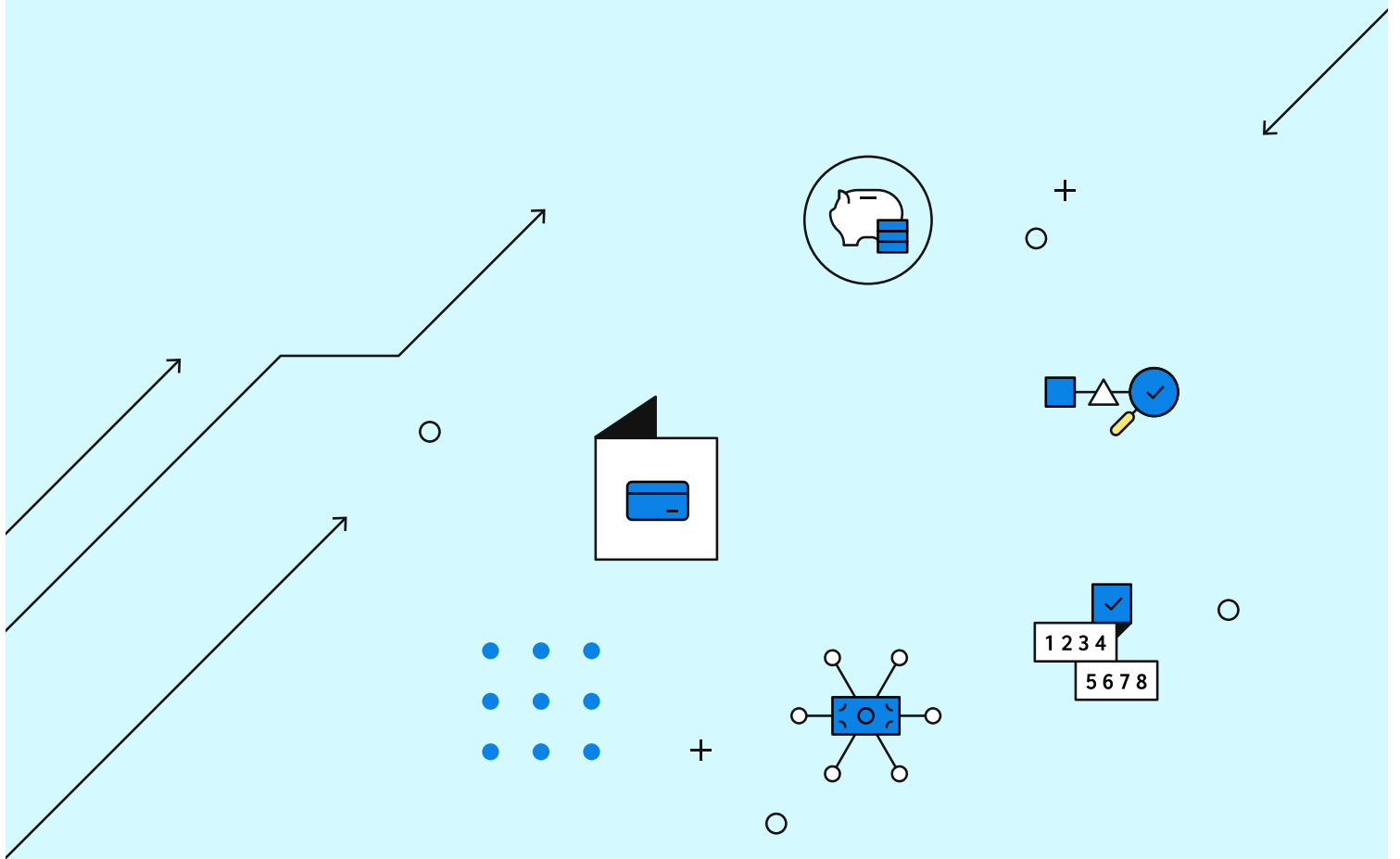


A tech-driven approach to embedded lending

How Plaid and YouLend are powering alternative financing for platforms across Europe



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Executive summary

Businesses continue to struggle to access the capital they need to survive and grow, with only 12% of small-to-medium sized businesses describing the availability of current credit as good¹. One of the key challenges customers face is the over-reliance on traditional data sources among legacy lenders, leading to high rejection rates, inaccurate data and expensive rates. Through YouLend's integration with Plaid, open banking data creates a frictionless journey for customers using rich cash-flow insights.

