

Our alliance relationships

# The new economics of lending platforms



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When the first online banking portal was launched around 20 years ago, it had taken more than two years just to build a way for customers to check their account information online. Ten years later, many large banks announced core banking replacement programmes costing more than £1 billion. But these programmes often took longer and cost more than planned, and they rarely delivered all the benefits expected of them.

Fast-forward to today, and technology has advanced to the point where it's possible to launch a new lending business underpinned by an ecosystem-based technology platform in a matter of months. Innovation has never been so quick, or for that matter, cost effective.

This comes at just the right time. The current economic climate and constraints on investment make it more important than ever to deliver transformation that drives rapid return on investment to meet shareholders' expectations and maintain their confidence.

Bringing in this new era of lending technology are innovators like Mambu. In collaboration with PwC, we are helping lenders make use of a composable architecture. This approach enables a differentiated and future-proofed customer proposition, leading analytical capabilities and efficient operations. Essentially, whether a lender is looking to simply offer a new product or to set up a standalone business, PwC's partnership with Mambu provides the necessary proposition, business and technology capabilities.

Drawing on PwC's and Mambu's extensive experience, we have modelled the financial performance of a new unsecured lending business. This brings to life what the key metrics could look like for a lender that gains a 1.5% market share.

**Exhibit 1:** Key metrics for a new unsecured lending proposition using a composable architecture

105k	600m	6.3%	£37.5m
Customers	Loan book	NIM	Net revenue
£10.6m	£2.3m	£4.4m	£3.9m
Total operating cost	Marketing cost	Business management, operations and support cost	Technology costs
£26.9m	28%	-£71	-£26
Operating profit	Cost: Income ratio	Cost per customer	Tech cost per customer

# How much does it cost and how long does it take?

Based on our implementation track record and extensive network of fintech partners, we can expect the following results when deploying a new proposition with a new business model, new operations and a composable architecture:

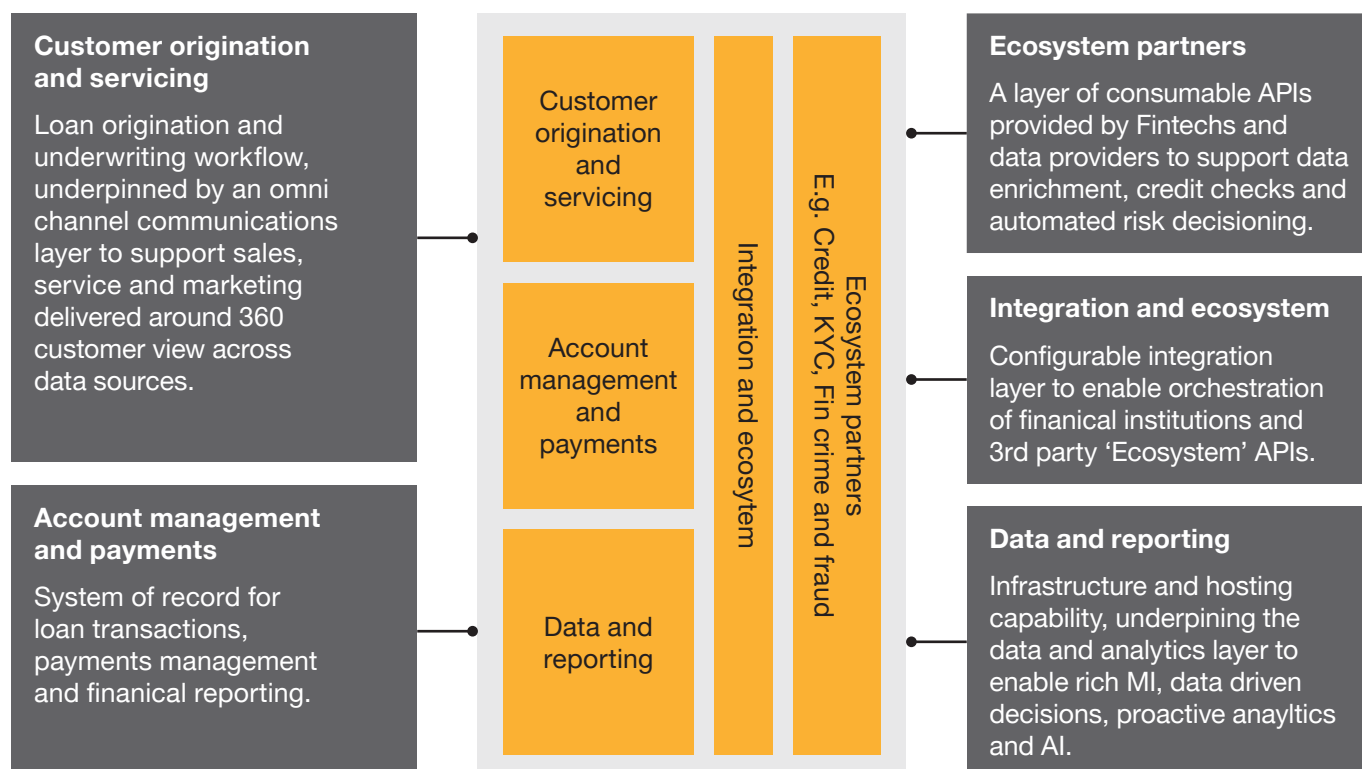
Total one-off costs	Total build duration	Time to return on investment
£5m-£8m	3-9 months	18-24 months

