THE MISSED OPPORTUNITY IN MODERN SMALL BUISINESS LENDING

UNLOCKING THE UNTAPPED POWER OF CLIENT DATA

Rapid FINANCE

WHITE PAPER

THE MISSED OPPORTUNITY IN MODERN SMALL BUSINESS LENDING

UNLOCKING THE UNTAPPED POWER OF CUSTOMER DATA

In today's competitive lending landscape, customer data is a critical asset that lenders must leverage to stay ahead. While this data holds immense value, many institutions only use it for immediate, transactional purposes, such as processing and approving loans and addressing service requests.

Unfortunately, this reactive approach misses opportunities for strategic growth, deeper customer insights, and enhanced operational efficiency.
This white paper explores how underutilizing data leads to inefficiencies, lost revenue opportunities, and increased risk.

By adopting a proactive, data-driven strategy, lenders can strengthen their portfolios and deliver tailored experiences that meet today's customers' evolving expectations.

REACTIVE STATE OF DATA UTILIZATION IN LENDING TODAY

THE PROBLEM: A REACTIVE APPROACH TO DATA UTILIZATION

Despite the vast potential of customer data, many financial institutions remain in a reactive state, using data only to address immediate needs like loan approvals and credit checks. This narrow focus prevents lenders from gaining more profound insights that could enhance decision-making, strengthen customer relationships, and drive long-term growth.

REACTIVE DATA USE: A MISSED OPPORTUNITY

Although an industry standard, credit scores offer a narrow snapshot of financial health and fail to capture broader behavioral trends and deeper customer insights.

This limited view can prevent lenders from having a more comprehensive view and true understanding of customer stability. It also hinders their ability to anticipate customers' financial needs, leading to missed opportunities to enhance service delivery and customer engagement.

CHALLENGES IN MAXIMIZING DATA USE

Many institutions face structural and technological barriers that prevent them from fully leveraging their data. These barriers include:

FRAGMENTED DATA SYSTEMS

Customer information is often siloed across departments such as marketing, sales, and risk management. This lack of integration hinders the creation of a unified customer view, reducing the effectiveness of lending strategies.

LEGACY INFRASTRUCTURE

Outdated systems compound the issue, as many lenders still rely on platforms incompatible with modern, data-driven technologies. These systems struggle to support real-time data insights, making it difficult to adjust risk models or respond quickly to customer needs.

CULTURAL BARRIERS

Organizations often do not have a data-driven culture, with leaders arguing over numbers or data ownership. Additionally, employees often lack the training or tools to transform raw data into actionable insights, further limiting innovation.

REAL-WORLD IMPLICATIONS OF DATA UNDERUTILIZATION

The consequences of this reactive approach extend beyond inefficiencies to impact growth, customer satisfaction, and risk management:

MISSED OPPORTUNITIES

Without leveraging behavioral data and trends, lenders forgo valuable upselling and cross-selling opportunities.

INCREASED REJECTIONS

Siloed and fragmented data systems slow loan processing and increase rejection rates, frustrating lenders and borrowers.

INCREASED RISK

Failure to detect patterns in borrower behavior contributes to higher default rates and non-performing loans (NPLs).

CUSTOMER DISSATISFACTION

Lack of proactive service delivery and delayed responses to financial needs frustrates borrowers, reducing trust and loyalty.

COMPETITIVE DISADVANTAGE

Institutions unable to modernize fall behind competitors that provide faster and more tailored services.

REGULATORY AND COMPLIANCE RISKS

Failure to implement robust data governance exposes institutions to fines and reputational damage.

Addressing these challenges can help institutions shift from a reactive to a proactive approach, unlocking the full potential of their data assets and improving overall performance.

ONBOARDING LOSSES RESULTING FROM DATA UNDERUTILIZATION

Data underutilization impacts and often results in losses at every point of the loan origination process. These are the key points that every lender tracks through the loan process, from origination through to collections.

BLIND SPOTS IN LOAN ONBOARDING LEAD TO LOSSES

Loan onboarding is an area where most lenders have strict approval processes but also often hold large blind spots.

MISSED REVENUE

Without a 360-degree view of an applicant's financial profile, institutions risk a higher rejection rate, potentially turning away credit-worthy applications.

