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banking transformed white paper

by: Jim Marous

Transforming Consumer Lending with Connected Banking

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Consumers want more than a loan when borrowing; They want ease of application and disbursement, a lightning fast process that is channel agnostic, flexibility of terms and conditions, and transparency across the entire customer journey.

— Jim Marous

Owner and CEO, Digital Banking Report
Host, Banking Transformed Podcast

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Letter from the Author

Jim Marous

Digital banking transformation is significantly impacting all areas of banking and the customer experience. In no area of banking is this more apparent than in consumer lending. For many banks and credit unions, while loan applications may be able to be taken online, the process still takes far too long, with approval and disbursement taking additional days or even weeks. In most cases, the consumer still must visit a branch office to finalize the process.

The consumer has more choices of providers than ever, with many progressive lenders being able to take an application with simplified engagement on a smartphone, and with approval and disbursement of funds being possible in minutes. Digital transformation of the consumer lending process uses data and advanced analytics, revised back-office processes, modern technology, and cross-organizational communication to reduce operational costs, enhance the customer experience and minimize risk.

Those organizations that lag the market's demand for speed and simplicity of the borrowing process will lose potential business and will be relegated to a secondary lending position competitively. These organizations will also have a higher cost of acquisition and lower spreads. Modern technology is opening doors for lending opportunities never imagined in the past, but leadership of banks and credit unions must embrace this potential.

Digital lending transformation includes the combination of improving the customer experience, innovating new ways of allowing consumers and businesses to borrow, streamlining operations for maximum efficiency and compliance with stringent risk management and regulatory requirements. Banks and credit unions must adopt a cohesive strategy to leverage all their resources and holistically

Letter from the Author (continued)

address the aforementioned four driving factors in a ‘connected banking’ ecosystem.

In a connected bank, all involved parties (customers, workforce and partners) transact and engage in an orchestrated manner; anytime, anywhere, and through any channel. In a connected bank, the end-to-end customer journey is guided and enabled, operations are nimble, and sustainable innovation is realizable. Finally, in a connected bank, customer-centricity is achieved by putting the consumer at the center of the entire process.

We would like to thank **Newgen Software** for sponsoring this research on the state of digital lending and the potential for connected banking solutions. The insights contained in this white paper provide the foundation for change and improvements to legacy lending practices that are no longer acceptable to the consumer expecting to borrow on the channel of their choice, anytime and anywhere they want … receiving funds in minutes as opposed to days or weeks.

Jim Marous
Owner & CEO, Digital Banking Report
Host, Banking Transformed Podcast

Digital Future Requires a Reboot

Today's consumer puts a high value on their time, personalized experiences, and the ability to engage with organizations on their channel of choice … whenever and wherever they prefer. Banks and credit unions must provide easier application processes, faster credit decisions, increased transparency and innovative borrowing options.

In research done by the Digital Banking Report in late 2020, 85% of financial institutions allowed consumers to apply for a loan online, with only 44% providing the ability to do the same on a mobile device. Of greater concern is that only 66% allowed the entire process to be completed online, with only 46% allowing end-to-end completion on a mobile device.

The Digital Banking Report found that the completion of an online or mobile loan application (when available) was anything but fast and simple. For organizations able to process website/online applications, 85% of applications took consumers more than 5 minutes to complete (with 38% stating a completion time of over 10 minutes). For mobile applications, 80% of institutions surveyed said their mobile applications took more than 5 minutes to complete (with 34% stating a completion time of over 10 minutes). This highlights that most traditional financial institutions are not building digital loan processes, but simply turning old processes into a digital app.

Once the application process is complete, the 'time to decision' for most consumer loans is between three and five days, with the average 'time to cash' being a week … or longer. In a marketplace where mortgage loans can be applied for and approved in a matter of minutes, these delays are unacceptable. Digital lending leaders, that have embraced the digital

"With evolving customer expectations and dynamic business needs, digital lending transformation is a must. Financial institutions that respond rapidly to changing market requirements gain an edge over the competition."

