



Taking the Risk
Out of Small
Business Lending

www.paynetonline.com

PayNet and PayNet AbsolutePD are registered trademarks of PayNet, Inc.
PayNet AbsolutePD Outlook is a service mark of PayNet, Inc.
© 2013 PayNet, Inc.

The New F.A.C.E. of Portfolio Management

CSRSA Annual Conference
June 2016



SMALL BUSINESS CREDIT TRENDS

www.SBIinsights.ca

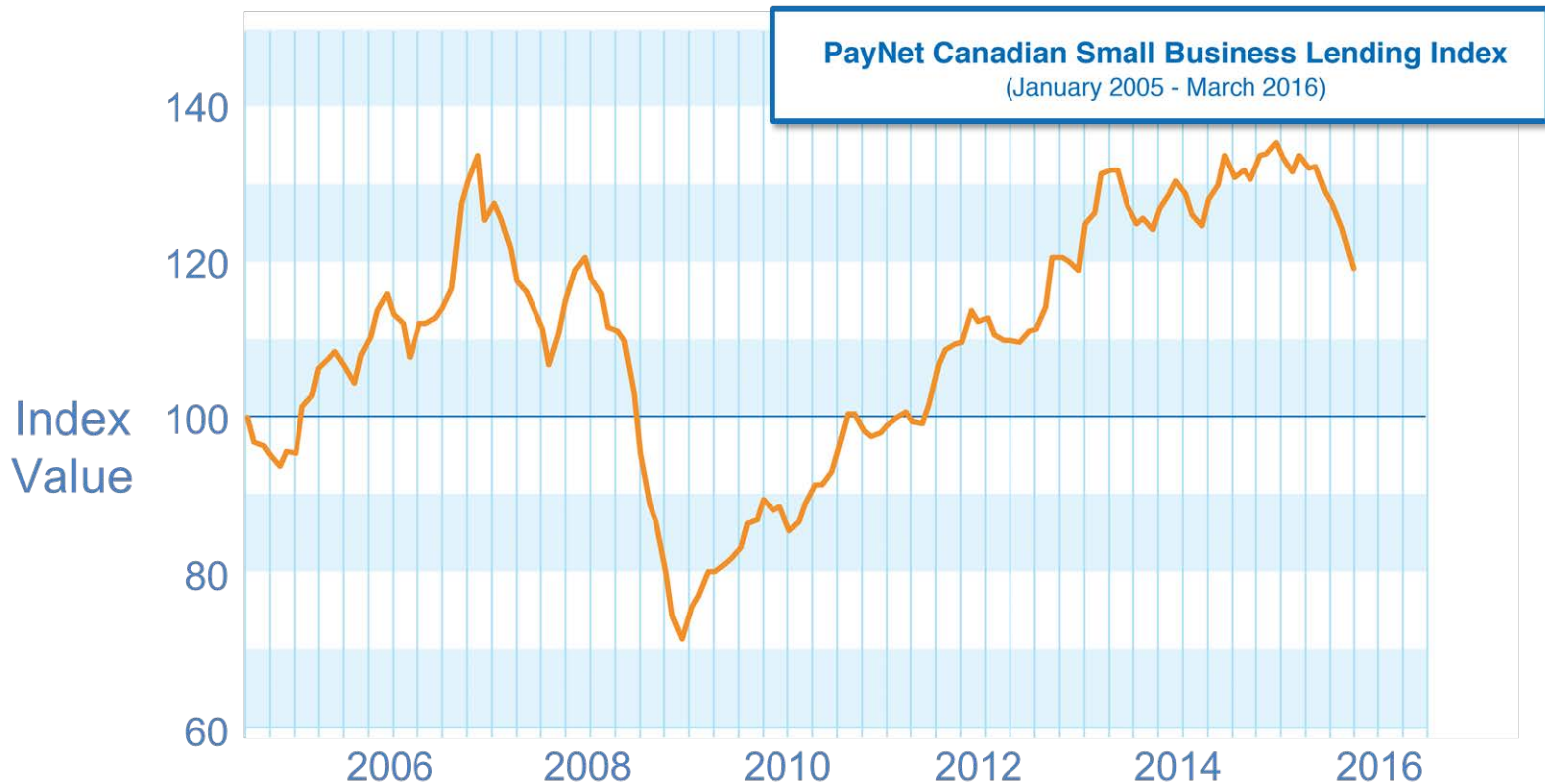
Taking the Risk
Out of Small
Business Lending

March 2016

www.paynetonline.com

PayNet and PayNet AbsolutePD are registered trademarks of PayNet, Inc.
PayNet AbsolutePD Outlook is a service mark of PayNet, Inc.
© 2013 PayNet, Inc.

