ANT BANK
INDUSTRY	Manufacturing								
	Mining and Quarrying								
	Electricity and Gas							✓	
	Waste Management							✓	
	Construction								
SERVICES	Import / Export Trading							✓	✓
	Retail			✓				✓	
	Storage and Transport								✓
	Hospitality							✓	
	Info. & Comms.				✓			✓	✓
	Finance and Insurance				✓			✓	
	Real Estate								
	Corporate Services								
	Social Services								
		Primarily retail-focused	Primarily retail-focused	Retail SME Focused*	Prefer FinTech SMEs	N/A	N/A	Focused on Tradelink SMEs	Focused on eTraders

Virtual Banks Servicing SMEs

✓ Core Focus

*based on livi's 7-Eleven Franchise Financing offering

Source: virtual bank websites, Quinlan & Associates analysis

NBFIs (1/2) – OVERVIEW

Key Takeaways

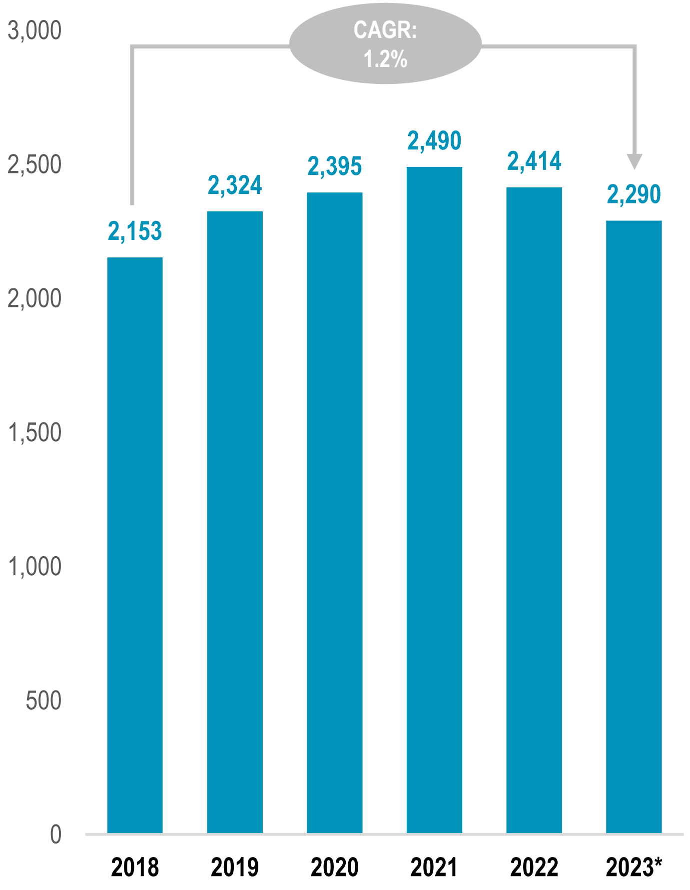
As of November 2023, there were 2,290 licensed NBFI money lenders operating in Hong Kong, down from 2,490 in 2021. They serve either individuals, businesses, or a combination of both through different origination channels.

There are many NBFIs in Hong Kong involved in retail and/or corporate lending, and an increasing number of them are providing loans through hybrid or fully digital channels. Notable digital-led players catering to Hong Kong SMEs are Qupital and Velotrade, competing against more traditional, established SME lenders like UA Finance and Promise.

There are nearly 2,300 licensed money lenders operating in Hong Kong, serving either individuals, businesses, or a combination of both through different origination channels

Number of Licensed Money Lenders

#, 2018-November 2023



Business Models

Examples of NBFIs

NBFI Origination Channels (B2B Lending)**

Examples of NBFIs

Fully Online	Partially Online / Offline	Fully Offline
Qupital	亞洲聯合財務 UA FINANCE	2 資本財務有限公司 E Capital Financial Limited
velotrade	PROMISE 邦民日本財務	順億財務有限公司 Easy Billion Finance Co., Ltd

NBFIs Servicing SMEs

*As of November 2023, **Including lending to businesses by both only B2B-focused as well as B2B- and B2C-focused lenders

Source: companies registry, NBFI websites, Quinlan & Associates estimates

NBFIs (2/2) – DIGITAL EXAMPLES

Key Takeaways

In recent years, a number of challenger NBFIs have set up operations in Hong Kong, offering digital-led lending propositions to local SMEs. Notable players include FundPark, Qupital, and Velotrade.

FundPark and Qupital have collectively facilitated loans amounting to ~USD 2 billion, helping SMEs in their growth endeavours and day-to-day operations through credit support.

Similarly, a relative newcomer, Zetl, focuses on offering working capital and invoice financing to SMEs. Zetl integrates its lending services with POS and payment platforms, enabling instant, white-labelled loan offerings to SMEs via a streamlined API.

Ebury is a global non-bank leader in cross-border finance for SMEs, which entered the Hong Kong market in 2019. Aside from financing solutions, they also offer FX and risk management services to SMEs.

Among the NBFIs are a handful of digital-native players that provide a range of loans to SMEs, especially for those involved in import / export and e-commerce

Digital NBFIs
Hong Kong Examples

	velotrade	FundPark	Qupital	ZETL	Ebury
Established (Hong Kong)	2015	2016	2016	2018	2019
Financing Offerings					
Working Capital Financing	✓	✓	✓	✓	✓
Invoice Financing	✓	✓	✓	✓*	✓
E-commerce Financing	✓	✓	✓	✓	✓
Supply Chain Financing	✓	✓	✓		✓**
Purchase Order Financing	✓	✓			✓
Total Financing Volume (USD)	N/A	~1 billion***	>1 billion****	N/A	N/A
Number of Clients	2,000+	~10,000	500+	N/A	40,000+

*Offers revenue share where client contracts can be monetised, **In partnership with UK-based cross border financing platform, Finverity, ***As of 2022; ****E-commerce funding amount

Source: company websites, PR Newswire, technode, InvestHK, Quinlan & Associates analysis

✓ Applicable

CREDIT PRODUCT OFFERINGS (1/2)

Key Takeaways

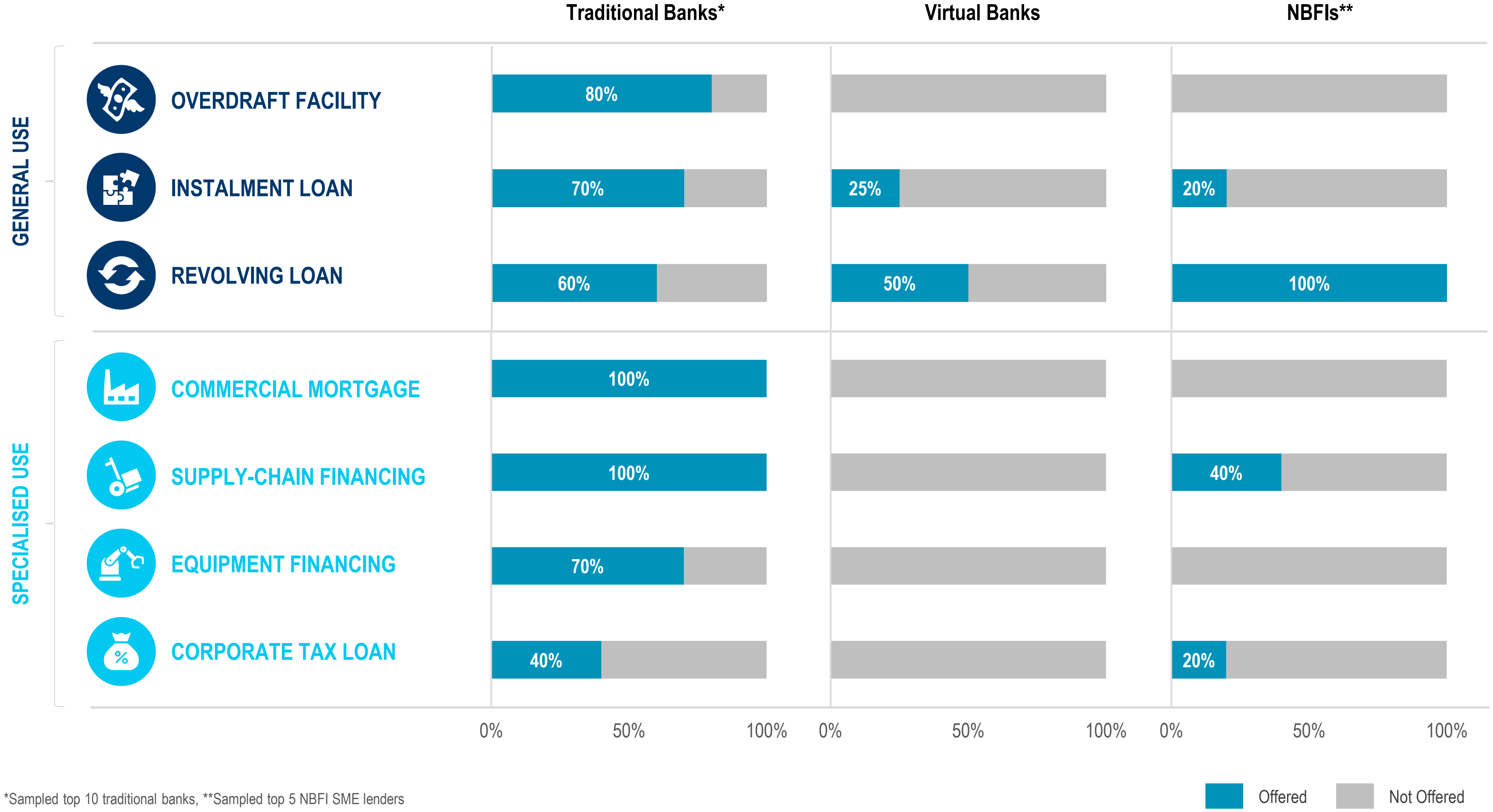
A diverse array of lending products from traditional banks, virtual banks, and NBFIs can be accessed by SMEs, catering to both their general and specialised credit needs.

Traditional banks offer the most comprehensive spectrum of lending products, including general-use products such as overdrafts, instalment loans, and revolving loans, as well as specialised products such as commercial mortgages, supply-chain financing, equipment financing, and corporate tax loans.

As relatively new players in the market, virtual banks are focusing their attention on providing SMEs with instalment loans and revolving loans, while NBFI lenders also extend supply-chain financing and tax loans.