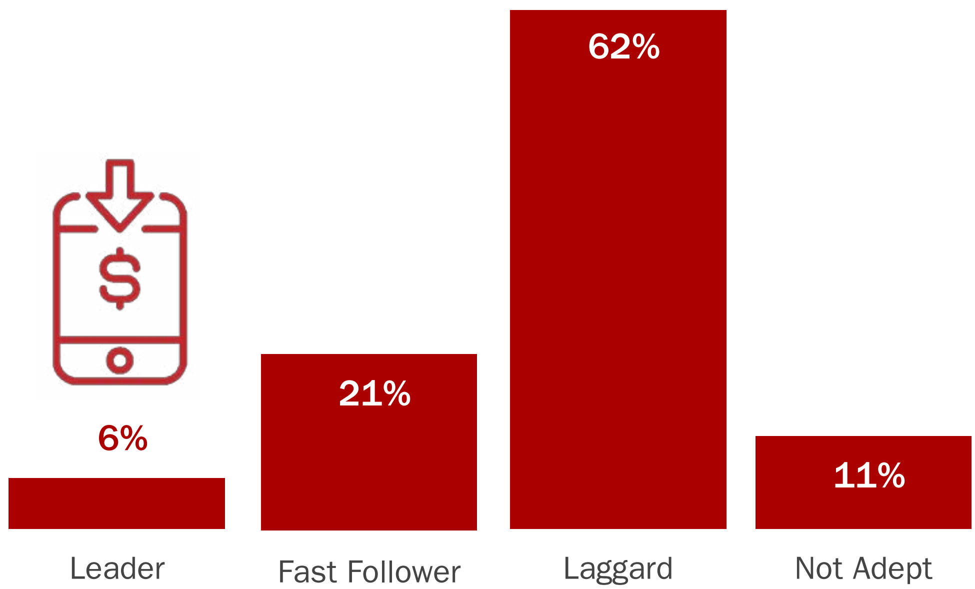
Anand Raman
Executive Vice President and Chief Operating Officer, Newgen Software Inc.

transformation of the borrowing process, have brought the 'time to decision' down to minutes, and 'time to cash' to less than 24 hours. In fact, some organizations provide an ongoing credit availability to consumers, where money can be disbursed directly to an account almost instantly.

When we asked financial institutions globally for their self-assessment of their digital lending maturity, we found that most considered themselves either 'fast followers' or 'laggards'. These categorizations represent lost business and/or dissatisfied consumers.

CHART 1:
DIGITAL LENDING MATURITY LOW AT LEGACY FINANCIAL INSTITUTIONS

How advanced is your current digital lending process?



Source: Digital Banking Report Research © June 2021 Digital Banking Report

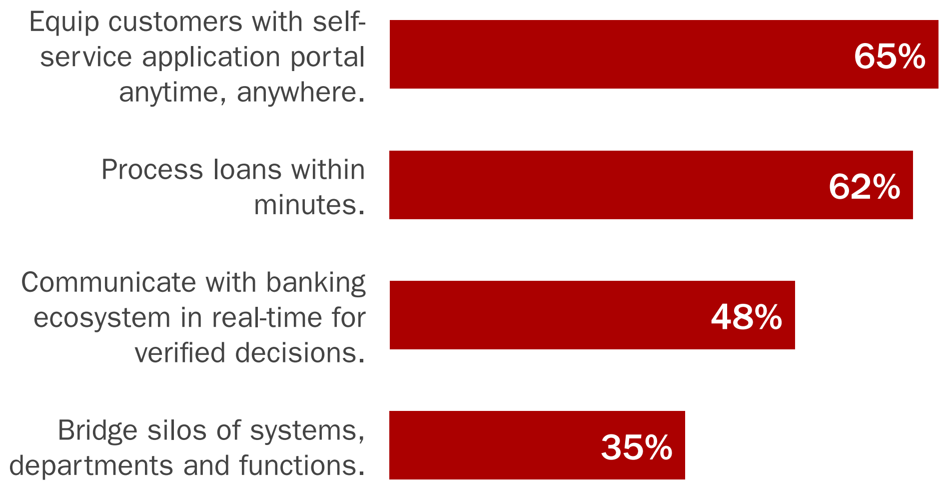
Digital lending transformation must become a top priority for banks and credit unions, improving the customer experience through improved credit processes, leveraging modern technology, available data and applied analytics, and innovation. Similar to the oft mentioned checking account, credit is at the heart of most customer relationships. Digitally transforming the entire journey from the inside-out offers significant advantages to both financial institutions and consumers.

