



How open banking technology can help businesses access government loans

In the ongoing Covid-19 pandemic, many businesses find themselves having to rely on loans to stay afloat.

How open banking technology can help businesses access government loans

In the ongoing Covid-19 pandemic, many businesses find themselves having to rely on loans to stay afloat. As of 21 February, the UK government has approved over 1.5 million loans, valued at over £45 billion. Even with this massive lifeline, many business owners worry their business won't make it through the year – as much as three quarters, in a survey by MarketFinance. The money is there. The issue seems to be the process of getting these much-needed loans.

Here's where open banking can be of significant value. Its Account Information Services (AIS) technology can provide easy, efficient and reliable access to financial data, allowing lenders to complete their onboarding and affordability checks faster and with less fraud risk. The result: approval of more loans that fit the financial situation of the applicants, and faster certainty and relief for businesses under financial stress.

Improving the processes to access government loans

In this unprecedented Covid-19 pandemic and the resulting lockdowns, government grants and loans have been the only source of support for many businesses. According to a McKinsey survey, 50% of SMEs have taken or are planning to take advantage of the furlough programme and nearly a quarter have applied for business rate relief and tax

payments. This puts a lot of pressure on the processes in place to issue funds.

At the time of the first lockdown, in March 2020, slow credit decisions were the first problem for businesses seeking to access government funds. According to the National Audit Office (NAO), lenders approved loans for existing business customers within 24 - 72 hours. But new customers often had to wait 4 to 12 weeks, because manual, paper-based credit checks and loan applications take time. For many businesses, that could be the difference between survival and bankruptcy.

The government's solution to this issue, namely lowering eligibility criteria so that credit checks were no longer necessary for loans of under £25,000, solved the issue of speed. However, it created another problem: fraud.

In normal times, lenders need to adhere to anti-money-laundering and identity verification rules when it comes to loan applications. Loosening of the regulations around these checks predictably led to duplicate applications, business impersonation, inaccurate self-certification and openings for organised crime.

According to the British Business Bank (BBB), the estimated potential losses from COVID-19 fraud and credit risk is between £15 and £26 billion, with an estimated 35% to 60% of borrowers defaulting on their Covid-19 recovery loan.

Open banking was designed to improve these processes

Making data easily shareable and more reliable was the very foundation of open banking. It allows real-time viewing and sharing of bank transactions and data, which is exactly what would solve the dual problems of speed and fraud.

Instead of requiring applicants to send in months and months of financial statements and self-certified information, lenders can obtain a business' financial transactions instantly. In addition, data enrichment algorithms can refine the data to automatically identify critical information such as income and recurring expenses in only a fraction of the time it usually takes. AIS also provides the real-time data and identity verification to reduce fraud and "enhanced" profit and loss statements.

In other words, AIS has the potential to save thousands of businesses throughout the UK. It makes sharing financial data secure, instant and reliable, giving businesses faster and easier access to funding and therefore a better shot at making it through the Covid-19 pandemic.

yts.yolt.com

In association with

YTS

**Yolt
Technology
Services**