Among SME lenders, traditional banks offer a broader variety of loan offerings for both general and specialised use, surpassing the offerings of virtual banks and NBFIs

Product Offerings
Lending, Generic Use & Specialised Use



*Sampled top 10 traditional banks, **Sampled top 5 NBFI SME lenders
Source: various lenders, Quinlan & Associates analysis

CREDIT PRODUCT OFFERINGS (2/2)

Key Takeaways

SME lending products are offered in Hong Kong via a wide variety of: (1) interest rates, (2) tenors, and (3) ticket sizes.

1. **Interest rates:** the interest rates offered by various SME lenders exhibit considerable disparity, reaching as high as 59% for revolving loans offered by an NBFI and as low as 7.9% by a traditional bank. Traditional banks generally provide the most favourable SME lending rates in the market, a function of lower funding costs, and more stringent credit scoring and documentation requirements.

2. **Tenors:** there is notable divergence in loan tenors offered by different lenders, varying by a few years, with the exception of supply chain financing.

3. **Ticket sizes:** loan sizes vary significantly, from as low as HKD 10,000 to as high as HKD 18 million. Collateralised loans typically range in size from 50-100% of the value of the collateral being provided.

Among the product propositions offered by different providers, there is a wide degree of variance with respect to the tenors, interest rates, and ticket sizes of those loans

Product Benchmarking

Interest Rate, Tenor, and Ticket Size

	Loan Types	Range (min)	Range (max)	Differential (max-min)
INTEREST RATE (%)	*Instalment Loan*	5.4%	36%	30.6%
	Revolving Loan	7.9%	59%	51.1%
	Corporate Tax Loan	4.8%	48%	43.2%
	Supply Chain Financing	6.6%	12%	5.4%
TENOR (Years)	*Instalment Loan*	0.25	5	4.75
	Revolving Loan	0.20	7	6.80
	Corporate Tax Loan	0.25	5	4.75
	Supply Chain Financing	0.02	0.5	0.48
TICKET SIZE (HKD / %)	*Instalment Loan (HKD m)*	0.01	6	5.99
	Revolving Loan (HKD m)	0.01	18	17.99
	Corporate Tax Loan (%)	0.1%	90%	89.9%
	Supply Chain Financing (%)	0.1%	90%	89.9%

High | Moderate | Low

Note: Overdraft facility, commercial mortgage, and equipment financing are excluded from this benchmarking exercise as they are not offered by all three categories of SME lenders (i.e. traditional banks, virtual banks, and digital NFBIs)

Source: various lenders, Quinlan & Associates analysis

SME CREDIT DEMAND

Key Takeaways

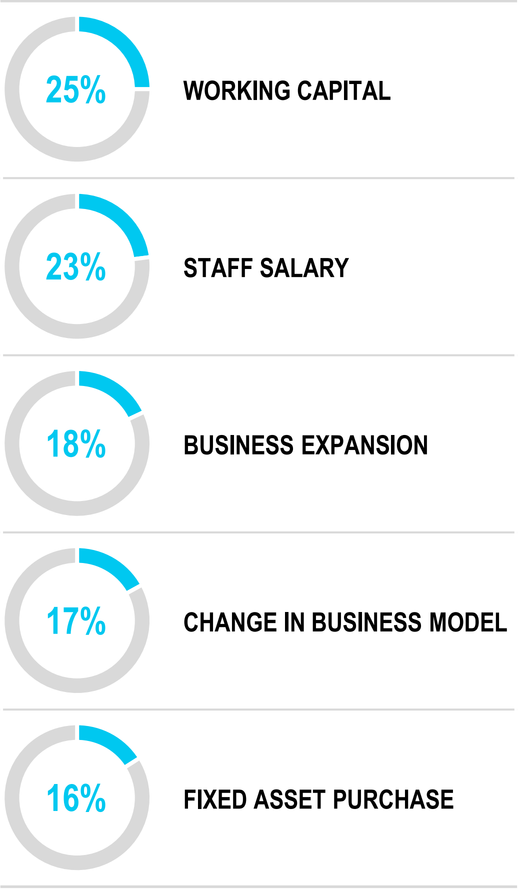
SMEs typically seek financing to address day-to-day operational needs and fulfil staff salary obligations, ranking as the two primary motivations for borrowing.

In the current business environment, SMEs find themselves grappling with rising cost pressures, with 67% anticipating an upswing in raw material expenses and 34% foreseeing an increase in staff salaries (13% higher than the previous year). As a result, working capital needs are likely to increase.

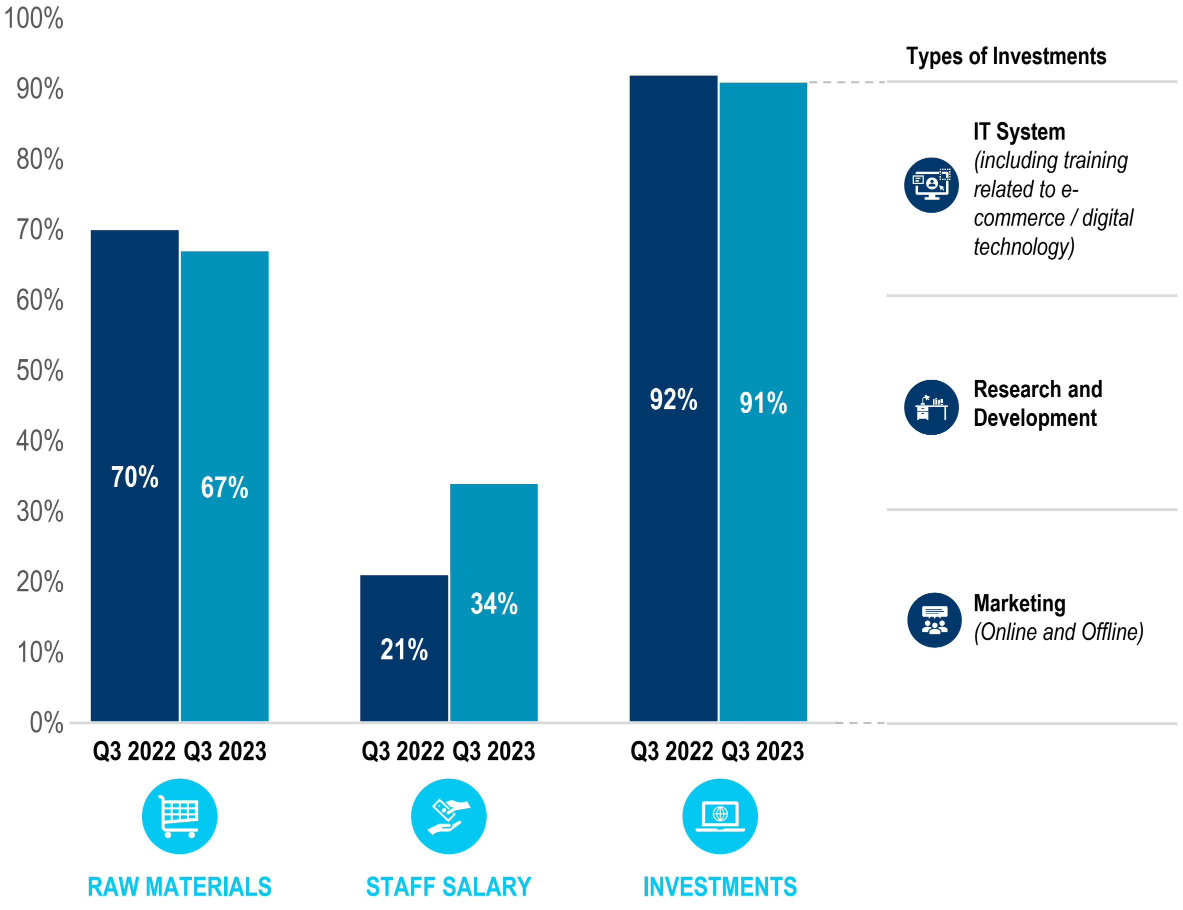
Beyond operational needs, SMEs seek financing for business expansion, structural adjustments, and the acquisition of fixed assets. Of note, 91% of SMEs are looking to increase their investment spend, much of which will require access to credit.

SMEs turn to lenders to finance their working capital, salary, and investment needs, most of which are anticipated to rise in the coming years, fueling additional credit demand

Top Reasons for Borrowing
% of Survey Respondents, 2022



Cost and Investment Increase Sentiment
% of Survey Respondents, Q3 2022-23



Source: Standard Chartered, HKPC, TransUnion, Quinlan & Associates analysis

SME LENDING MARKET SIZE

Key Takeaways

From 2018-23, total loans and advances in Hong Kong grew by a CAGR of 2.8% to reach HKD 7.6 trillion.