When asked about the benefits of digital lending transformation, financial institutions realize they are playing catch-up in equipping consumers with a self-service portal that is available 24/7 in a channel agnostic environment. Banks and credit unions also realize that speed and simplicity is a top priority with digital lending. Organizations also realize that the benefits of digital lending transformation also impact the internal operations.

CHART 2:

WAYS THAT DIGITAL TRANSFORMATION CAN IMPROVE THE DIGITAL LENDING PROCESS

How can digital banking transformation improve the digital lending process? Choose one or more.



Source: Digital Banking Report Research © June 2021 Digital Banking Report

For financial institutions, successful digital lending transformation can positively impact revenue growth while achieving significant cost savings. By making the borrowing process faster, more simple, and transparent, more applications will be generated, approvals will increase, disbursements will rise, and better pricing can be offered. This is against a backdrop of less human interaction and more efficient processes which will improve efficiency and decrease costs.

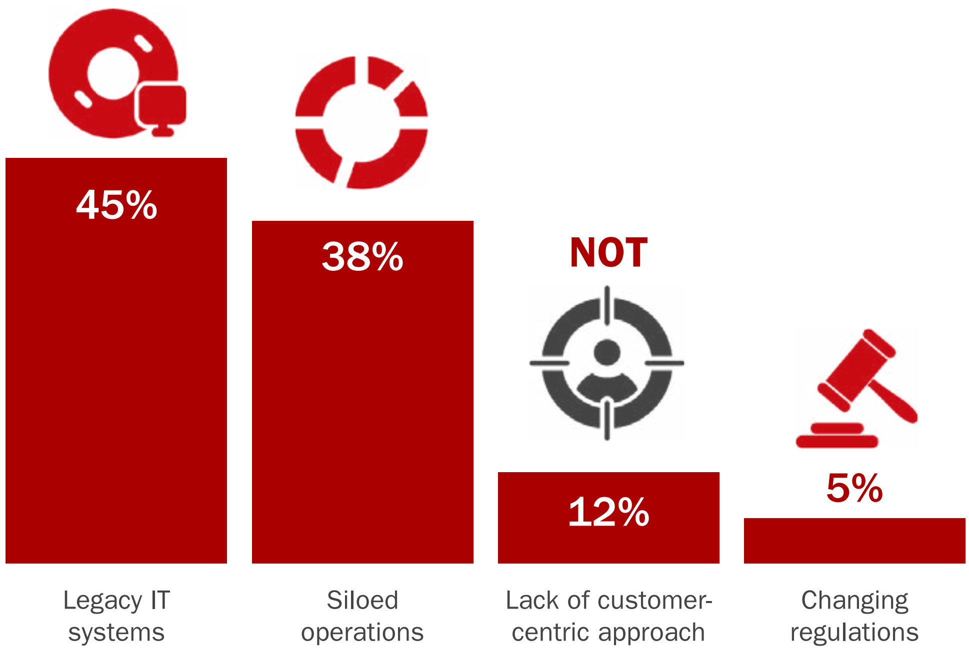
Bank and credit union lenders need to adjust to the increased pace of change in the industry. They also need to deal with the effects of dozens of fintech and big tech firms encroaching on traditional lending business with improved digital lending alternatives. In other words, leaders at legacy financial organizations need to embrace change, take risks and disrupt themselves.

Digital Lending Transformation Requires Focus

While almost all banks and credit unions are progressing with different components of digital lending transformation, many are dissatisfied with progress, especially in the offering of credit. Some of the challenges include having to cope with legacy IT systems, outdated back-office processes, a lack of a cohesive business plan to modernize credit offerings and customer experience across the organization, limited data and applied analytics deployment, and insufficient digital talent.

CHART 3:
TOP CHALLENGE FOR DIGITAL LENDING TRANSFORMATION

What prevents you from improving back-office digital processes for enhanced customer journeys?



Source: Digital Banking Report Research © June 2021 Digital Banking Report

In many organizations, there is also a lack of leadership or a single owner assigned to drive the needed improvements at a pace required. Digital lending transformation cannot be considered a 'project', but must be an ongoing process of continuous improvement and innovation that reflects the changing desires of consumers wanting to borrow quickly and easily.