APPROVAL OF RISKIER LOANS

On the other end of the decisioning is erroneously approving risky loans. Limited customer insights at the onboarding phase can result in granting loans to riskier borrowers with higher probable defaults.

MISSED CUSTOMIZED OFFERINGS

Not knowing your customer at onboarding can stunt revenue growth as it reduces opportunities for personalized offers that maximize customer value. And untapped behavioral trends mean lenders miss the opportunity to build tailored solutions that resonate with clients, losing out on the product to customer fit, opening up room for the competition, and often losing the customer altogether

COMPETITIVE DISADVANTAGE

Smaller lenders are particularly vulnerable to mistakes during onboarding, often due to a lack of access to real-time behavioral data and transaction monitoring—critical tools for accurate decision-making.

This puts smaller lenders at a disadvantage against their competitors, and negatively impacts the communities these smaller lenders serve.

COLLECTIONS LOSSES

Incomplete customer data also increases the likelihood of higher collection losses. Without real-time data to detect early signs of financial distress, lenders miss the chance to intervene before borrowers default. This raises the level of non-performing loans (NPLs), reduces repayment likelihood, and poses significant risks to portfolios.

Implementing AI-powered tools can mitigate these risks. According to Avenga, a global IT and digital transformation consulting firm, AI digitizes data from field visits, campaigns, and agent notes, helping lenders build better collection strategies and reduce NPL burdens.

The adoption of AI-driven finance tools further underscores their potential to reduce collection losses. Gartner, a global research and advisory firm, emphasizes AI's transformative impact on collections, risk mitigation, and decision-making. In its 2024 survey of finance leaders, Gartner found that 58% now incorporate AI into workflows—**a 21% increase from 2023.**

WITH AI-DRIVEN RECOVERY, INSTITUTIONS CAN:

- Restructure loans proactively using real-time analytics and predictive models to detect at-risk borrowers.
- Improve collection strategies when collection departments leverage new insights and emerging patterns to reduce defaults and better collect on written-off portfolios.

(Source: **Avenga**)

For example, during the COVID-19 pandemic, U.S. NPL levels surged to $127.6 billion in 2020, up from $95 billion in 2019, highlighting the importance of predictive models for borrower profiling and restructuring efforts. To date, in 2024, this figure has risen to $170.521 billion.

NPL LEVELS MEASURED IN BILLIONS
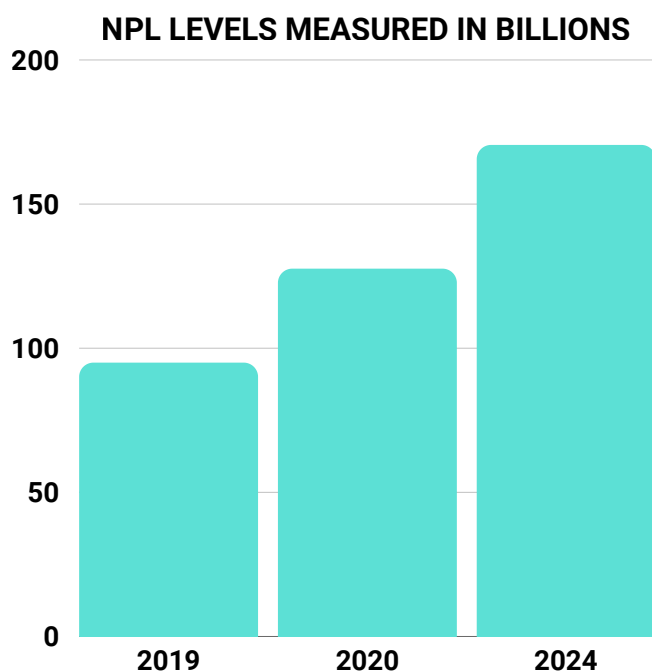
$170.52B

NPL Levels in 2024 to date, highlighting the need to implement predictive models and assist borrowers before their loans become non-performing.

360 DATA INSIGHTS MEANS A NEW ERA OF LENDING ANALYTICS

Integrating AI and advanced analytics provides a 360-degree view of clients, uncovering risks and insights often missed by traditional models. By analyzing key touchpoints across the lending lifecycle, lenders can anticipate borrower needs and mitigate risks early.

KEY BENEFITS

Improved Risk Models

AI-enhanced tools provide more accurate default predictions and reduce NPLs by leveraging real-time data insights.