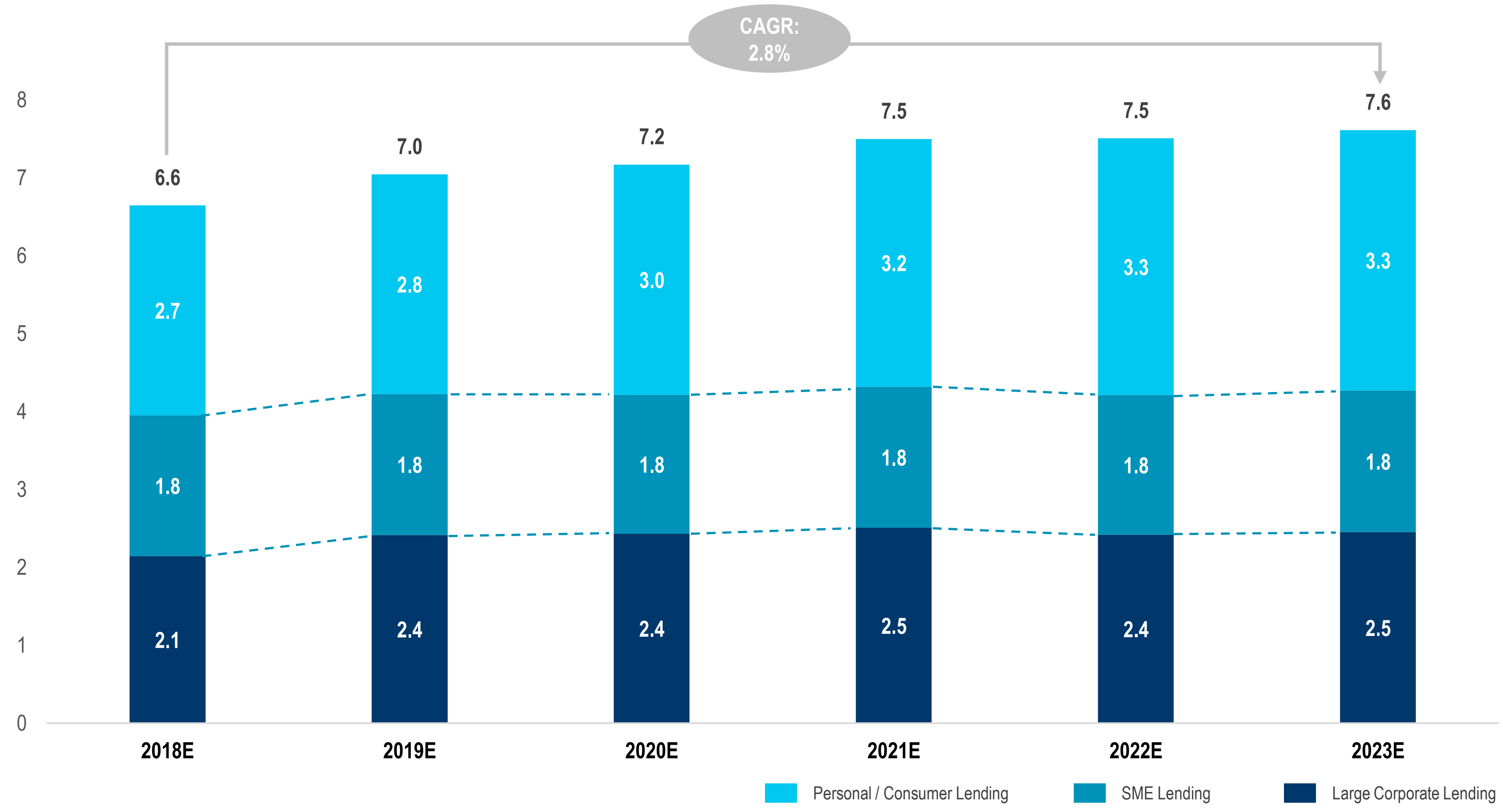
SME lending accounted for ~24% of the total volume of all loans and advances in Hong Kong in 2023, underscoring the vital role that SMEs play in Hong Kong's economy.

However, unlike personal / consumer loans and loans to large corporates, the SME loan market size has remained stagnated since 2018, despite an uptick in credit demand.

From 2018-23, SME lending volume has remained stagnant at ~HKD 1.8 trillion, while both personal / consumer loans and large corporate loans have grown steadily since 2018

Total Volume of Loans & Advances in Hong Kong

HKD Trillion, 2018E-23E



Source: HKMA, government disclosures, company disclosures, Quinlan & Associates estimates

UNFULFILLED CREDIT DEMAND (1/2)

Key Takeaways

The stagnation in Hong Kong's SME loan growth can be attributed, in part, to lacklustre local loan applications and approvals.

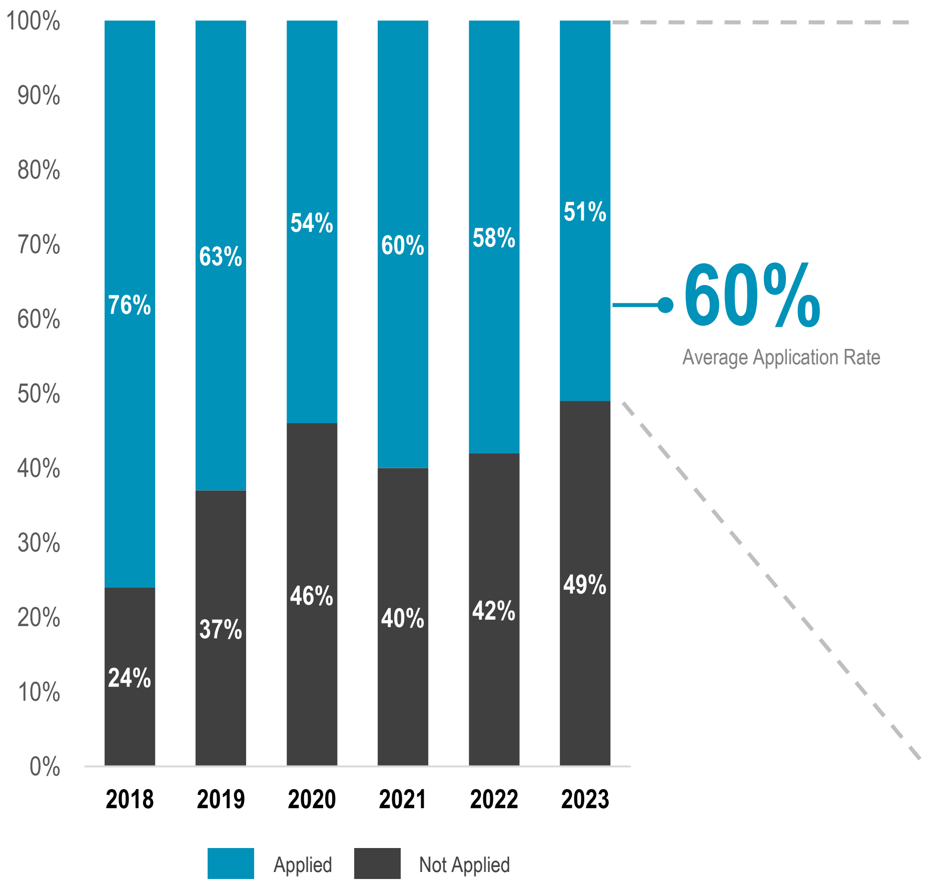
From 2018-23, 40% of Hong Kong SMEs that needed credit did not even apply for a loan, suggesting many local SMEs view the local lending landscape as too complicated, difficult, or uncompetitive.

Even among the 60% of SMEs who did apply for credit over the period, an average of 11% were rejected, with a further 23% receiving only partial approval.

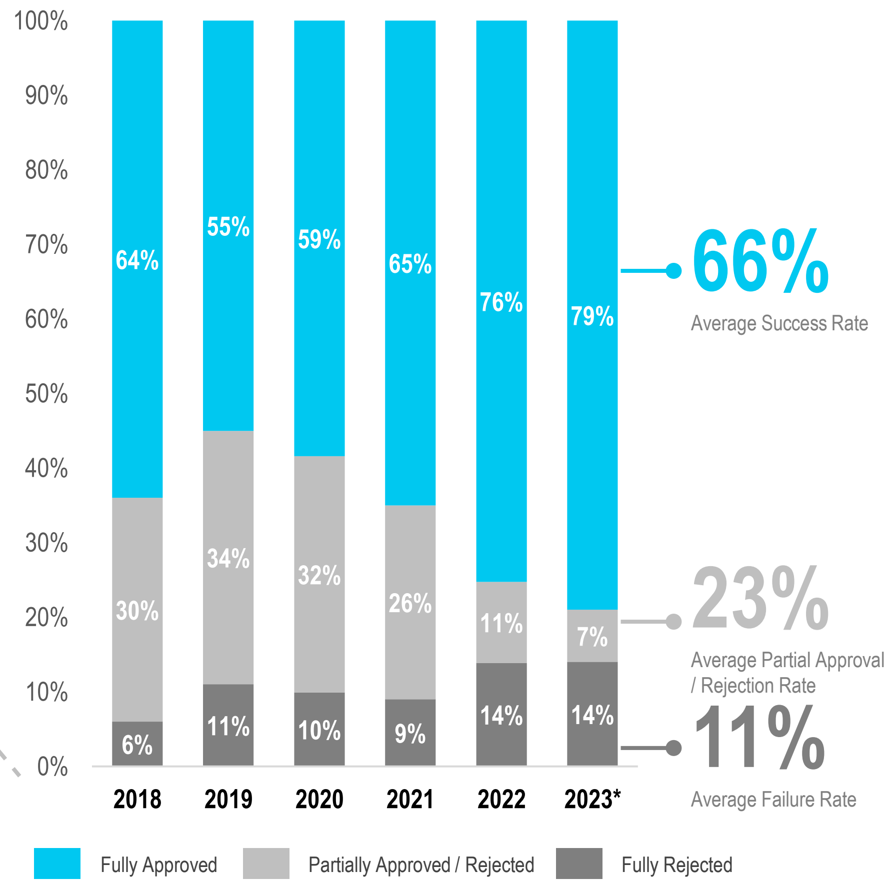
Taken together, this data indicates a persistent gap in the ability of local lenders to fulfil the credit demands of Hong Kong SMEs.

From 2018-23, an average of only 60% of SMEs with credit demand applied for a loan, with 34% of those applicants either being rejected or only partially approved

Credit Application Rate of SMEs with Credit Demand
%, 2018-23



Credit Application Success Rate for SMEs
%, 2018-23*



Note: quarterly data has been annualised, *As of September 2023
Source: Census and Statistics Department, HKMA, Hong Kong Productivity Council, Quinlan & Associates estimates

UNFULFILLED CREDIT DEMAND (2/2)

Key Takeaways

A significant portion of Hong Kong SMEs face challenges in accessing adequate financial support.

Among un- / under-served SMEs, 23% experience partial rejections when applying for credit, 11% encounter full rejections, and a substantial 66% have not even applied for a loan, despite their need for credit.

By tackling existing challenges and optimising the SME journey (especially in the context of credit-decisions), we believe between 5-25% of these un- / under-served SMEs can be serviced by local lenders, translating to an addressable SME credit gap of HKD 170 billion.