Tech-driven lending has become essential in meeting the needs of modern SMEs but platforms still struggle to get a complete picture of clients' financial health. The integration of lending processes with modern data networks opens the door for platforms to access up-to-date, direct-from-source financial data and eliminate hours spent verifying bank statements. Financing providers can now offer modern, automated underwriting which factors in alternative income streams to present fast, flexible and affordable financing solutions.

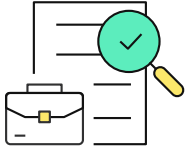
YouLend's embedded financing platform, in collaboration with Plaid's Open Banking network, enables a modern financing process that is almost 3x faster, with a 90% approval rate. This partnership allows applications to be completed more quickly, with higher success rates and lower costs. Funds can be disbursed the same day, enabling SMEs to take advantage of opportunities and react to risks more quickly.

Solutions like YouLend and Plaid are partnering with leading platforms to enable financing solutions that are tailored to the needs of their customers. The integration of financial services within existing digital ecosystems represents an opportunity to support the growth of digital businesses in a way that truly meets their unique needs.

¹ FSB, Welcome rebound in small business confidence, but cost of living squeeze is holding back growth, 2 May 2023 (<https://www.fsb.org.uk/resources-page/welcome-rebound-in-small-business-confidence-but-cost-of-living-squeeze-is-holding-back-growth.html>)



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Introduction

Small-to-medium sized businesses rely on short-term financing to manage cash flow, withstand market volatility and embrace opportunities to grow and scale - but access to capital continues to be a frustrating experience for many.

Just one in eight small businesses (12%) describe the affordability and availability of new financing as good, with over half (51%) saying it is poor or very poor². Much of this difficulty stems from the outdated processes in place at many lenders, which rely on rigid criteria and extensive manual work to underwrite SME financing. This leads to high rejection rates, steep collateral requirements and inflexible repayments.

With massive growth in the platform economy in recent years, digital service platforms like e-commerce, marketplaces and payment-service providers have emerged as increasingly important partners for their customers and are ideally placed to become the default financing provider for their cash flow needs.

Plaid, a leading data network and payments platform, and YouLend, a market-leading global embedded financing platform, have worked with a range of platforms across the world such as eBay, Just Eat Takeaway.com, and Shopify to launch successful lending programmes that support the growth of their customers.

In this whitepaper, we explore how a new, tech-driven approach to SME financing has emerged to power platforms across Europe, including:

- Why legacy lenders are falling behind in the SME funding mission.
- How platforms can leverage tech-driven embedded financing to add value for their SME customers.
- How Plaid and YouLend are powering the next-generation of funding processes.

² FSB, Welcome rebound in small business confidence, but cost of living squeeze is holding back growth, 2 May 2023 (<https://www.fsb.org.uk/resources-page/welcome-rebound-in-small-business-confidence-but-cost-of-living-squeeze-is-holding-back-growth.html>)



Why funding fails to keep up with SMEs

Modern business has become increasingly digital as owners integrate online channels, tools and ecosystems into their models, from payment services to e-commerce.

\$6.78 bn
32.26%+

Payments-as-a-service market size 2023³

\$5.06 billion
10%+

E-commerce global market 2023⁴

\$5.63 billion
13.2%+

Growth of RTP transaction volume over Q1 2023⁵

The move to online-augmented business models has created multiple advantages for entrepreneurs, but auxiliary services that lag behind the curve risk putting the brakes on growth.

Traditional lenders have a complicated history when it comes to financing small-to-medium sized businesses and providing support for growth. This has resulted in a lending gap, where traditional financing providers are not meeting the market demand for fast, flexible business funding.

- Success rates for business loan applications from SMEs fell sharply in 2022 from 80% year-on-year to just 60%.
- Gross lending volumes from banks to businesses are forecast to contract 3.8% in 2023, from net growth of 3.7% in 2022.

At its heart, much of this comes down to data and process. Traditional sources of credit heavily depend on the proprietor's credit history, leaving out an 'invisible' population including younger entrepreneurs or businesses with a limited credit record, older people who may have paid off their mortgage or not relied on credit products, the unbanked, and recent immigrants with no credit footprint.