CANADIAN LENDING ACTIVITY

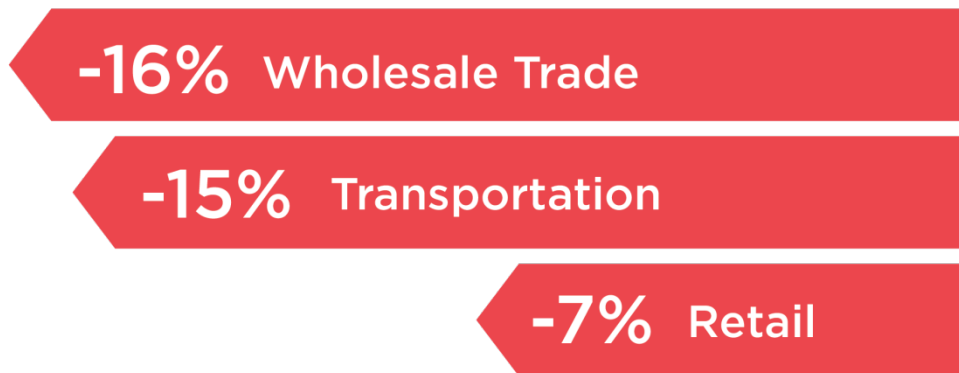


LENDING ACTIVITY – GROWTH SECTORS



PayNet Canadian Small Business Lending Index, March 2016

LENDING ACTIVITY – LAGGING SECTORS

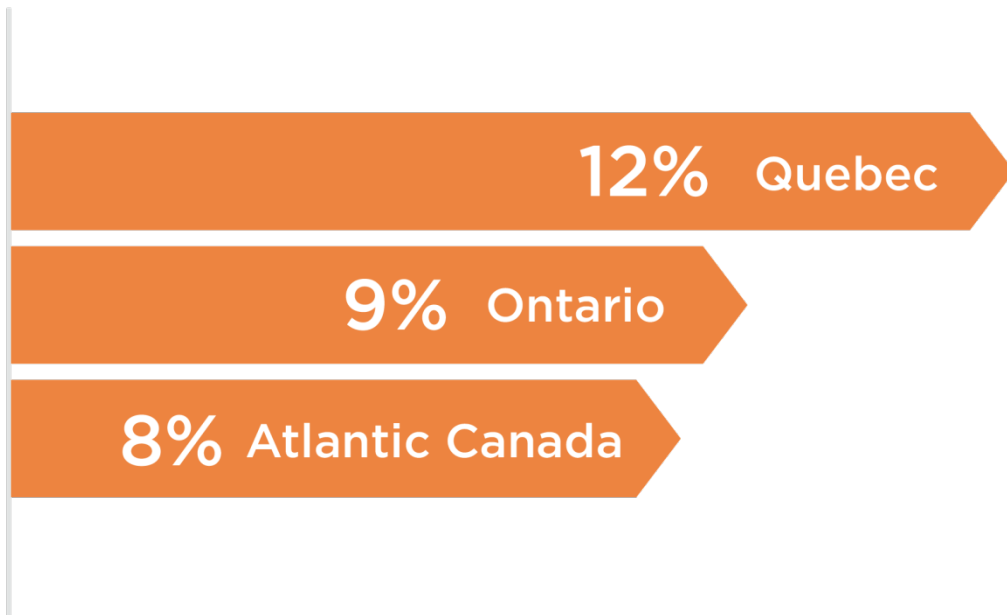


SECTORS THAT ARE
LAGGING

March 2016 vs. March 2015
YoY Growth

PayNet Canadian Small Business Lending Index, March 2016

LENDING ACTIVITY – GROWTH PROVINCES



PayNet Canadian Small Business Lending Index, March 2016