We estimate the current addressable SME credit gap in Hong Kong at HKD 170 billion, offering lucrative opportunities for local lenders who can tap into this space

Un- / Under-served SMEs with Unaddressed Credit Demand

2023, Estimated Addressable Credit Gap*

PARTIALLY REJECTED

CREDITWORTHINESS:

SMEs experiencing partial loan rejections tend to exhibit a moderate credit profile, where some aspects meet the lender's criteria, while others require improvements

HKD 67bn

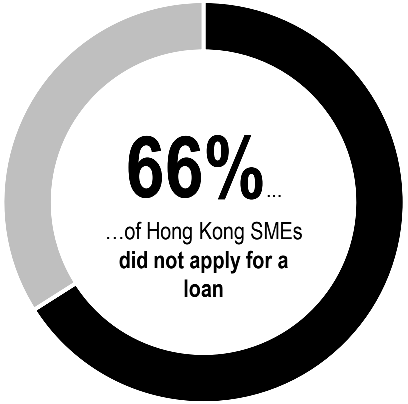
FULLY REJECTED

CREDITWORTHINESS:

SME creditworthiness falls below lenders' thresholds across multiple criteria, requiring substantial improvements for future credit approvals

HKD 26bn

NOT APPLIED



CREDITWORTHINESS:

SMEs that may not meet the eligibility criteria or lack necessary documentation, highlighting a potential gap in fulfilling the basic prerequisites for a loan application

HKD 77bn

ESTIMATED ADDRESSABLE SME CREDIT GAP

*Assume 5-20% of unaddressed credit demand is potentially addressable and that the average loan ticket size demanded per SME is the same across different groups

Source: HKMA, Hong Kong Productivity Council, TransUnion, Quinlan & Associates estimates

SECTION 2

SME LENDING CHALLENGES

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SME LENDING JOURNEY

Key Takeaways

SME lenders currently encounter many challenges across the lending value chain.

Much of this stems from various operational inefficiencies, reflecting the sizeable resources needed to service SME customers with effective loan solutions, including streamlined account onboarding, loan processing, and account review. In part, this is a function of having to cater to a diverse range of SMEs with varying business models and risk profiles.

Without a scalable data analysis approach, there are many documentation requirements, collateral demands, prolonged back-and-forth communications, and post-disbursement annual reviews that SME applicants must meet.

Collectively, these issues result in a suboptimal experience for SMEs seeking financial support.

SME lenders face numerous obstacles across the lending value chain, stemming from operational inefficiencies and high servicing costs

SME Lending Journey
Value Chain

		CURRENT PROCESSES	IMPACT ON SME BORROWERS
1 ACQUISITION	SME TARGETING	× Target a broad range of SMEs vs. specific segments, as they represent a diverse group with varying risk profiles and business models	× Focus is placed on larger SMEs at the expense of long-tail targets
	OUTREACH / PROMOTION	× Launch costly marketing campaigns with sub-optimal conversion rates to attract SME borrowers	× Lack of transparency regarding loan offerings, terms, and conditions, often uncovered post-application
2 ONBOARDING	KNOW YOUR BUSINESS	× Conduct manual checks on the legitimacy and financial health of SMEs, a process demanding considerable time and human resources	× Tedious, lengthy, and document-heavy onboarding process, creating customer dissatisfaction
	ACCOUNT OPENING	× Open a business account for the SME, which may take as long as 3+ months	× Major discrepancies exist between the reported time and the actual time to open an SME account
3 MONETISATION	CREDIT ASSESSMENT	× Assess SMEs' creditworthiness based on traditional data from credit bureaus / registries or SME submissions, without scalable data analysis	× Extensive documentation requirements coupled with slow credit assessment
	APPROVAL & DISBURSEMENT	× Engage in a manual assessment process characterised by recurring document requests and interviews	× Collateral requirement may be excessive, and frequent back-and-forths can extend processing time to months
4 MAINTENANCE	COLLECTION MANAGEMENT	× Leverage external collections services involving site visits and phone calls to chase overdue loans	× Lack of empathy displayed to SME borrowers, leading to minimal impact in addressing delinquent loans
	ACCOUNT REVIEW	× Initiate a full-scale, labour-intensive investigation / reconciliation of any changes in credit scoring	× Slowdown in service times due to delays from manual credit scoring reviews
5 RETENTION	ONGOING SUPPORT	× Provide ongoing assistance primarily to larger SMEs, often overlooking smaller / newer SMEs that may have more queries and concerns	× Limited access to – or subpar quality of – customer service / RM support for smaller / newer SMEs
	CONTINUOUS ENGAGEMENT	× Limited engagement initiatives, including personalised communications and community events dedicated to SMEs	× Limited interactions and loyalty to the lender, leading to high inactivity rates

Source: Quinlan & Associates analysis

1. ACQUISITION

Key Takeaways

When SMEs are faced with the task of choosing between lenders and deciding on the most suitable loan offerings, it is crucial for them to research and compare available options in the market.

Many lenders fall short of providing meaningful assistance in this regard, with the SMEs' assessment and comparison process hindered by a lack of transparency in crucial information necessary for decision-making.

Some loans fail to specify documentation requirements, while others only provide a high-level overview of the need for business owners' information without specifying important details. While preliminary approval timelines may be mentioned, the actual approval process remains undisclosed. In addition, SMEs are often left with the task of reaching out to lenders to gather more information, even before the onboarding process begins.

SMEs face challenges in choosing loans due to the lack of availability / limited transparency of loan details, requiring extra effort to visit / call the lender for more information

Customer Journey

SMEs

CUSTOMER JOURNEY		Traditional Banks	Virtual Banks	NFBIs
1 NEEDS IDENTIFICATION *Lack of articles / content to assist SMEs in understanding their financial needs and types of loans*	Organic Education Articles / Content	Partially Available	Not Available	Not Available
	External Publications	Largely Available	Largely Available	Not Available
2 RESEARCH / EXPLORATION *Limited relevant and/or accurate data available on the lender's website to help SMEs make informed decisions*	Purpose of Different Loan Offerings	Largely Available	Not Available	Not Available
	Terms and Conditions	Not Available	Largely Available	Largely Available
	Expected Interest Rate & Tenor	Partially Available	Partially Available	Partially Available
	Types of Fees (e.g. handling, discount fees)	Not Available	Partially Available	Largely Available
	Document Requirements	Partially Available	Partially Available	Largely Available
	Processing Time	Not Available	Partially Available	Largely Available
	Application Process	Partially Available	Partially Available	Largely Available
	Promotional Offers[1]	Partially Available	Not Available	Not Available
3 FEATURES COMPARISON *Lack of access to an objective comparison of loan offerings from various lenders*	Internal Comparison[2]	Largely Available	Not Available	Not Available
	Third-party Comparison[3]	Partially Available	Partially Available	Not Available
4 LENDER SELECTION *Significant friction in having to visit the branch / call the lender to gather more information on the next steps*	Required Branch Visits / Calls by Consumers	✓	✓	×
	Lenders Call-back Arrangements	✓	✓	✓

Largely Available · Partially Available · Not Available · ✓ Required · × Not Required · Gap

[1]For both account opening and loan application, [2]Between different loan products being offered, [3]Comparison of loan offerings with other lenders

Source: bank websites, NBFI websites, MoneySmart, MoneyHero, Quinlan & Associates analysis

2. ONBOARDING (1/3)

Most local SME lenders offer a hybrid / offline onboarding approach, with onboarding times taking considerably longer than advertised, especially for traditional and virtual banks

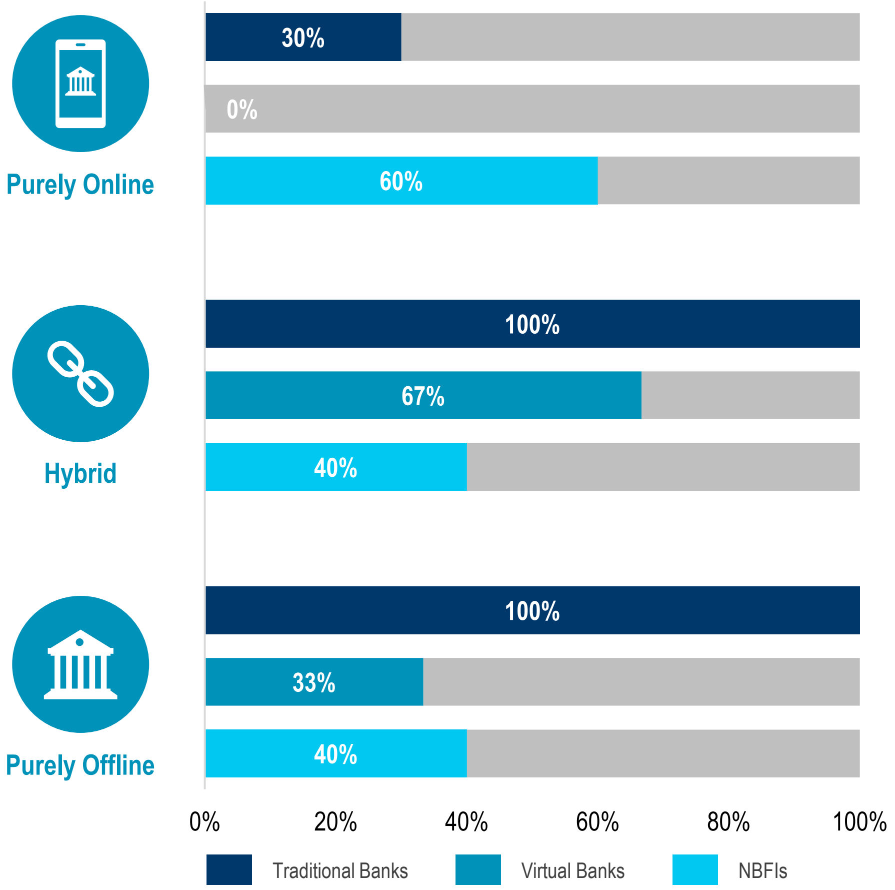
Key Takeaways

Local SME lenders predominantly adopt hybrid or offline onboarding methods, particularly noticeable with traditional and virtual banks, for which nearly all SME customers are subjected to hybrid or offline onboarding processes. In contrast, some NBFIs provide purely online alternatives.

Furthermore, actual onboarding times surpass advertised durations for both traditional and virtual banks, owing to extended hidden time periods, resulting in inefficiencies.