³ Mordor intelligence, Payment As A Service Market Size & Share Analysis - Growth Trends & Forecasts (2023 - 2028), (<https://www.mordorintelligence.com/industry-reports/payment-as-a-service-market>)

⁴ Business Research Company, Global Retail E-Commerce Market Forecast 2023-2032 – Market Size, Drivers, Trends, And Competitors As Per The Business Research Company's Retail E-Commerce Global Market Report 2023, May 23 2023 (<https://www.globenewswire.com/news-release/2023/05/23/2674619/0/en/Global-Retail-E-Commerce-Market-Forecast-2023-2032-Market-Size-Drivers-Trends-And-Competitors-As-Per-The-Business-Research-Company-s-Retail-E-Commerce-Global-Market-Report-2023.html>)

⁵ Research and Markets, Global Digital Banking Platform Market Report 2023: Major Players Include Appway, Crealogix Holding, EdgeVerve Systems and Fiserv, May 12, 2023, (<https://www.globenewswire.com/en/news-release/2023/05/12/2667911/28124/en/Global-Digital-Banking-Platform-Market-Report-2023-Major-Players-Include-Appway-Crealogix-Holding-EdgeVerve-Systems-and-Fiserv.html>)



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Traditional lenders often lack the information to make fast, connected decisions about SME lending criteria, the technology to streamline the process or the willingness to invest in systems that can reduce their cost to serve and enable them to offer a wider range of financing.

The result is a poor lending experience for many borrowers, with research from customers finding:

- The average borrower spends 2.5 hours on application paperwork.
- 60% of borrowers don't finish a loan application.

How embedded financing is closing the digital lending gap

In response to the limited service and options available from traditional lenders, alternative providers of financing, such as YouLend, are becoming increasingly important in the market. Financing from alternative providers totalled 55% of gross lending to small firms in 2022 – a record share compared to the traditional 'big 5' banks.

Key to the success of alternative lending is the integration of the funding process – application, assessment, underwriting, delivery and repayments – with the wider digital ecosystem in which modern businesses operate.

By leveraging the data, records and connectivity that already power digital commerce, alternative lenders, like YouLend, powered by financial information partners such as Plaid, can accelerate funding decisions, automate underwriting and, ultimately, offer funding based on forward-looking data points to help customers succeed.

Why platforms need a digital data strategy for funding

Digital businesses run on data. Offering products and services online means shifting the infrastructure of running a business into the digital realm, creating virtual mirrors of inventories, customers and financial records.

However, as businesses become more reliant on digital services, the task of managing and assessing financial information becomes more complex for both platforms and their customers.



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- **Lack of connected data systems:** Businesses working with multiple systems, such as accounting, enterprise resource planning (ERPs), inventory and business intelligence platforms, find their data siloed in various locations, creating significant manual work to reconcile.
- **Incomplete visibility over applications:** Assessing the financial viability of a business requires the ability to connect multiple income stream accounts, analyse data for forward-facing indicators and integrate information from non-financial sources, such as website or social media traffic.
- **Inefficient lending process:** A lack of complete data slows down the funding decision-making process, creating compliance risks and results in missed opportunities for growth and efficiency.
- **Manual verification of bank statements:** Manually sourcing and analysing bank statements increases the cost of funding on the side of lenders and facilitators, leading to higher fees for business owners.

This is exacerbated when it comes to working with external services, such as lenders, who may lack the tools and technology to effectively understand these businesses.

As businesses move more of their activity online, with robust, real-time records of growth and performance, many funding products still exist in the world of bank statements and statutory account filings which are hard to process at scale and often poor indicators of affordability when underwriting businesses.

