POINT OF VIEW

Credit digital transformation with helping lenders compete

New bank challenges mean there's no time to spare

The commercial lending business has experienced exceptional growth in recent years. Yet financial institutions –grappling with high operating costs, unproductive IT systems, emerging competition, and changing customer behaviors – are struggling to keep pace. Financial institutions need to reimagine their operating models through holistic transformation. And they must combine Lean practices with digital technologies in order to reduce costs and reposition the business for growth.

Process + technology + Lean Digital℠ = true transformation

Commercial lending, which experienced tremendous growth from 2009 to 2015, has had its share of challenges lately. Nonetheless, the future is expected to be bright as technology and consumer needs edge forward.

To grow and stay ahead of the curve, banks need to address challenges arising from regulatory scrutiny, higher operating costs, unproductive legacy IT systems, emerging competition from non-banking firms, and changing customer behaviors.

The critical challenges

Increasing cost, complex regulatory compliance, and widening exposure to risk:

New regulations stemming from the Dodd-Frank Act and Basel III are adding to the complexity of the process. Moreover, disjointed loan-underwriting systems, incomplete customer data, and complexities around data acquisition expose banks to higher risks.

Banks aren't prepared to embrace digital technologies:

Legacy technologies and processes are stopping firms from leveraging digital technology and processes at scale, particularly in the middle and back office.

Changing customer behavior:

Consumers have become more cautious now that they have access to a wider range of financing options. Lenders are under pressure to automate processes and transform the customer experience using digital channels.

Emerging competitors:

Digital-native lenders use technology to run businesses more efficiently than ever and offer improved customer interfaces. The best digital retail lending institutions often run operations at lower costs than their traditional competitors, in some instances achieving as much as 70% lower cost of origination, 60% lower costs on the front end, and 80% lower costs for middle- and back-office functions.[2]

Transformation: The new imperative

In today's aggressively competitive and volatile environment, commercial lenders face a clear imperative: transform or fall behind. Dynamic business and technology forces are driving the need to operate at optimum levels, foster a high-performance culture, and be future-ready.

It takes a solid foundation of effective and efficient processes to make a successful transformation. Streamlining lending processes from origination to maturation makes it easier to increase automation with cutting-edge technology. The first step is to review existing processes in order to pinpoint and eliminate inefficiencies.

For example, a mid-tier U.S. commercial bank identified significant upstream inefficiencies, which were leading to high rates of rework downstream. Challenges included:

- **Limited metrics** used to monitor the flow of information
- **Insufficient training** and workload management for staff
- **Poor use** of existing system functionality
- **Data integrity** issues throughout the process, causing a drag on sales volume

In response, the bank carried out detailed process mapping from origination to loan servicing and developed process maps that worked with new and existing technology solutions. A baseline and benchmarking exercise identified 80+ metrics and 100+ process-optimization ideas, which enabled greater efficiency and delivered a $5 million impact on the business.

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Technology and business goals must coincide

Lenders spend substantial time and effort selecting the best technology, but a lack of understanding of business requirements at the outset can lead to failure. Aligning technology with business priorities is imperative for lenders to drive a digitally enabled transformation. This will lead to enhanced customer experiences, more efficient growth, improved productivity, and better risk management. Experience shows that executing process improvement and process automation in tandem – as part of an overall solution – leads to better results than when they are executed separately.

When a top U.S. bank's commercial lending division saw that sluggish loan-management processes and inefficient credit decisions were hindering growth, it focused on fixing both the legacy systems and processes together. The bank conducted a thorough analysis of end-to-end processes. With a primary focus on customer satisfaction and audit compliance capabilities, the bank analyzed its disparate systems, security and data compliance processes, business process workflows, manual handoffs, paper-driven dependencies, and efficiency leakage points.

Root cause analysis enabled the bank to chart out the impact of each problem on compliance adherence, customer service, and ultimately customer satisfaction. By fixing broken processes as well as integrating straight-through, end-to-end loan processing using a cloud-based commercial loan-origination platform, the bank transformed its prospecting, credit evaluation, credit decision, exposure management, pricing configuration, document management, and advanced reporting functions, and reduced turnaround time by 88%.

Credit evaluation is one step in the loan origination process that is ripe for applying artificial intelligence. By applying computational linguistics and machine learning as part of the credit evaluation process, financiers can automatically process unstructured data from financial, bank, and tax statements in any format or language. The result is 75% faster decisions, 100% process consistency and data traceability, 99% accuracy, and 70% lower cost of operations

Tap into data

Banks are realizing the need to integrate data with key business processes to ensure that they base everyday decisions on data-driven insights.

For a U.S.-based financier struggling with a manual and decentralized lending process, this meant focusing on a process mapping and an activity-level cycle time study to baseline current performance. The process mapping and data analysis revealed that: (i) ineffective team structuring led to multiple hand-offs and high wait times between teams; (ii) fragmented systems and non-standardized processes led to repetitive checks and manual handovers; and (iii) a reporting structure to track performance was missing. The financier standardized processes to reduce process variation, merged the teams to remove layers and avoid repetitive work, and implemented technology solutions, such as customer/partner portals, to enhance existing systems. As a result, productivity improved by 10% while end-to-end process cycle time decreased by 30%, ultimately leading to better customer experiences and increased market share.

Conclusion

Financial institutions face daunting challenges as costs continue to rise, regulatory burdens continue to grow, and the volatile business environment continues to strain business profits. Banks seeking to take advantage of the growing demand for commercial lending must transform their lending process by streamlining processes and leveraging technology, especially advanced digital solutions, to shine a light on dark data to reduce risk, speed time to decision, reimagine customer experiences, and improve compliance for real business impact.

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