LENDING ACTIVITY – LAGGING PROVINCES

-21% Alberta

-5% Manitoba



REGIONS THAT ARE
LAGGING

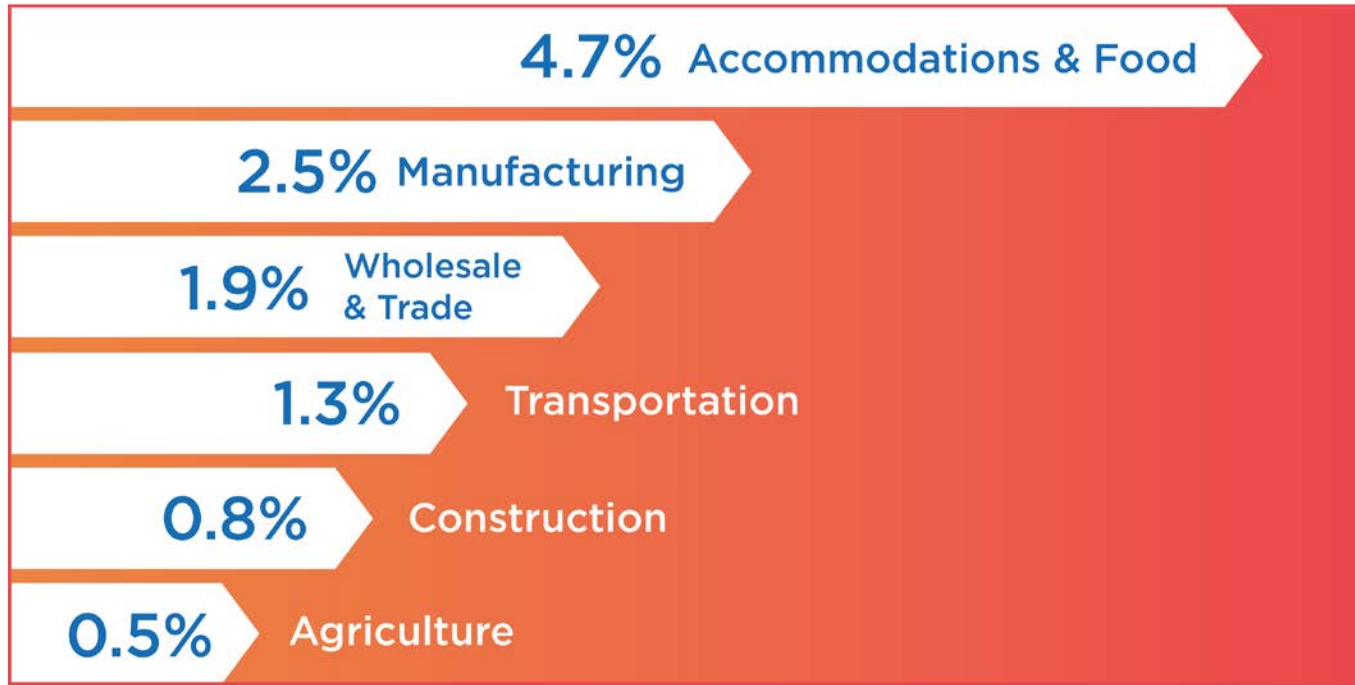
March 2016 vs. March 2015
YoY Growth

PayNet Canadian Small Business Lending Index, March 2016

FINANCIAL HEALTH - NATIONAL



FINANCIAL HEALTH - SECTORS

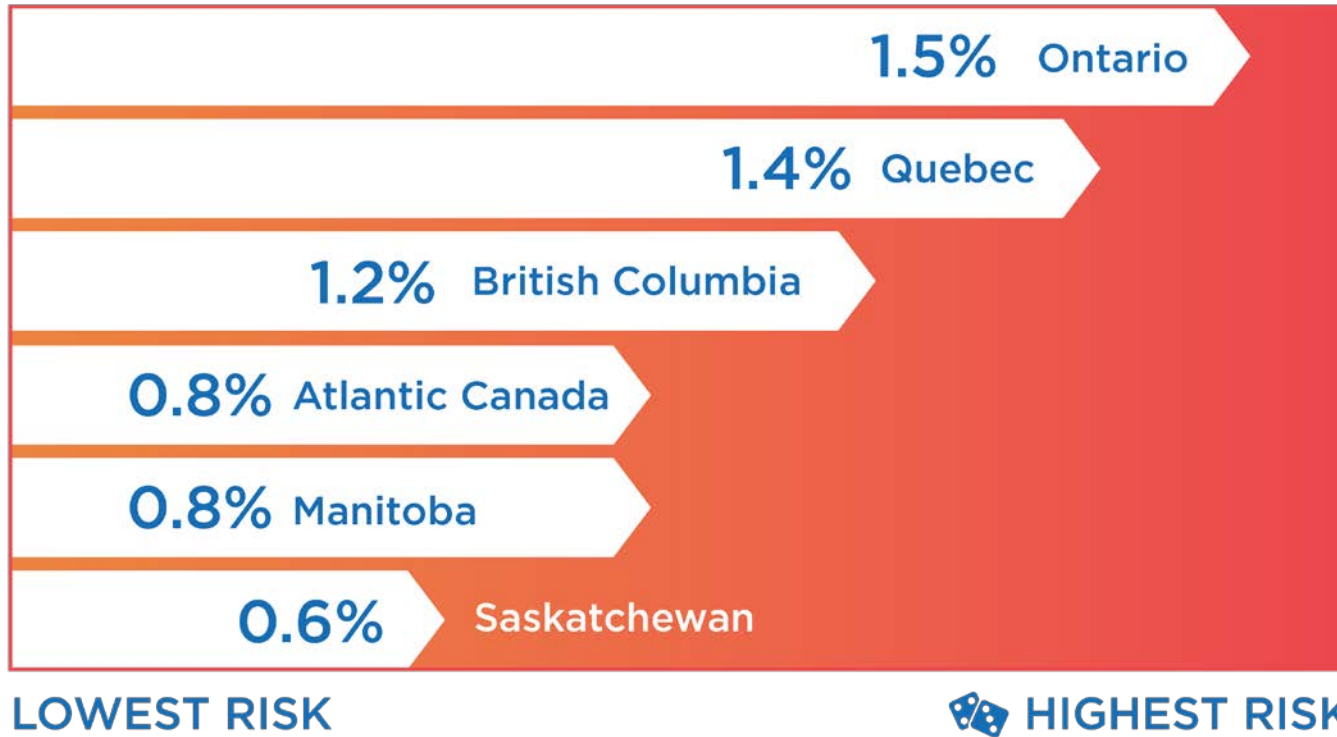


LOWEST RISK

 HIGHEST RISK

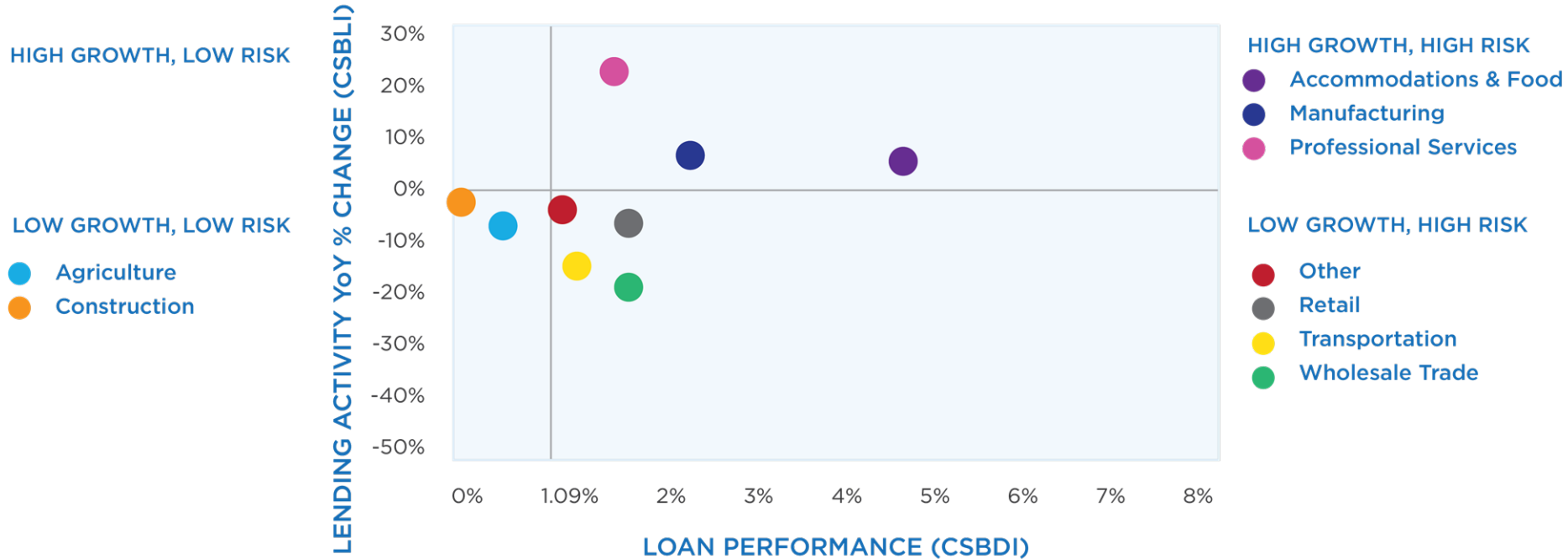
PayNet Canadian Small Business Delinquency Index, March 2016

FINANCIAL HEALTH - PROVINCES



PayNet Canadian Small Business Delinquency Index, March 2016

RISK APPETITE – March 2016



PayNet Canadian Small Business Lending and Delinquency Indices, March 2016



Taking the Risk
Out of Small
Business Lending

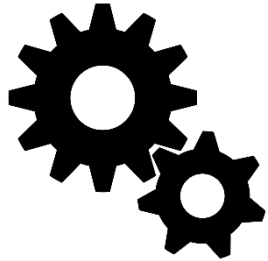
www.paynetonline.com

PayNet and PayNet AbsolutePD are registered trademarks of PayNet, Inc.
PayNet AbsolutePD Outlook is a service mark of PayNet, Inc.
© 2013 PayNet, Inc.