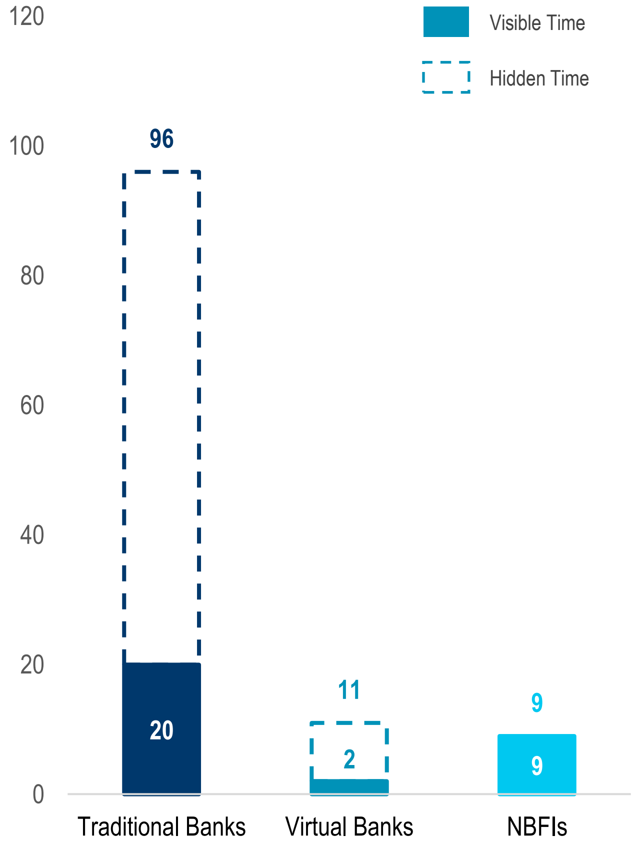
SME Onboarding Method Availability

% of Selected Lenders[1], Online vs. Hybrid vs. Offline



Average Time Taken

\# of Days



[1]A sample of SME-focused lenders in Hong Kong includes top 10 traditional banks, 3 virtual banks, and 5 NBFIs

Source: company disclosures, interviews, Quinlan & Associates analysis

2. ONBOARDING (2/3)

Key Takeaways

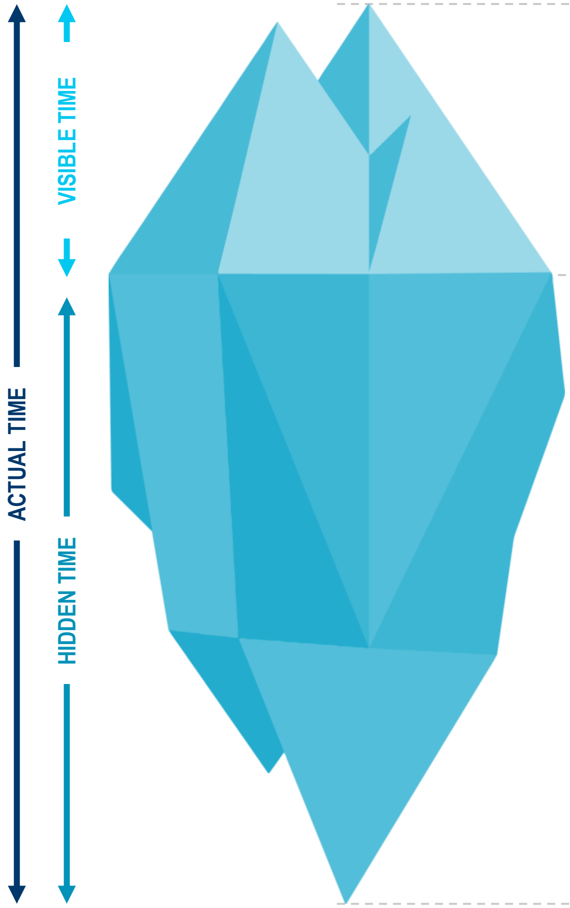
SMEs often encounter a complex account opening procedure with SME lenders, stemming from numerous concealed inefficiencies.

Traditional Banks:
- Ongoing Document Requests: Frequent back-and-forth / ongoing document demands
- In-person Appointments: Additional formalities may necessitate in-person visits
- Digital Enablement: Enabling digital banking access and features can be time-consuming
- Cheque Book Delivery: Collection of cheque-books might require branch visits or mail

Virtual Banks / NBFIs:
- Contact Initiation: Contact the lender to arrange a discussion with a representative
- Waiting Period: Time gap between booking an appointment and its occurrence
- Phone Calls: Providing detailed company info. and receiving a document checklist
- In-person Appointments: Occasional requirement for face-to-face meetings
- Application Processing: Lender reviews submitted details from credit rating agencies

The highly cumbersome account opening process encountered by local SMEs with their incumbent lenders reflects numerous hidden inefficiencies

Hidden Time
Onboarding



Traditional Banks	Virtual Banks / NBFIs
Initial Account Onboarding The reported time for the entire onboarding journey, from sign-up to approval	**Mobile Registration** The account opening process via the virtual banking mobile app
Ongoing Document Requests Ongoing document requests result in frequent back-and-forth	**Contact Initiation** Contacting the lender to schedule a discussion with a customer service representative
In-person Appointments To comply with additional formalities, in-person visits may be required	**Waiting Period** The time gap between the appointment being booked and attending the appointment
Digital Enablement Enablement of digital banking access, features, and functionalities may take time	**Phone Calls** Give in-depth information about the company and receive a checklist of documents
Cheque Book Delivery A chequebook may need to be collected from a branch or by mail	**In-person Appointments** In-person appointments might be required in select cases
Card Delivery A debit / credit / ATM card may need to be collected from a branch or by mail	**Application Processing** The lender reviews the details submitted, along with other data from credit rating agencies

Source: interviews, Quinlan & Associates analysis

2. ONBOARDING (3/3)

Key Takeaways

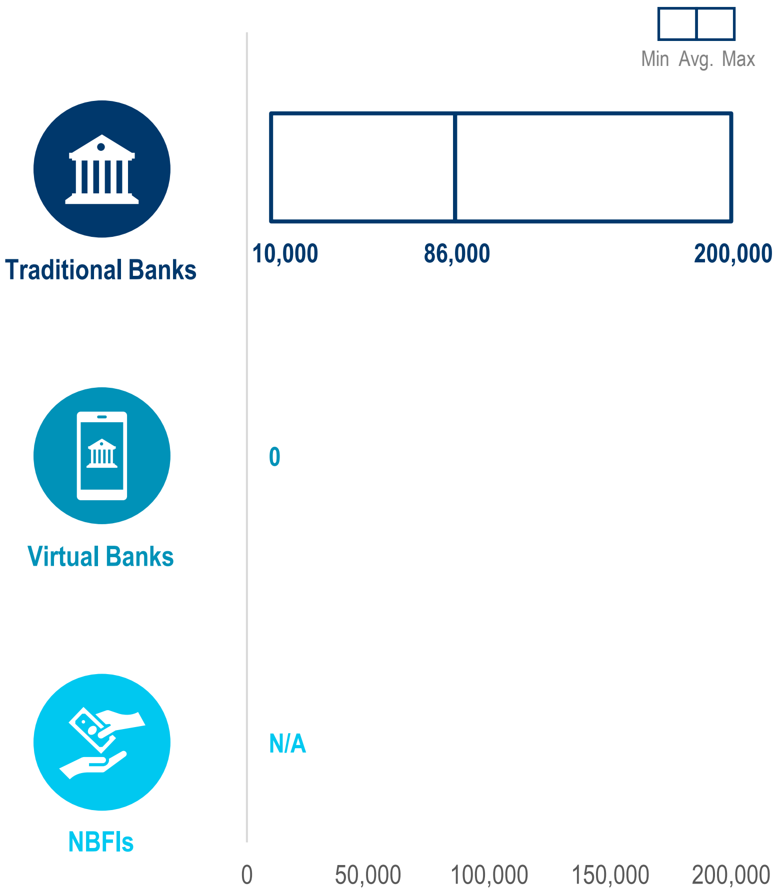
Certain conventional banks continue to uphold minimum deposit requirements, varying between HKD 10,000-200,000. This stands in contrast to virtual banks, which have embraced a zero minimum deposit approach.

Furthermore, when considering documentation requirements, traditional banks have much more extensive demands than virtual banks and digital NBFIs, such as tax documents, employee records, and personal guarantees. This adds considerable burdens to SMEs seeking access to banking services.

Some traditional banks continue to impose minimum deposit requirements, as well as more onerous documentation requirements, than virtual banks and digital NBFIs

Minimum Deposit Requirements

HKD



Documentation Requirements

Traditional Banks vs. Digital Lenders

		Traditional Banks	Virtual Banks	Digital NBFIs
1	Business Registration Certificate	✓	✓	✓
2	HKID / Passport of Owner(s) / Guarantor(s)	✓	✓	✓
3	Address Proof (e.g. utility bills)	✓	✓	✓
4	Shareholder(s)' and Director(s)' Information	✓	✓	✓
5	Bank Statements	✓	-	✓
6	Certificate of Incorporation	✓	-	✓
7	Memorandum and Articles of Association	✓	-	✓
8	Audited Financial Statements	✓	-	✓
9	Foreign Account Tax Compliance Act	✓	✓	×
10	Common Reporting Standard Documents	✓	✓	×
11	Company's membership of a relevant professional	-	-	×
12	Ownership Structure Chart	-	-	×
13	Profits Tax Demand Note	✓	×	×
14	Employee Records (e.g. MPF Statement / Payroll)	✓	×	×
15	Personal Guarantee Records	✓	×	×
16	Other Banks' Facility Letters	-	×	×

✓ Required   - Dependent (if available)   × Not Required

Source: company disclosures, interviews, Quinlan & Associates analysis

3. MONETISATION (1/2)

Key Takeaways

While traditional banks often adopt hybrid or offline methods for SME loan applications, virtual banks and NBFIs are relatively more open to both hybrid and fully online approaches.