Even compared to five years ago, this is a step change. Launching the same type of lending proposition then, would have cost over four times as much and taken at least twice as long. However, a number of key factors influence the scenario above. These include the target market, the customer proposition, the degree of legacy integration and the regulatory environment.

## What technology is delivered as a result?

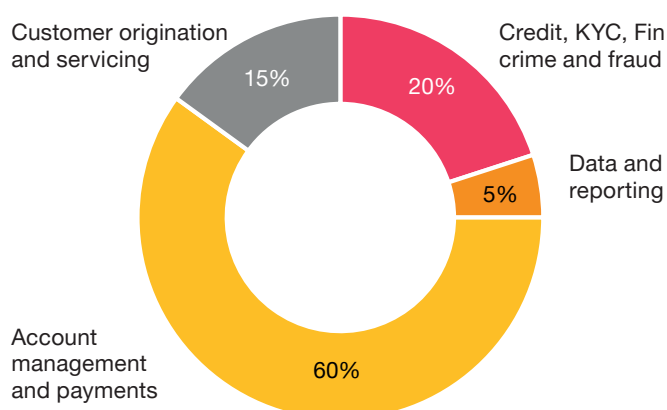
The new platform provides all the customer, business and technology capabilities required to deliver a differentiated and compliant lending business. The composable nature of the architecture enables the platform to be extended and iterated over time.

**Exhibit 2:** Key functional capabilities in a composable lending architecture



Depending on the proposition the platform supports (and the volume of payments made), technology platform costs are likely to be between £20-£30 per customer annually, broken down into the following categories:

**Exhibit 3:** Composable architecture technology run costs % breakdown by functional capability.



### What are the benefits of using this technology?

The new technology enables a new way of operating, driving benefits such as:

- **Proactive customer engagement and testing:** The technology enables rapid launch of a minimum viable product (MVP) to the market. This allows lenders to both test their new proposition with customers, and start to generate a commercial return. Proactive engagement prioritises gathering real-life feedback and driving towards a return on investment.
- **Access to innovation from across the whole fintech sector:** This technology is never static, and lenders are able to access a continuously evolving roadmap of releases from fintech partners at no incremental cost. With new features and services launched constantly, the approach allows the business to keep up with market, customer and regulatory trends and make sure they have access to the latest technology.
- **Low-cost scaling and flexibility:** This technology gives lenders access to a fully extensible, composable architecture that can be innovated to serve a wider set of customer needs and product offerings at limited incremental cost. In addition, the platform's flexibility means lenders can rapidly include new capabilities via an API.

### What will make or break your new lending opportunity?

To maximise the commercial opportunity the new lending platform provides, lenders need to think about not just the technology, which is no doubt crucial, but also consider other success factors including:

- **Customer:** Putting customer insight and unlocking customer value at the centre of all decision making.
- **Culture:** Building a multidisciplinary team which is obsessed with releasing new features and continually improving.
- **Control:** Ensuring trust through building embedded controls, analytics-based decision making and compliant banking operations.
- **Collaboration:** Choosing partners with the same ethos and values while embracing the full expertise, capabilities and tools that these partners offer.

### What's next?

With innovation making new lending propositions readily accessible, fast and affordable, a wave of change will sweep across the lending market. Taking action now will enable those lenders that are innovators at heart to leap ahead of their competitors. Those that do not will be left behind.

If you want to find out more, or are ready to embark on this journey, please get in touch.

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## About Mambu

Mambu is the cloud-native core banking platform where modern financial experiences are built. Launched in 2011, Mambu fast-tracks the design and build of nearly any type of financial offering for banks of all sizes, lenders, fintechs, retailers, telcos and more. Our unique composable approach means that independent components, systems and connectors can be assembled in any configuration to meet business needs and end user demands. Mambu supports hundreds of customers in over 65 countries – including Western Union, Commonwealth Bank of Australia, N26, BancoEstado, OakNorth, Raiffeisen Bank, ABN AMRO, Bank Islam and Orange Bank.

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