Fraud Detection

AI-driven tools continuously analyze customer behavior, detecting anomalies and flagging fraudulent activities in real time. This significantly reduces a lender's exposure to fraud.

Operational Efficiency

Advanced analytics optimize lending workflows, significantly reducing decision times while enhancing customer satisfaction. Institutions leveraging these tools have cut the "time to yes" for SMB loan approvals by as much as 50%.[1]

Huge efficiencies are expected in banking with the adoption of generative AI, estimated at $200 billion and $340 billion with productivity enhancements and operational efficiencies,[2] and institutions slow to adopt will lose out on this tremendous gain.
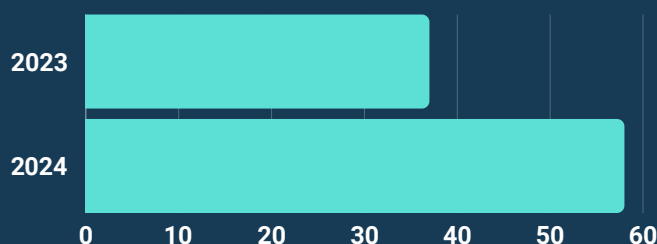
THE REAL-WORLD IMPACT OF AI AND ANALYTICS FOR CUSTOMERS

AI and advanced analytics are driving innovation at the customer level, addressing challenges like borrower engagement and customer defaults.

Percentage of financial leaders incorporating AI into their workflows grew 20% in 2024

2023	(bar to ~37)
2024	(bar to ~58)

0   10   20   30   40   50   60

Personalized Customer Experiences

Predictive analytics enable lenders to deliver tailored solutions, boosting loyalty and engagement by addressing individual borrower needs. As reported by Moody's, leveraging AI for customer data analysis uncovers client preferences and facilitates personalized financial solutions.

Borrower Engagement

Predictive analytics enable lenders to identify cross-selling and upselling opportunities. Based on customer data and behavior patterns, lenders can proactively offer refinancing options or complementary financial products.

Proactive help before a default

AI tools assess borrower behavior to identify early signs of financial stress and offer solutions to borrowers. Proactive interventions, such as loan restructuring, reduce defaults for the lender, and proactively help the borrower before they default.

EXAMPLES OF DATA-DRIVEN LENDING SUCCESS

The transformative potential of data analytics and AI in lending is undeniable. From reducing non-performing loans to enhancing customer relationships and detecting fraud, data-driven strategies offer tangible benefits. Below, we explore how institutions can leverage these tools to achieve better outcomes.

Reducing NPLs with Predictive Analytics

Non-performing loans (NPL) pose a significant risk to any lender. By leveraging AI-driven predictive analytics, lenders can identify early warning signs of borrower distress and intervene proactively, offering solutions such as restructuring or alternative repayment plans.

Enhancing Customer Experience with Personalization

Data analytics is transforming how lenders engage with customers to improve customer satisfaction and drive revenue. By incorporating alternative data sources and machine learning models, lenders gain deeper client insights, enabling more nuanced risk assessments, tailored loan offerings, and targeted cross-selling opportunities, creating lasting customer relationships.

AI-Powered Fraud Detection and Mitigation

Fraud detection is another area where AI is transforming lending. As online lending grows, so does the sophistication of fraud. Machine learning algorithms can analyze vast datasets to detect anomalies and flag suspicious activities in real time. This shift from reactive to proactive fraud prevention has allowed lenders to significantly reduce fraudulent transactions.

KEY INSIGHT

Institutions implementing AI-driven fraud detection tools report marked improvements in fraud prevention within months of deployment.[1]

KEY INSIGHT

Studies indicate that institutions adopting predictive analytics see measurable improvements in loan portfolio health, reduced NPL rates and higher overall recovery.

KEY INSIGHT

AI and automation can increase lending productivity by up to 25%,[1] with 73%[2] of lenders cited operational efficiency as their primary motivation for adopting AI technologies.

60%
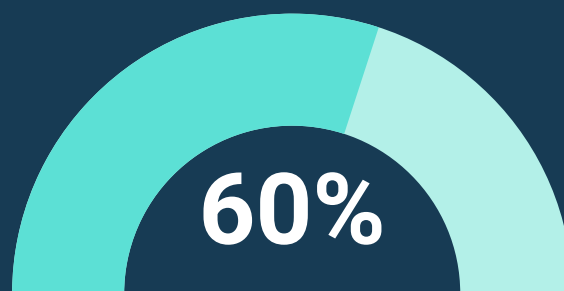
Nearly 60% of institutions surveyed by McKinsey expanded their use of new data types and advanced analytical techniques to optimize credit portfolio management.