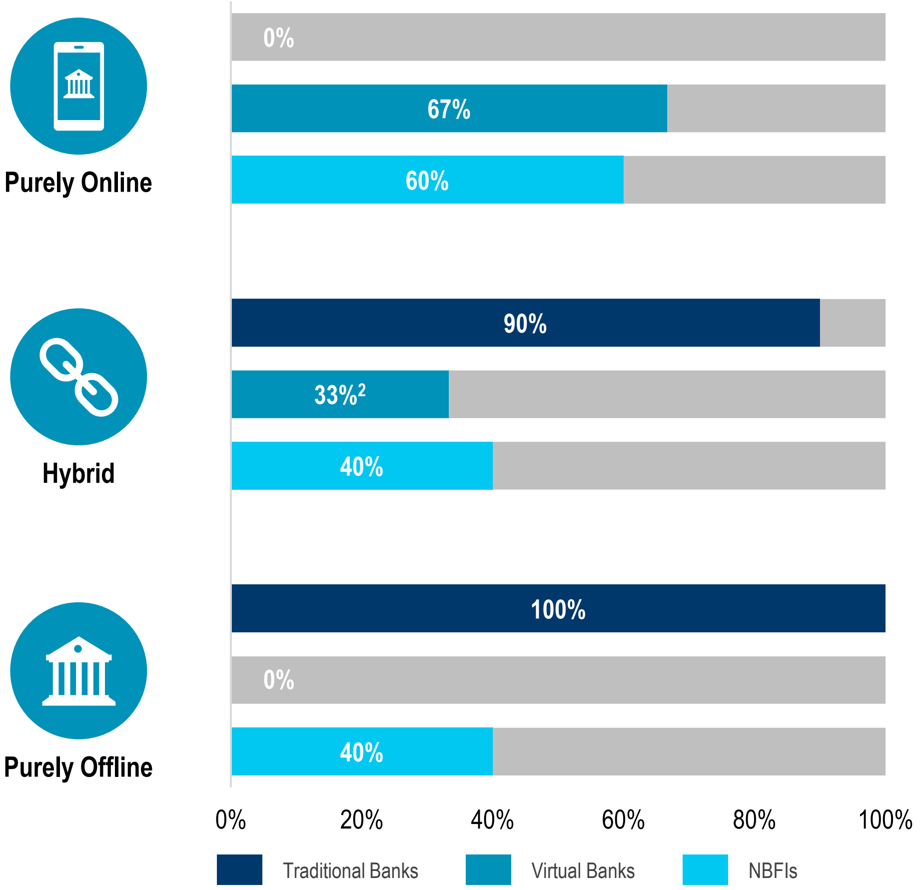
In terms of timelines for processing and approving SME loans, all three groups of SME lenders take considerably longer than their advertised durations, with processing windows generally spanning between 6-10 weeks. Like lenders' protracted onboarding processes, much of this can be attributed to hidden inefficiencies.

This notable disparity observed between advertised and actual timeframes underscores the importance of addressing underlying operational inefficiencies in the SME lending journey.

Traditional banks have yet to embrace pure online loan applications, while all local SME lenders take much longer than advertised to process and approve loan applications

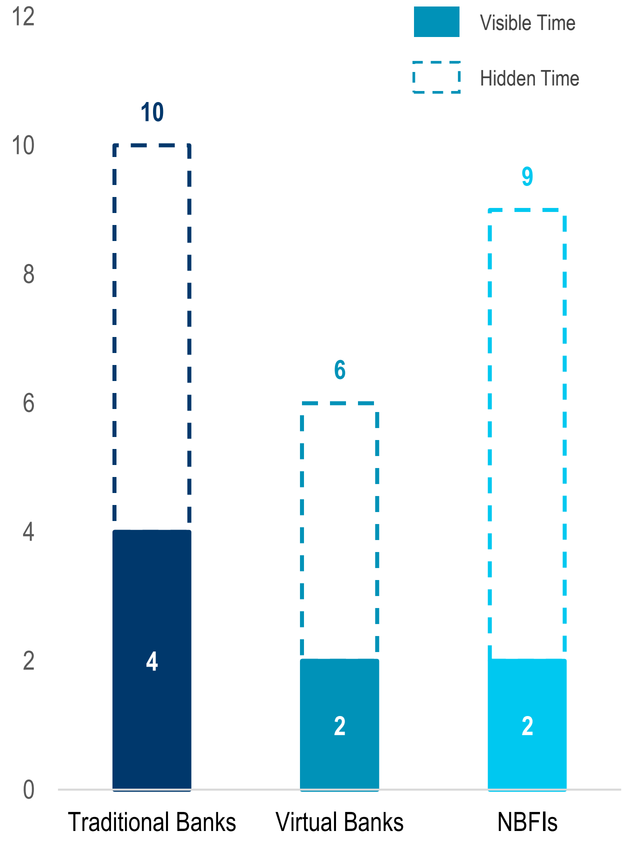
Loan Application Method Availability

% of Selected Lenders[1], Online, Hybrid, and Offline



Average Time Taken

of Weeks



[1]A sample of SME-focused lenders in Hong Kong includes top 10 traditional banks, 3 virtual banks, and 5 NBFIs; [2]representatives of PAOB will need to meet with SMEs in-person

Source: company disclosures, interviews, Quinlan & Associates estimates

3. MONETISATION (2/2)

Key Takeaways

Traditional banks have more complex document requirements than virtual banks and NBFIs, such as tax documents, employee records, and, notably, personal guarantee records.

Through in-depth interviews with local SMEs, key pain points identified during loan application processes include:

1. Lack of Transparency: Uncertainty about timeframes and process flow due to inadequate transparency
2. Recurring Requests: Frequent document requests extend disbursement times from 2 weeks (target) to 6-8 weeks (actual)
3. Personal Guarantee Requirement: Lenders' insistence on personal guarantees from shareholders deters SMEs

SMEs face stringent document requirements when applying for loans, as well as recurring follow-ups and collateral and/or personal guarantee ("PG") requirements

Documentation Requirements

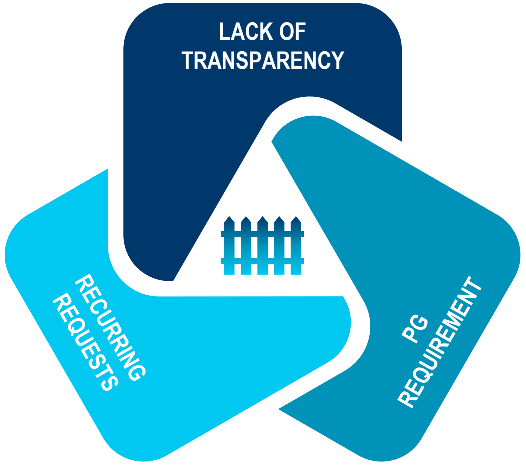
Traditional Banks vs. Digital Lenders

#	Document	Traditional Banks	Virtual Banks	Digital NBFIs
1	Business Registration Certificate	✓	✓	✓
2	HKID / Passport of Owner(s) / Guarantor(s)	✓	✓	✓
3	Address Proof (e.g. utility bills, etc.)	✓	✓	✓
4	Bank Statements	✓	✓	✓
5	Audited Financial Statements	✓	✓	✓
6	Profits Tax Demand Note	✓	×	×
7	Employee Records (e.g. MPF Statement / Payroll)	✓	×	×
8	Other Banks' Facility Letters	-	×	×
9	Personal Guarantee Records	✓	×	×

✓ Required - Dependent (if available) × Not Required

SME Interview Case Study

Key Pain Points



LACK OF TRANSPARENCY	*"There was a lack of transparency when it came to the actual time required for completion and the process flow"*
RECURRING REQUESTS	*"Recurring requests for documentation increased the overall disbursement time from 2 weeks (target) to 6-8 weeks (actual)"*
PG REQUIREMENT	*"The PG requirement imposed by the lender on all of our shareholders was a major turn-off that I would never repeat"*

Source: company disclosures, interviews, Quinlan & Associates analysis

4. MAINTENANCE

Key Takeaways

Lenders ensure the ongoing financial stability of SMEs by conducting periodic account reviews, which serve to guide adjustments to loan terms.

The traditional account review process follows a series of steps, including the submission of necessary documents, engaging in phone or in-person interviews, conducting on-site visits, evaluating collateral, and ultimately arriving at decisions to modify loan terms, if necessary. Alternative data monitoring may or may not be carried out, depending on the institution.

While the objective is continuous monitoring, many lenders conduct account reviews on a regular and random basis, with many SMEs In our interviews stating their need to undergo semi-annual account reviews, with the need to complete specialised documents and schedule interviews with RMs.

Many lenders also conduct burdensome annual or semi-annual account review processes to assess the financial health of their SME clients and adjust their loan terms accordingly

Account Review Process

Existing Lenders' Practices

Alternative Data Monitoring	–
Documents Checklist	✓
Document Submission	✓
Phone / In-person Interview	✓
Site Visits / Collateral Checks	✓
Loan Adjustments	✓

✓ Widely Applicable - Less Applicable × Not Applicable

Frequency of Reviews

Overview

Regular Portfolio Review

Traditional banks perform a portfolio-wide review of their loan book annually / semi-annually, which is labour-intensive in nature

Ad-Hoc Individual Review

Banks only have the capacity to conduct individual account reviews at random, although constant monitoring is regarded as their goal

Case Study

Interview with SMEs

Frequency of Review	• Semi-annual
Special Needs for Documentation	• Employees' MPF documents
Processing Nuances	• 30-minute phone interviews arranged with the co-founders

Source: company disclosures, interviews, Quinlan & Associates analysis

5. RETENTION (1/2)

Due to the lack of active engagement initiatives from lenders, there is minimal ongoing connection and loyalty that goes beyond transactional interactions

Key Takeaways

SME consumers engage infrequently with their lenders, reflecting an absence of proactive initiatives and events.

Virtual banks, for example, do not provide advisory support, organise community events, offer educational materials, facilitate relevant market insights, or provide digital tools beneficial for SMEs. Although some digital NBFIs offer these services, it is primarily the larger, traditional banks that provide a more comprehensive suite of support and engagement initiatives. Overall, however, local SME engagement initiatives remain underwhelming.