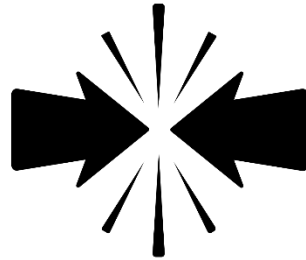
F.A.C.E.

March 2016

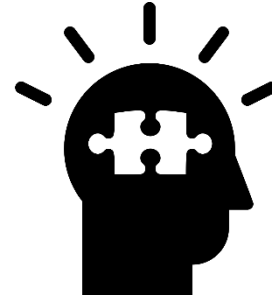
How the NEW face of Portfolio Management will make your bank more attractive



Automation
Revolutionizing
Industries



Impacts from
These
Revolutions

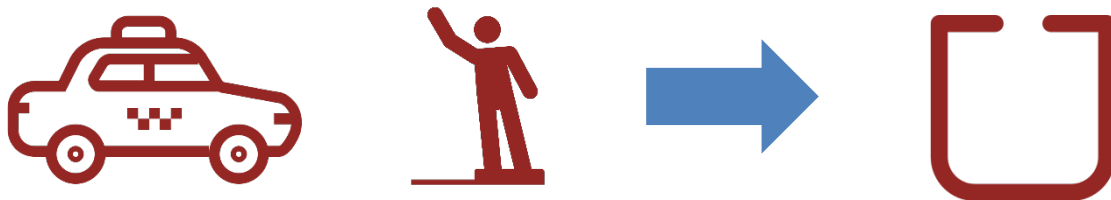
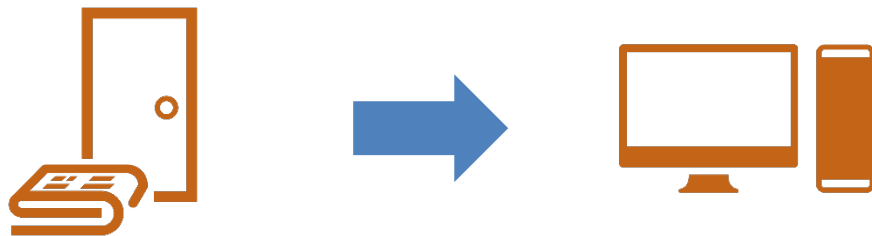


Bank Challenges/
Impacts from
FinTech



Opportunities
To Enhance
Portfolio
Management

New F.A.C.E. Lifts are Being Applied to Industries Daily



Automation Revolutionizing Industries

Impacts from these Market “Innovators” / “Disruptors”