YOUR ACTION PLAN: HOW LENDERS CAN BETTER UTILIZE THEIR DATA

With the right investment in processes, technology, and organizational culture, financial institutions can close the gap between current practices and fully harness the power of data-driven approaches. This final section outlines key steps lenders can take to improve data utilization.

BREAK DOWN DATA SILOS

One of the most critical steps in improving data utilization is breaking down the silos that exist within financial institutions and across departments. This fragmented approach prevents lenders from forming a unified view of their customers, limiting the effectiveness of decision-making.

KEY ACTION

Invest in technologies that enable seamless data integration. Unified systems make it easier to aggregate and standardize data.

INVEST IN AI AND ANALYTICS INFRASTRUCTURE

Lenders must adopt AI and advanced analytics tools that can process large volumes of information, uncover actionable insights, and enhance critical operations such as loan approvals, fraud detection, and customer engagement.

KEY ACTION

Prioritize building an AI-ready infrastructure that integrates legacy systems with advanced analytics tools.

EMBRACE PROACTIVE DATA STRATEGIES

Leverage ongoing monitoring of internal and external data sources to anticipate borrower needs, identify financial stress, or detect potential fraud. Predictive analytics empower lenders to take preemptive action, whether restructuring a loan to avoid default or offering tailored financial products based on customer needs.

KEY ACTION

Implement real-time monitoring tools that continuously analyze client data for shifts in behavior, spending patterns, or financial health.

YOUR ACTION PLAN: HOW LENDERS CAN BETTER UTILIZE THEIR DATA

FOSTER A DATA-DRIVEN CULTURE

Technology alone cannot solve the challenges of incomplete data utilization—institutions must also foster a culture that prioritizes data-driven decision-making. A strong data culture encourages employees to use insights creatively to enhance lending practices, customer relationships, and overall operations.

KEY ACTION

Provide regular training and cross-departmental initiatives that emphasize the value of data and equip employees with tools that encourage collaboration.

START SMALL AND SCALE SMART

While the potential of big data and AI is vast, implementing these technologies across an entire organization can be daunting. Starting with specific areas, such as fraud detection or credit evaluation, allows institutions to test strategies, refine their processes, and build confidence before scaling.

KEY ACTION

Focus on one or two areas first, like reducing NPLs or enhancing fraud detection. Once success is achieved in these areas, scale these methods to other departments.

By taking these steps, lenders can overcome current gaps in data utilization, adopt proactive and scalable strategies, and unlock the transformative potential of big data and AI. Institutions that embrace this shift will be well-positioned to deliver better customer experiences, improve operational outcomes, and remain competitive in the evolving financial landscape.

FINAL THOUGHTS

The future of lending belongs to financial institutions that embrace the full capability of their data and adopt forward-thinking, data-driven strategies. As technology advances, understanding and responding to customer needs in real time will become increasingly important. Lenders can enhance operational efficiency, deepen customer relationships, and unlock new growth opportunities by shifting from reactive to proactive data utilization.

This competitive advantage lies in leveraging data to anticipate borrower needs, delivering personalized solutions, and managing risk more effectively. Institutions that do so will not only enhance their competitive position but also unlock opportunities for new growth, innovation, and long-term customer loyalty.

The time to act is now. By prioritizing data-driven transformation, lenders can secure a stronger competitive position, drive better outcomes, and reshape the future of lending. For more insights or to develop a customized strategy to harness the power of your data, contact Will Tumulty, CEO of Rapid Finance, at **wtumulty@rapidfinance.com.**

Data is no longer just a tool for back-office operations—it is the lifeblood of modern lending. The institutions that embrace its potential will not only thrive today but will also set the stage for the future of finance.

ABOUT US

Rapid Finance has provided financing to small businesses for over 20 years and also offers innovative small business lending software for financial institutions. Our Lynx platform supports AI-powered fraud detection across the lending lifecycle, while Decisioneer enables referral pathways through the Funding Network. Together, these solutions empower lenders to grow smarter and faster.