Without the needed leadership and focus, digital lending transformation efforts will be delayed or curtailed altogether. Research has proven that many financial institutions have leveraged the expertise of third-party solution providers who can help implement change. Having a partner to help guide the process helps secure the needed investment, keep the digital lending transformation on track and avoid incremental changes that can easily be substituted for needed end-to-end transformation.

Start With a Customer Journey Audit

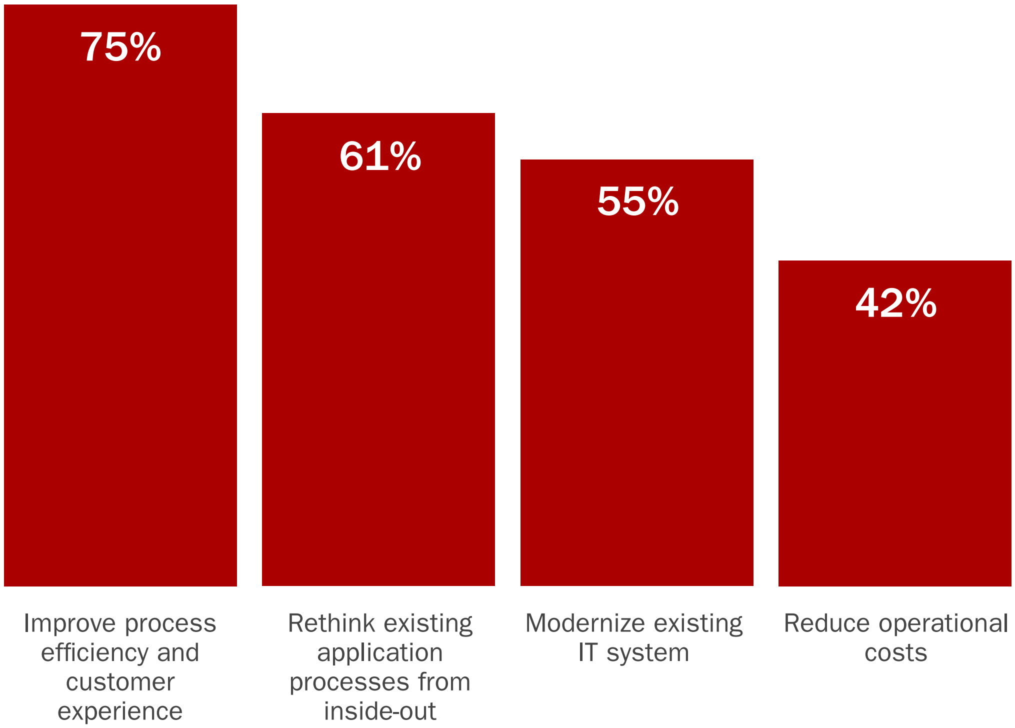
As with any major transformation initiative that is intended to impact the customer experience, the best place to start a digital lending transformation is to take an end-to-end perspective of the entire customer journey, including the intended destination state and primary objectives that are desired. This customer journey audit includes both an external view of the customer journey as well as an analysis of back-office processes and operations.

"Organizations must also realize that simply delivering a digital lending product is not enough. It is important to transform the entire organization into a digital entity – that moves faster, has an innovation culture, encourages collaboration, streamlines operations and provides the tools for digital success across the organization."

CHART 4:

PRIMARY OBJECTIVE(S) WHEN AUTOMATING THE LENDING PROCESS

If you are looking to automate your lending process, what is/are your primary objective(s)? (Choose one or more.)



