How much of a threat is Big Tech lending?

Opinions

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Bridging lenders! Big tech is creeping onto your turf. Like the Grinch that Stole Christmas, they're dipping their digital fingers into customer data and pulling out compelling credit assessments.

Could these techy cyclops be about to snatch away clients? Or are they useful guinea pigs to learn from as we head into the digital future?

Big tech lending is already booming in the East

WeChat isn't just China's most popular social media platform. It offers customers ways to organise taxes, manage wealth, transfer money and even book hospital appointments. Users never need to leave the super app. Surreally; WeChat is also the country's second-largest microlender.

It all sounds very Black Mirror. But the cash dropping is anything but fiction. In 2021, Tencent – the Big Tech behind the app – raised a loan capital of $8.3 billion. As lenders extend credit up to ten times, $83 billion is up for grabs.

WeChat is no outlier. China's number one microlender is also not a bank. It's Ant Group – provider of the global e-commerce platform, Ali Pay. Another major Big Tech lender is JD Group. In 2018 alone, these three super apps lent an eye-watering $363 billion, 2.6% of the country's GDP.

Across Asia and East Africa, Big Tech is slurping up the lending market like sugar-high kids at a slushy drinking competition. In 2018, Kenyan Big Tech lent $1 billion to users, around 1% of its GDP. That same year, Korean platforms issued $8 billion, accounting for 0.5% its GDP. And Japanese Big Tech lent $19 billion, 0.4% of its GDP. Today, these figures are probably a lot greater, but the data is patchy.

Globally, Big Tech finance has already overshadowed fintech. In 2020 alone, it rocketed by 40%, to a global total of over US$700 billion. Today, it's taking on the banks. The institutions holding their own against Big Tech are not the most esteemed or established. Instead, they seem to be the banks offering the best digital service and customer convenience.

Convenience trumps all

Customers seem to be swooning into the arms of Big Tech lenders, thanks to increased trust and sensational convenience. After all, what could be simpler than clicking "yes" to credit as you scroll down your social feed? Stacey had an oat milk mocha, Charlie got married, I'll take out a loan... easy.

"*We are living in an instant age, and people are getting used to getting what they want and need easily and without stress*", **CEO and Founder of TAB, Duncan Kreeger** adds. "*Applying to borrow through a platform that already has their data saved would make sense*".

The phenomenon is gaining traction in the West too. The four major Big Techs, Google, Meta, Apple and Amazon have all waltzed into finance, albeit with some stumbles. The latter two even offer successful credit and insurance products. Amazon's lending service is thriving in the UK.

"*These platforms are embracing their coverage and connection with their consumers*", elaborates Kreeger.

How much data is too much?

Super apps like WeChat have a bottomless abyss of customer information. According to Kreeger, Big Tech have "*access to information that is more up-to-date than is available on a historic credit report*". From dental appointments to auntie Dot's birthday message, it's all there. This gives them an edge over traditional lenders.

It makes for uncomfortable reading. Nobody wants their social media antics to influence their credit score. In 2015, Facebook caused an uproar when it tried to sell data to a loan provider. Yet the same thing could be starting to happen again today.

The FCA has stepped in with concerns about Big Tech's data usage. In October 2022, it launched an inquiry. "*There is a risk that the competition benefits from Big Tech entry in financial services could be* *eroded if these firms can create and exploit entrenched market power to harm healthy competition and worsen consumer outcomes*", the regulator explains.

An August 2022 study forecasted the different scenarios of Big Tech in the credit industry. It concluded that unless regulations come into play, the vast data stores could cause mayhem for competition. In one case, the information overload would damage the Big Tech itself.

Regulations would probably slow Big Tech down. After all, navigating the ever-evolving jungle of consumer protection and competition laws is treacherous. But it's unlikely to stop it altogether, the trend is too strong.

Bridging lenders keep pace with open banking

As Big Tech races ahead like the Road Runner, bridging lenders like TAB and Roma Finance are determined not to get left in the digital dust. These lenders have grasped Open Banking tightly and are whooshing forward at the same high speed.

"*TAB embraced open banking as an obvious next step*", Kreeger elaborates. "*As well as the benefit to the borrower, open banking means the administration behind each loan becomes a simpler process, removing the need to scan through individual bank records and matching payment records*".

Open banking empowers customers to share their financial information and credit history with a single click. Gone are the days of filling out forms. As of March 2022, 128 UK banks and fintech offer this service, and it's fast becoming the client expectation.

Naturally, Big Tech is going one further, with embedded finance (the sleek service behind Uber, Deliveroo and Amazon's one-click payment). Super apps have sunk their teeth hard into delivering effortless finance, and they're not letting go.

Holding the fort (or bridge)

In the coming years, Big Tech will continue to seep into the finance industry. And it's hot on the heels of alternative lending. A 2023 study published in China Economic Review found Big Tech has "*more overlapping clientele*" with non-traditional finance than banks.

Another working research paper funded by the National Bureau of Economic Research corroborates this finding. It observed that the style of loans is strikingly similar. Big Tech tends to offer short-term financing, for customers who need liquidity fast, increasingly to SMEs. There's little doubt that Big Tech is starting to encroach on bridging finance stomping ground.

But bridging lenders can still shine. By offering clients the same seamless service without the invasion of data, they can protect their niche. Although he states, "*nothing is beyond the realm of possibility*", Kreeger feels confident. "*Arguably [Big Tech] wouldn't be able to automate bridging loans as there are typically non-standard elements that require non-automated thinking*", he concludes.

As seen in Bridging Loan Directory

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