Engagement Initiatives
2023, Hong Kong SME Lenders*

10%
ADVISORY SUPPORT
Assign experienced individuals to offer personalised financial guidance and strategic advice to SMEs

Largest Traditional Banks	Virtual Banks Catering to SMEs	Digital NBFIs
2/10	0/6	0/5

Business Clinic
Aside from having specialists provide daily assistance for digital banking challenges, Hang Seng collaborates with HKTDC to host a business clinic for SMEs to seek expert advice

29%
EVENTS
Organise industry conferences, networking sessions, and other events to cultivate a business community

Largest Traditional Banks	Virtual Banks Catering to SMEs	Digital NBFIs
4/10	0/6	2/5

Annual Marathon
Standard Chartered hosts its annual flagship marathon corporate challenge, encouraging SMEs to nominate their staff to race with other businesses, promoting connectivity and engagement

33%
EDUCATIONAL MATERIALS
Provide the latest market insights and relevant news through webinars, articles and other informative sources for SMEs

Largest Traditional Banks	Virtual Banks Catering to SMEs	Digital NBFIs
4/10	0/6	3/5

Research Report
Standard Chartered sponsors the SME Leading Business Index, a quarterly survey providing valuable insights and outlook of the SME landscape, ensuring their voices are heard

52%
DIGITAL TOOLS
Provide value-added tools such as payroll management and budgeting tools to enhance operational efficiency

Largest Traditional Banks	Virtual Banks Catering to SMEs	Digital NBFIs
10/10	0/6	1/5

Sustainability Tracker
In addition to standard tools (e.g. payroll management, payment tracker), HSBC provides SMEs with a tracker to assess the sustainability of their business against others and receive suggestions

*The percentage is calculated by analysing the sample proportion of 10 of the largest traditional banks, 6 virtual banks catering to SMEs, and 5 digital NBFIs that offer the following engagement initiatives
Source: bank websites, NBFI websites, Quinlan & Associates analysis

5. RETENTION (2/2)

Key Takeaways

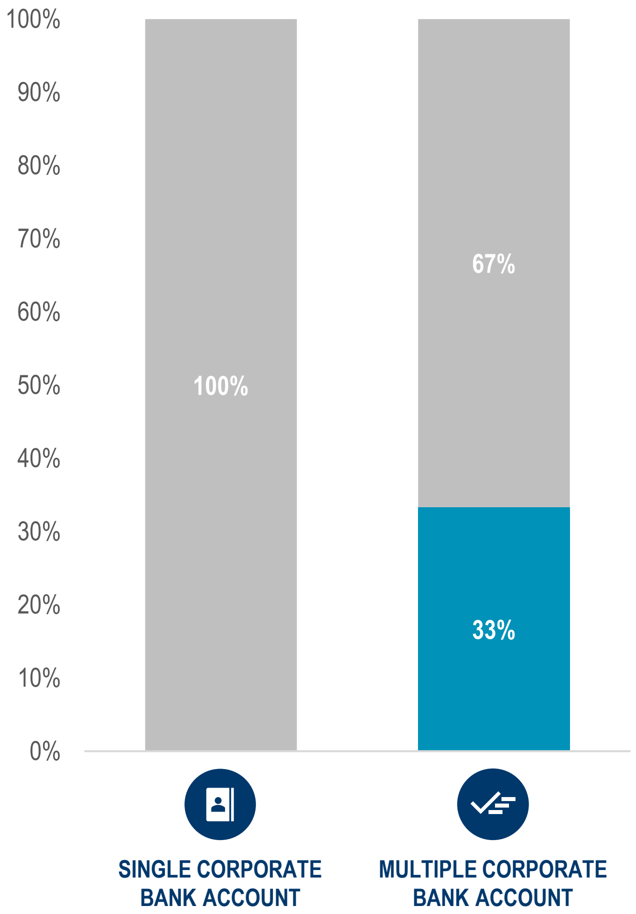
The majority of SMEs we interviewed are willing to consider taking out loans from other lenders with whom they don't currently have an account or have not banked before, even if it involves consolidating and submitting documents required by the alternative lender.

This willingness also stems from the alternative lenders' ability to offer more favourable loan terms, such as lower interest rates, better services compared to their current relationship managers (if any), and/or a more digitally seamless proposition – an aspect often observed to be lacking in traditional lenders.

Most SMEs are open to switching to alternative lenders when presented with a more attractive loan proposition, smoother digital processing, and/or enhanced servicing

Retention

% of Hong Kong SMEs Interviewed



Top Reasons for Switching		
More Attractive Loan Terms	SME 1 *(Business Solutions)*	*"We are open to switching banks if faster and cheaper choices are available"*
	SME 2 *(Technology)*	*"I will shop around for the best rates"*
	SME 3 *(GreenTech)*	*"I am not committed and will jump ship to other digital players if they offer an attractive, lower interest rate"*
Better Servicing	SME 4 *(Consulting)*	*"Relationship is not sticky at all – Hong Kong has a high attrition rate, so the RMs would differ every time"*
	SME 5 *(Clothing)*	*"I don't know who our RM is anymore, when I had one, it was tougher to talk to him than talking to the helpline"*
Digital Proposition	SME 2 *(Technology)*	*"I prefer to bank with digital players because the process will be more seamless"*
Top Reasons for Staying		
Relationship with RM	SME 6 *(Consulting)*	*"We value relationships, and our RM personally approached us with lower rates"*
	SME 1 *(Business Solutions)*	*"If we were to take out a loan, we would go for Bank A first since we have an existing relationship with the RM"*
Lower Document Requirements	SME 2 *(Technology)*	*"We will first go to the banks that we have accounts with because they will ask for fewer documents as existing documents are stored"*

Stay / Commit to the Bank | Willing to Explore Other Lenders

Source: interviews, Quinlan & Associates analysis

SECTION 3

THE ROAD TO SUCCESS

QUINLAN &ASSOCIATES

SME SERVICE VALUE CHAIN

Key Takeaways

Lenders should embrace advanced technologies to optimise the SME service value chain:

1. Acquisition: employ data analytics for precise customer identification; impart loan details with a loan calculator; boost acquisition via third-party referrals, platform integration, etc.
2. Onboarding: streamline onboarding process with OCR, eKYC, and data verification; enhance profiling via data analytics, etc.
3. Monetisation: improve loan generation with traditional and alternative data analytics, SME clustering, credit risk monitoring, etc.
4. Maintenance: efficiently manage risk through continuous monitoring and scorecard generation; improve collections via predictive dialling, psychometric scripting, etc.
5. Retention: elevate customer service support through A.I.-enabled service, workflow automation, etc.; foster engagement through gamification, ecosystem integration, etc.

SME lenders should look to adopt a range of cutting-edge technologies across the value chain to optimise existing processes and better serve both new and existing customers

SME Service Value Chain

Summary

		Customer Group					
		New	Existing	*Problem Statement*	*Objectives*	Technology Pillars	
SCALE	ACQUISITION	✓	×	*Sub-optimal conversion due to the lack of targeted outreach efforts and transparency in loan details*	*Scale customer base to smaller / newer SMEs (while optimising CAC) and enhance information accessibility*	• Data Analytics • Loan Calculator • SEO[1] / ASO[2]	• Embedded Third-Party Referrals • Platform Integration
OPTIMISE	ONBOARDING	✓	×	*Lengthier-than-expected and tedious onboarding experience due to manual processes*	*Streamline onboarding processes to shorten time and burden for SME consumers*	• OCR[3] • eKYB • Data Verification	• Data Analytics (App Usage, Metadata, Financial Data)
OPTIMISE	MONETISATION	✓	✓	*Excessive requirements stemming from the lack of data availability and scalable data analysis approach*	*Enhance customer experience (and control risks) across the loan application to the disbursement process*	• Traditional Data Analytics • Alternative Data Analytics	• Clustering • Predictive Analysis • Credit Risk Monitoring
OPTIMISE	MAINTENANCE	×	✓	*Wasted resources from manually carrying out debt collection and inefficient account review*	*Save resources / costs dedicated to account review while maintaining risk management*	• Continuous Data Monitoring • Scorecard Generation	• Predictive Dialling • Psychometric Scripting • Speech Analysis
OPTIMISE	RETENTION	×	✓	*Low loyalty within the SME consumer base due to a lack of RM support and limited engagement initiatives*	*Support and engage SMEs as a community to maintain loyalty and reduce dormancy*	• A.I.-enabled Customer Service • Workflow Automation	• Gamification • Ecosystem Integration • Webinars / Events

✓ Applicable × Not Applicable

[1]Search Engine Optimisation, [2]App Store Optimisation, [3]Optical Character Recognition

Source: Quinlan & Associates analysis

ALGO-BASED LENDING (1/2)

Key Takeaways

Beyond adopting a range of more conventional technologies to optimise the SME service value chain, we see huge potential for lenders to develop algo-based lending propositions.

In short, algo-based lending integrates data from various sources through API / data platforms to optimise loan decision-making. Rather than relying purely on SMEs' financial history to determine their creditworthiness, alternative data can act as a powerful supplement to the credit-decision process, especially when there is insufficient traditional documentation and/or a failure to meet cut-off scores.

By leveraging advanced clustering and credit scoring models to pre-qualify loans and provide tailored cut-off scores for each cluster, loan approval times – as well as the credit risks tied to these loans – can be drastically reduced.

In particular, by leveraging alternative data and developing tailored credit scoring models, we believe algo-based lending has the potential to reshape the future of SME lending

Traditional vs. Algo-based Lending

Process Comparison

Use of Alternative Data — *Traditional* / *Algo-based*

	TRADITIONAL PROCESS	ALGO-BASED PROCESS
ACQUISITION	**Unclear Loan Promotion** Lenders do not have a clear view of the loan process, often leading to a lack of transparency with respect to loan requirements and timelines	**Clear Loan Promotion** Lenders can provide precise information on timelines, document requirements, and the ability to pre-qualify loans, thereby enhancing their appeal among SMEs
ACQUISITION	**Broad SME Targeting** Lenders receive individual incoming applications from SMEs operating in different industries, without adopting a specific targeting approach	**SME Clustering and Selection** Lenders create clusters to categorise SMEs based on their risk characteristics (e.g. by sector / industry) and shortlist for targeting
ONBOARDING	**Data Submission** Lenders gather data from submitted documents (e.g. unaudited financial reports) for onboarding, with limited integration with data providers (e.g. credit agencies)	**Data Connection and Access** Lenders gather data on SMEs from various sources by requesting links to their APIs / data platforms to access alternative data and optimise decisions
MONETISATION	**Standard Risk Modelling** Lenders leverage a standard credit risk scoring model with difficult-to-meet global cut-off scores / benchmarks used to approve loan applications	**Tailored Risk Modelling** For each target cluster, lenders build tailored credit risk scoring models with set parameters, enabling rapid data input and calculation of cut-off scores
MONETISATION	**Manual Credit Assessment** Lenders perform manual, time-consuming data reconciliation and calculations to score SMEs, comparing these scores against standardised global cut-offs	**Loan Pre-qualification** Credit scoring models automatically evaluate the data, score SMEs against specific cut-offs, and pre-qualify loan amounts (up to a certain limit)
MONETISATION	**Lengthy Loan Approval and Disbursement** Lenders often seek extra information from SMEs to clarify details and finalise loan terms and disbursement, given the non-standardised nature of submitted files	**Quick Loan Approval and Disbursement** SMEs review pre-qualified loan terms to decide whether they want to submit the loan application, with additional documents for final checks and disbursement
MAINTENANCE	**Manual Risk Monitoring and Review** SMEs' repayment ability is continuously evaluated through data monitoring, site visits, and interviews, thereby retrieving alternative data to a certain extent	**Automated Risk Monitoring and Review** Lenders automatically monitor SMEs' ongoing operations to adjust the credit scoring and possibly adjust the loan terms accordingly
RETENTION	**Basic Feedback Retrieval** As standard practice, customer reviews are being used to improve services, with untapped potential in leveraging alternative data	**Data-driven Tailored Engagement** Lenders can collect various data from SMEs, including digital tool activity and event participation, to tailor engagement initiatives based on preferences
	PROCESSING TIME: 3-5 WEEKS	***PROCESSING TIME: 0.5-5 DAYS***

Limited — Extensive

Source: Quinlan & Associates analysis

ALGO-BASED LENDING (2/2)

Key Takeaways

Algo-based lending not only offers benefits to SMEs seeking loans but also streamlines lenders' existing processes.