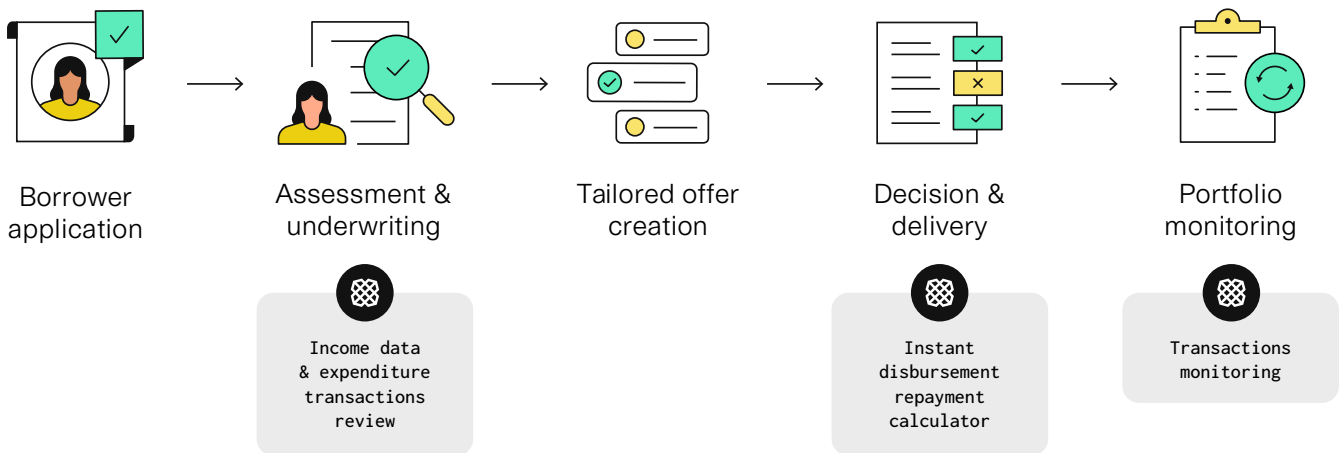
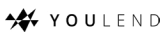


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The financing opportunity for platforms

Platforms such as e-commerce, marketplaces and payment providers already function as crucial conduits between consumers and businesses, allowing the flow of secure exchange goods, services, and funds. Key to their appeal is the ability to combine multiple services that would have previously been served by spot solutions, including web hosting, payments, customer communication, business analytics and marketing.



As platforms become a larger part of the digital economy, financing is a clear opportunity to expand the service offering for businesses, for a variety of reasons.

- **Trust and relationships:** Platforms operate as trusted partners within their SME networks, with a deep understanding of their operational challenges and financial needs. They have been part of the customer's business journey, often from the start, and have witnessed their growth, setbacks, and unique financial demands. This context and understanding equip them to offer tailored financial services to the exact needs of SMEs, such as short-term loans for inventory purchases or working capital management.
- **The data advantage:** E-commerce platforms, marketplaces, and payment providers already collect a vast amount of transactional data. They know a customer's sales history, the average transaction value, frequency of refunds, and many other pertinent details. Combined with financial inputs from Open Banking, this data enables them to assess credit risk accurately, in a way that traditional banks often can't. This can help them offer funding at a higher success rate more efficiently, rapidly and in a more personalised way.



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- **Convenience and consolidation:** The integration of financial services into these platforms provides an unmatched level of convenience for customers. By accessing financial products in the same platform through which they manage the rest of their business, owners can reduce the complexity, effort and time involved in accessing financial services for a seamless funding experience.

As well as improving the funding experience, platforms that work with a trusted embedded financing partner can also offer funding products that better meet the needs of their customers than traditional lenders.

- **Tailored funding:** With access to key data points about SMEs, these platforms can enable highly personalised assessments based on actual business performance. This provides a more accurate and holistic picture of a business's ability to take on funding, with rates and limits tailored to their unique circumstances.
- **Rapid financing:** A digital-first funding workflow, with a high degree of automation and data exchange through secure APIs enables faster lending decisions based on a wider array of inputs, helping business owners source essential capital within hours rather than weeks.
- **SME-focused lending conditions:** By integrating lending with the same tools that businesses use to manage their revenue and payments, platforms can integrate repayments into their existing transactional processes. A revenue-based lending model can manage repayments as a percentage of sales, rather than fixed-payments, helping borrowers scale repayments with their business's performance.