Growth/Volume Challenges

“Traditional” Models



Expense Reduction

To address changing industry



Increased Automation

Improved efficiency



Legislation Issues

Business Investment in time/money



New/Improved Service Models

Competitive Advantage



Reduced Prices

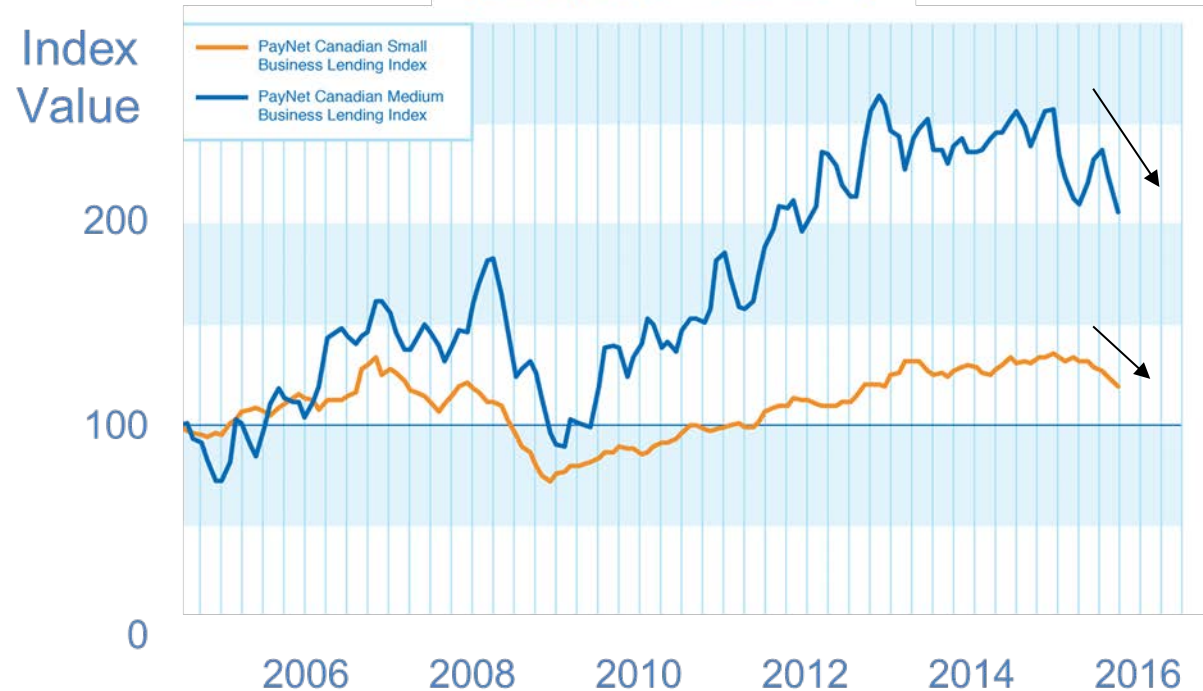
Impacting traditional margins

Bank's and their Commercial/Business Lending

Banks are under pressure to change and adapt:

1. Top line impacts from market conditions
 - Recession in 1st half of 2015
 - Q1 2016 Positive GDP, Q2 likely Negative
 - Indices shows SME borrowing slowing in 2016

Canadian Lending Indices
(January 2005 - March 2016)



Bank's and their Commercial/Business Lending

- Expense lines pressure
 - Increased losses from Oil & Gas impacts
 - Shifts from brick & mortar to digital
- Increased Competition – from FinTech Companies
 - Partner with them?
 - Acquire technology?
 - Invest to compete?



Technology Offers the Way Forward



SOFTWARE



**DATA
ANALYSIS**



TALENT

FÍN-tech – the use of software, algorithms and data to lower the cost of delivering financial products.

- Wharton FinTech Club

Bank/Financial Institutions Focus

Impacts from these Market “Innovators” / “Disruptors”



Growth/Volume Challenges

“Traditional” Models



Expense Reduction

To address changing industry



Increased Automation

Improved efficiency



Legislation Issues

Business Investment in time/money



New/Improved Service Models

Competitive Advantage



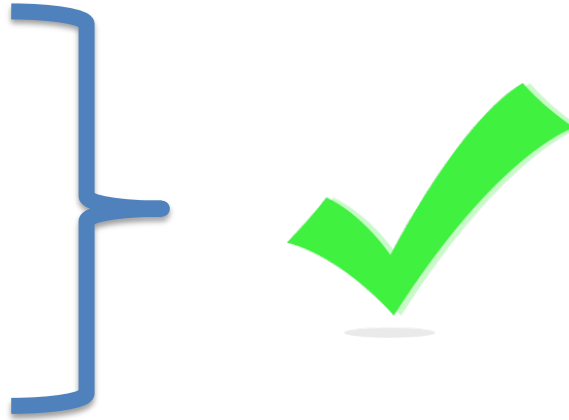
Reduced Prices

Impacting traditional margins

Predictive Scores/Ratings in Portfolio Management

Canadian banks are already actively leveraging *predictive scores/ratings/probability of defaults (PD's)* for various uses, including:

- Front end credit decisioning
- Loan loss reserve calculations
- Collection strategies
- Inbound call routing/customer service



Are there opportunities to take these progressive and effective data driven approaches to another level?