By shifting from laborious individual assessments to a more efficient, cluster-based, and largely automated (~90%) data-driven approach, the time and resources spent on credit-decisioning can be drastically reduced, as can the likelihood of errors. Moreover, algo-based lending enables lenders to reach a broader range of SMEs within specific clusters, expanding their loan portfolio while maintaining robust credit risk management.

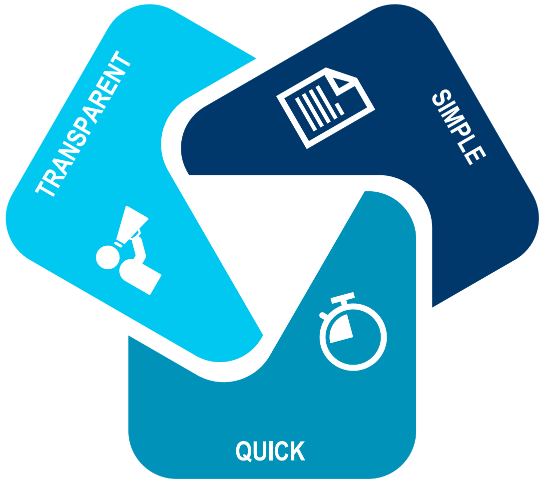
SMEs experience a simplified application journey with reduced documentation requirements due to the data-centric nature of algo-based lending. This results in a faster and more efficient application and processing timeline, accompanied by greater transparency regarding expected turnaround times.

Algo-based lending not only enhances the borrowing experience for SMEs but also the lending journey for financial institutions

Benefits
Lenders

Benefits	Description
1 Processing Efficiency	Reduce the considerable time and effort spent on analysing SMEs' creditworthiness on a case-by-case basis by conducting a more scalable, cluster-based credit assessment process
2 Assessment Automation	With a highly automated (~90%), data-driven approach, SMEs are evaluated in a more holistic, simplified manner against set parameters and cut-off scores, leaving less room for errors
3 Higher Client Satisfaction	Lenders can better serve and retain SMEs who prefer pre-approved loans, given the certainty around the time taken and outcome of the loan application process
4 Greater Client Reach	By customising credit scoring models for certain clusters, lenders can target a broader base of SMEs within that cluster to expand their loan book while managing credit risk

Benefits
SMEs



1	**SIMPLE** Streamlined application process with fewer documentation requirements powered by alternative data
2	**QUICK** Advanced credit scoring models and loan pre-qualification reduce loan processing times by a considerable margin
3	**TRANSPARENT** Algo-based lending enables lenders to provide greater transparency on loan approval times when advertising to SMEs

Source: interviews, Quinlan & Associates analysis

ALTERNATIVE DATA (1/2) – OVERVIEW

Key Takeaways

Various types of alternative data, including transactional and non-transactional data, can be leveraged by SME lenders to develop a more comprehensive picture of an SME's creditworthiness.

For instance, an SME may have the ability and willingness to make timely payments on all its bills. It may also have high average customer ratings, serving as an indirect indicator of its long-term business viability. When combined with a psychometric assessment indicating high levels of accountability and trustworthiness, the SME could secure a lower interest rate than what it would otherwise be offered based on an otherwise moderate credit score. In some cases, consideration of alternative data might enable the SME to surpass a cut-off score / threshold that it would not have otherwise reached.

SME lenders should explore how to utilise a broader range of relevant alternative data sets, including transactional and non-transactional data, to drive loan decisioning

Alternative Data

Data Types and Sources

	TRANSACTIONAL DATA			NON-TRANSACTIONAL DATA			
	BILL PAYMENT	INCOMING SALES	SUPPLY CHAIN RECORDS	ALTERNATIVE CREDIT SCORE	CUSTOMER REVIEWS	MOBILE USAGE	PSYCHOMETRIC ASSESSMENT
Assessment Purpose	**Willingness** to Repay	**Ability & Stability** to Repay	**Ability & Stability** to Repay	**Willingness & Stability** to Repay	**Ability** to Repay	**Willingness** to Repay	**Willingness** to Repay
Sample Data	Timeliness / delays in making rental and utility payments	Monthly online and offline sales volume / value	Volume of returns and speed of delivery in shipping records	Number of loans made in the past and repayment timeliness	Average customer rating / reviews to gauge reputation	Extent of social media presence and calling / messaging patterns	An individual's needs and motivation to make repayments
Level of Structure / Standardisation	■■■■□	■■■■□	■■■■■	■■■■■	■■■■□	■□□□□	■■■□□
Data Source	• Telecommunication application • Credit card history / receipts	• POS / payment channels • Accounting software	• E-commerce providers • Logistics companies	• Credit bureau / agencies	• Online review platforms	• Telecommunication application • Social media application	• Psychometric test application / survey
Examples							

Low ■■■□□ High

Source: Experfy, Quinlan & Associates analysis

ALTERNATIVE DATA (2/2) – CRITERIA

Key Takeaways

Given the wide array of alternative data to choose from, it may not be sufficient to just look at what the data represents.

Specifically, we identified six key criteria that SME lenders should take into consideration in determining whether the alternative data in question is worth acquiring / accessing:

1. Relevance: define the precise purpose of the data
2. Uniqueness: compare the data against existing datasets to avoid duplication
3. Access: ensure that data collection and usage adhere to regulations and that consent is obtained
4. Cost: evaluate whether the data acquisition costs align with budget constraints
5. Quality: verify that the data is standardised, structured, and accurate to avoid any confusion or misrepresentation
6. Quantity: assess the volume of data points available to gain a more comprehensive view of trends and patterns

When selecting alternative data, lenders should consider its relevance, uniqueness, access, cost, quality, and quantity

Key Criteria and Considerations

Selection of Alternative Data

	Question to Address	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
RELEVANCE	Is the alternative data useful in understanding the capabilities and/or behaviours of SMEs in question?	✓	✓	✓	✓	✓	✓
UNIQUENESS	Does the alternative data offer unique insights that are not duplicative with existing datasets?		✓	✓	✓	✓	✓
ACCESS	Can alternative data be accessed in compliance with regulations, with consent obtained from SMEs for the use of their information?			✓	✓	✓	✓
COST	Does the cost of acquiring the alternative data align with budget constraints and is justified by the value it brings?				✓	✓	✓
QUALITY	Is the alternative data accurate, reliable, and well-structured for easy understanding and comparison?					✓	✓
QUANTITY	Will the alternative data shared include historical information and be frequently updated to facilitate trend analysis and predictive modelling?						✓
	Outcome / Decision	***Not Selected***	***Not Selected***	***Not Selected***	***Not Selected***	***Dependent****	***Selected***

✓ Yes No

*Depends on the use of alternative data, for example, in the case of account review, having frequently updated data is crucial to keep track of the SMEs' performance

Source: Quinlan & Associates analysis

PREPARING FOR CHANGE

Key Takeaways

In preparing to extend loans to previously underserved segments and streamline the current SME lending journey, our team offers comprehensive support for SME lenders to seamlessly transition to an innovative lending approach (i.e. algo-based lending), including:

1. Identify Target Merchant Segments
2. Pinpoint Appropriate Data Partners
3. Formulate Clear Partnership Strategy
4. Develop Credit Scoring Model
5. Test and Refine Model
6. Adapt Strategy and Operating Model

We can assist SME lenders in developing tailored strategies for algo-based lending, enabling lenders to serve SMEs promptly and expand their loan portfolios

Key Steps

Tailored Strategy Formulation

	DESCRIPTION	EXAMPLES	HOW WE CAN HELP
1	**IDENTIFY TARGET MERCHANT SEGMENTS** Evaluate high-potential target merchant segments based on their specific lending needs, considering the addressable market size	• Restaurants • Electronics Stores • Professional Services Firms	*Detailed credit demand sizing of target merchant segments in Hong Kong*
2	**PINPOINT APPROPRIATE DATA PARTNERS** Identify relevant partners within target merchant segments based on (1) current merchant reach and (2) utility / quality / availability of alternative data	• eCommerce platforms • Accounting software providers • Payment providers	*Shortlisting data providers based on merchant reach and current data offerings*
3	**FORMULATE CLEAR PARTNERSHIP STRATEGY** Craft a clear and compelling partnership strategy, with clarity around marketing, compliance, training, governance, and incentive mechanisms	• Revenue split • Profit share • Payment per referral / API call	*Develop robust partnership strategy (and collateral) to support outreach efforts*
4	**DEVELOP CREDIT SCORING MODEL** Evaluate the optimum approach to develop an alternative credit scoring model utilising data from partners to pre-qualify loans	• In-house development • Third-party solutions • Collaboration approach	*Support full design and development roadmap for new credit scoring model*
5	**TEST AND REFINE MODEL** Pilot the credit scoring model with select merchants in specific segments, test model performance, and refine the model over time	• Low-risk PoC • Joint risk-sharing with partner • Sole underwriting / at risk	*Evaluate efficacy of credit scoring model against relevant peer benchmarks*
6	**ADAPT STRATEGY & OPERATING MODEL** Depending on the success and/or intended scale of rollout, adapt strategy and operating model to support ongoing migration to algo-based lending	• Determine capacity building / talent needs • Revise data policies / governance models • Augment customer acquisition approach	*Develop full strategy and operating model to support long-term ambition*

Source: Quinlan & Associates analysis

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