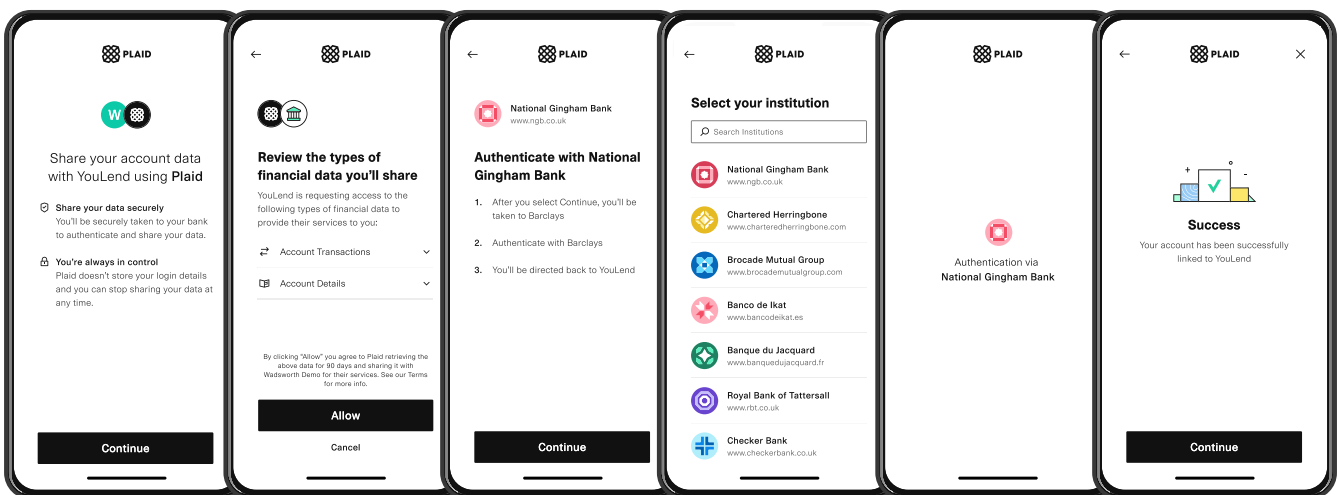
However, to make this a reality, platforms need the right data and financing infrastructure to meet their users' needs.



YouLend and Plaid: Powering a tech-driven lending solution for platforms

Since 2016, YouLend has offered SMEs financing exclusively through partnerships with ecommerce platforms, tech platforms and payment service providers.

YouLend's software platform and APIs enable partners to offer financing in their own branding to SMEs from within their own platforms. SMEs can easily apply for financing and, where relevant, finish by connecting a financial account to improve underwriting accuracy.



With Plaid, this final step is simple. Applicants select their financial institution from a list and authenticate securely using a biometric login.

- Plaid now connects to more than 12,000+ financial institutions around the world—often in a matter of seconds.
- When businesses choose to link their financial accounts with Plaid, the average application time drops from 8 minutes to just 3 minutes.
- Connecting accounts with Plaid is swift and intuitive, 90% of YouLend's applicants in the e-commerce space choose this option, as do 65% of applicants with brick-and-mortar stores.



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Combining YouLend's embedded financing platform with Plaid's Open Banking network enables a truly modern financing process, going far beyond the experience of legacy lenders, including:

- 75% of applicants can apply for funding without submitting any documents.
- Faster financing with 90% approval rates and approvals within 48hrs.
- When businesses choose to link their accounts using Plaid, YouLend can disburse funds same day.
- Applicants are offered financing at prices 20% lower than market averages.

Embracing the open, embedded financial future

The shift to digital-first has already transformed the way owners establish, grow and scale their business – open access to reliable, accessible, fair financing is the missing piece to complete the modern SME toolkit.

Platforms have a unique opportunity to take a lead in powering the growth of their customers by embedding financial services within their existing digital ecosystem. By building on existing relationships with their SME customers, leveraging the abundance of pertinent data, and leveraging their trusted position, platforms can fill the bank-shaped hole in the market with support that truly meets the needs of their customers.

YouLend and Plaid work with leading platforms such as eBay and Just Eat Takeaway.com to help them offer financing solutions that are fast, accurate, and highly personalised, reflecting the real-time potential of their business customers.

To find out more about how your business can embrace an open, embedded financial future for your customers, get in touch with our team.

Ready to build the future of digital finance?
Reach out to our sales teams at info@plaid.com
and partnerships@youlend.com.



YOULEND

Plaid is an open banking network that powers digital financial experiences. Over 8,000 apps and services and many of the largest banks use Plaid to make it easy for their customers to onboard and fund digital financial accounts from over 12,000 financial institutions across North America and Europe. The company was founded in 2013 and is headquartered in San Francisco, with offices in New York City, Washington, D.C., London, Amsterdam, and Toronto.

About YouLend

YouLend is a cutting-edge embedded financing platform partnering with many of the world's leading e-commerce platforms, payment service providers, and businesses such as eBay, Dojo, and Just Eat Takeaway.com. Offering friction-free, instant, and affordable access to capital via market-leading white-labeled finance solutions is key to the mission at YouLend, enabling partners and their merchants to unlock revenue and growth opportunities globally. YouLend has extended financing over 100,000 times to businesses across the UK, Europe, and the US.

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