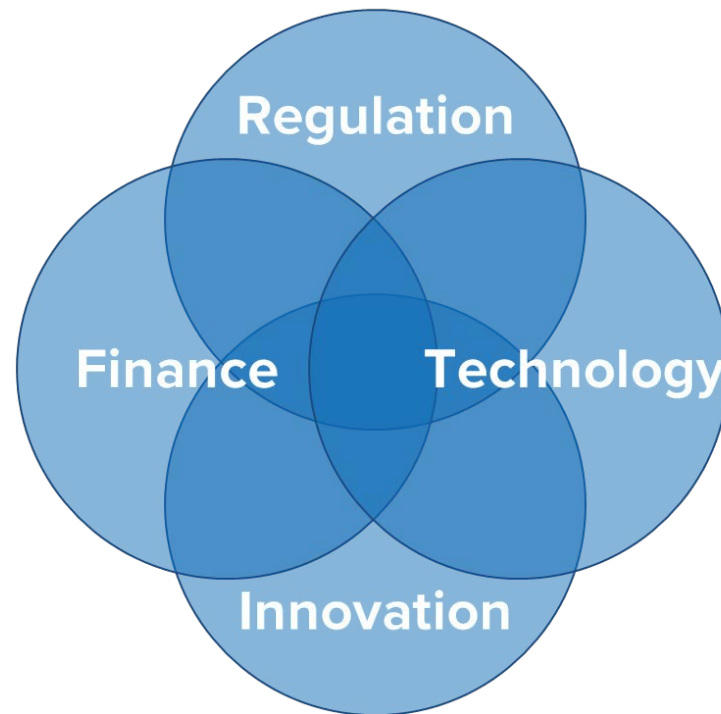
Significant Benefits Focusing on Portfolio Management

Ability to leverage FinTech to:

- Drive efficiencies
- Create revenue/profit growth
- Additional tool to enhance credit risk management
- Manage to optimal risk diversification

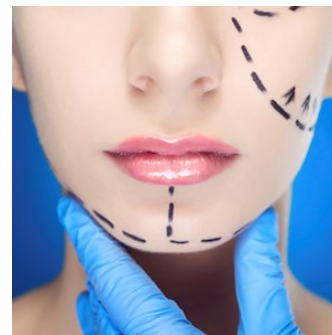
These can be KSF's and contribute significantly to your overall objectives

FinTech Factors



The New F.A.C.E. of Portfolio Management

Leveraging FinTech to Perform a
F.A.C.E. Lift on Portfolio Management



F

Faster Loan
Reviews

A

Account
Growth

C

Concentration
Risk

E

Early Warning
Of Insolvency

Drive *Efficiency* with Faster (More Efficient) Loan Reviews

Understanding loan reviews are required, is there an efficiency opportunity within the current process?

- How often do you perform commercial loan reviews?
- What % of your accounts / portfolio are reviewed?
- Is the risk on all accounts equal?
- Can aspects of your review process be more automated, eliminated?

US Banks are leveraging predictive models (forward looking PD's) to create significant efficiencies in their loan review process.

Sample Loan Review Exercise

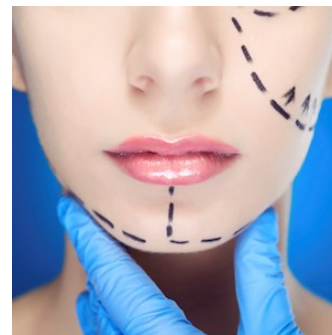
- Map out current process/cost
 - Steps / process
 - Who is involved
 - Costs per step
- Leverage predictive tools to create greater efficiencies

Step	Who is Involved	Time	Cost
Application Review	Loan Officer	1.0	\$48.08
Underwriting	Underwriter	1.0	\$48.08
Approval	Loan Officer	0.5	\$12.02
Disbursement	Loan Officer	1.5	\$108.17
Account Setup	Loan Officer	2.0	\$192.31
First Payment	Loan Officer	0.5	\$12.02
Accounting	Loan Officer	0.3	\$3.00
Customer Support	Loan Officer	6.8	\$423.68
Accounting	Loan Officer	2.0	\$153.85
Accounting	Loan Officer	0.5	\$9.62
Accounting	Loan Officer	2.5	\$163.46
Accounting	Loan Officer	0.5	\$19.23
Accounting	Loan Officer	0.5	\$19.23
Accounting	Loan Officer	1.0	\$76.92
Accounting	Loan Officer	2.0	\$115.38
Accounting	Loan Officer	11.3	\$702.52
Accounting	Loan Officer		\$387.76
Accounting	Loan Officer		1,000
Accounting	Loan Officer		\$60,000.00
Accounting	Loan Officer		\$447,764
Accounting	Loan Officer		56.5%

Improved Process Costs from AbsolutePD			
<u>time</u>	<u>cost</u>	<u>Costs</u>	<u>Cost Reduction %</u>
savings	savings		
1.0	\$48.08		
1.0	\$48.08		
0.5	\$12.02		
1.5	\$108.17		
	\$0.00		
2.0	\$192.31		
0.5	\$12.02		
0.3	\$3.00		
6.8	\$423.68		
2.0	\$153.85		
	\$0.00		
	\$0.00		
0.5	\$9.62		
2.5	\$163.46		
0.5	\$19.23		
0.5	\$19.23		
1.0	\$76.92		
2.0	\$115.38		
11.3	\$702.52	\$387.76	
		1,000	
		\$60,000.00	
		\$447,764	56.5%

The New F.A.C.E. of Portfolio Management

Leveraging FinTech to Perform a
F.A.C.E. Lift on Portfolio Management



F

Faster Loan
Reviews

A

Account
Growth

C

Concentration
Risk

E

Early Warning
Of Insolvency

Increase Account (Revenue) *Growth*

Focus on Organic Growth

- Much less expensive than acquisition cost of “New Accounts”
- You already “Know Your Customer”
- Ability to segment and select based on historical performance
- *Layer on strong future performers* based on empirically derived forward looking PD’s to improve both growth and book performance

US Banks have leveraged forward looking PD’s to identify and target low risk, organic growth opportunities.

Sample Account (Revenue) Growth Strategy

- Leverage future PD (probability of default) on your portfolio
- ID positive risk migration over a specific time period
- ID accounts with a “solicit-able” status
 - Revolving accounts leverage available credit
- Design a campaign
- Drive organic growth with an improved performance outlook

Increase Account (Revenue) Growth

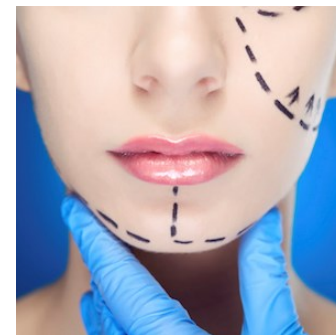
US Bank Case Study Results

- 8% of Borrowers qualified
- Identified \$100M organic opportunities
- Acceptance rates were very strong 25%-50%
- \$29M in net new receivables

	<u>Total</u>	<u>Term Loan</u>	<u>Revolver</u>
Total Contracts:	3,929	3,319	610
Total Borrowers:	2,739		
Eligible Borrowers for Additional Financing ¹ :	216	182	34
Portfolio Size:	\$1,452,560,788		
Potential New Borrowings ² :	\$102,011,012	\$85,953,723	\$16,057,289
Average Opportunity per Borrower:	\$472,273		
Acceptance Rate (Loan)			
Utilization Rate (Revolver):		25%	50%
Net Opportunity:	\$29,517,075	\$21,488,431	\$8,028,644

The New F.A.C.E. of Portfolio Management

Leveraging FinTech to Perform a
F.A.C.E. Lift on Portfolio Management



F

Faster Loan
Reviews

A

Account
Growth

C

Concentration
Risk

E

Early Warning
Of Insolvency

Improve Your Ability to Manage Concentration Risk

- Economic cycles are a part of our business environment
- Business growth can sometimes take a life of its own
- Managing concentration risk has historically been an exercise in looking at trends:
 - Where are we now?
 - What has our mix trend been up to now?
- Enhance concentration risk evaluation leveraging statistical data & PD's

US Banks have been progressive in overlaying business mix with various segmentations of forward looking default risk.

Sample Concentration Risk Review

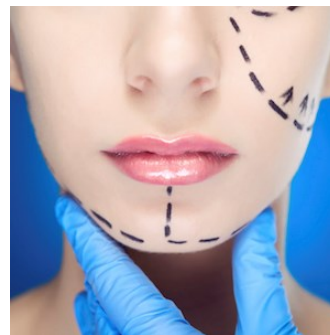
- Leverage progressive technology
- Segment risk by various categories, including:



- Compare to your current mix segments

The New F.A.C.E. of Portfolio Management

Leveraging FinTech to Perform a
F.A.C.E. Lift on Portfolio Management



F

Faster Loan
Reviews

A

Account
Growth

C

Concentration
Risk

E

Early Warning
Of Insolvency

Enhanced Early Warnings of Insolvency

Leverage advanced predictive models

- ID accounts / Segments with deteriorating future looking PD's
- ID accounts that pay “you” on time
- ID accounts that are struggling with other obligations
 - 3rd Party Data required for this critical step

US Banks have been leveraging combinations of future looking PD's with 3rd party data to enhance early warning systems.

The New F.A.C.E. of Portfolio Management

- Automation & Tech are revolutionizing industries – Banks are not immune
 - FinTech's are driving change, especially around front end acquisition
- Business opportunities exist in Portfolio Management to drive:



Efficiencies



Growth



*Competitive advantage
for early adapters*

- Empirically derived, statistically sound, forward-looking models can assist in delivering on the above business needs



Thank You

www.SBIinsights.ca

Todd Elliott

Managing Director, Canada
PayNet, Inc.

telliott@paynetonline.com

Office: 905-361-6597