Source: Digital Banking Report Research © June 2021 Digital Banking Report

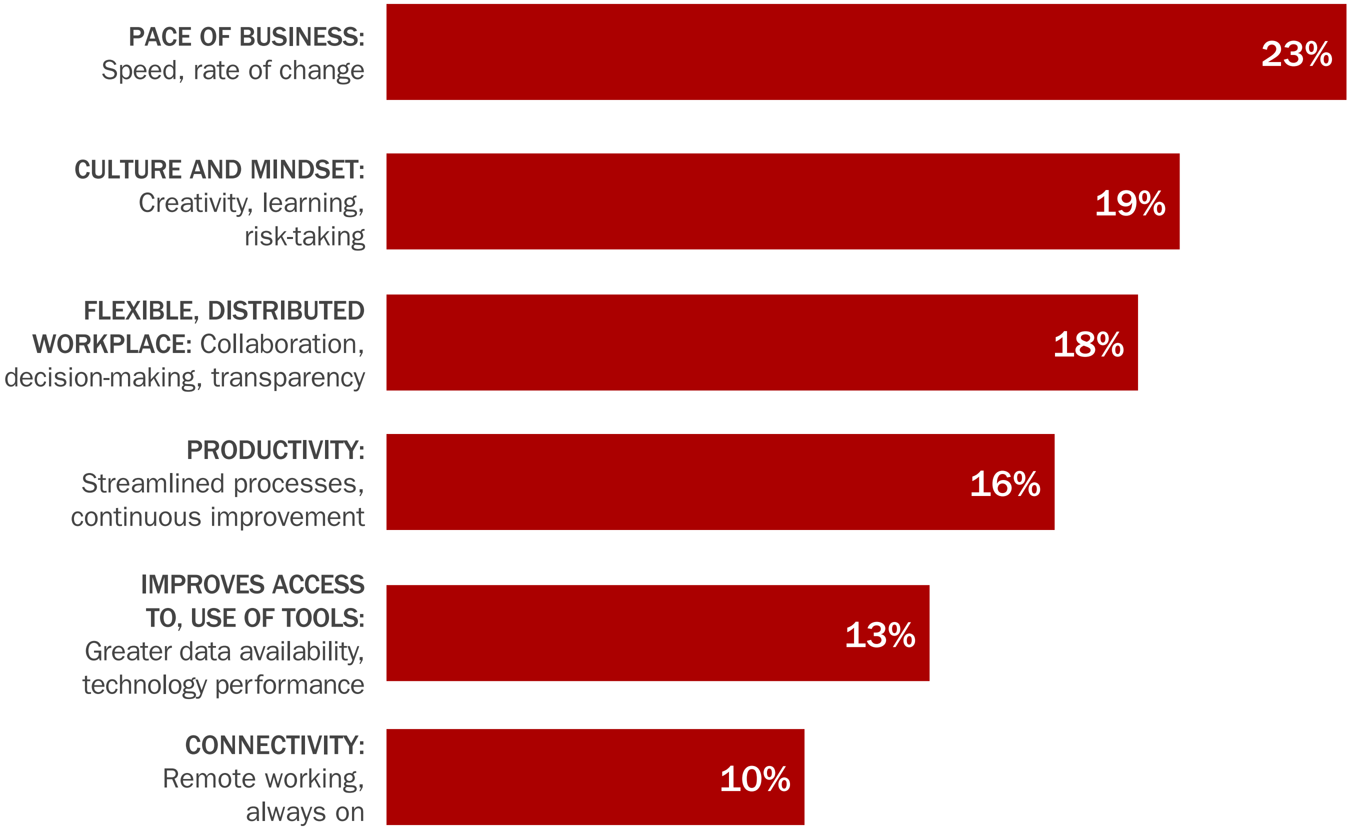
The result of this end-to-end customer journey audit will be significantly greater efficiency with a vastly improved customer experience. Without an end-to-end orientation, changes to the lending process will most likely become piecemeal, missing opportunities to deliver the needed paradigm change in performance and approach.

Despite the need to analyze the entire lending and borrowing journey from the organization and customer perspective, it is also important to limit the scope of the initial waves of transformation, focusing on a minimum viable product (MVP). According to **McKinsey**, a MVP is "scoped to be substantial enough to drive real value, momentous enough to create excitement within the organization, and simple enough to be designed and implemented rapidly". This kind of approach avoids too much early-stage complexity so that a transformative lending solution can be implemented more quickly, establishing momentum for future change.

Organizations must also realize that simply delivering a digital lending product is not enough. It is important to transform the entire organization into a digital entity – that moves faster, has an innovation culture, encourages collaboration, streamlines operations and provides the tools for digital success across the organization. This requires digital leadership as well.

CHART 5:

BIGGEST DIFFERENCES BETWEEN TRADITIONAL AND DIGITAL ORGANIZATIONS



Source: © MIT Sloan Management Review, 2019

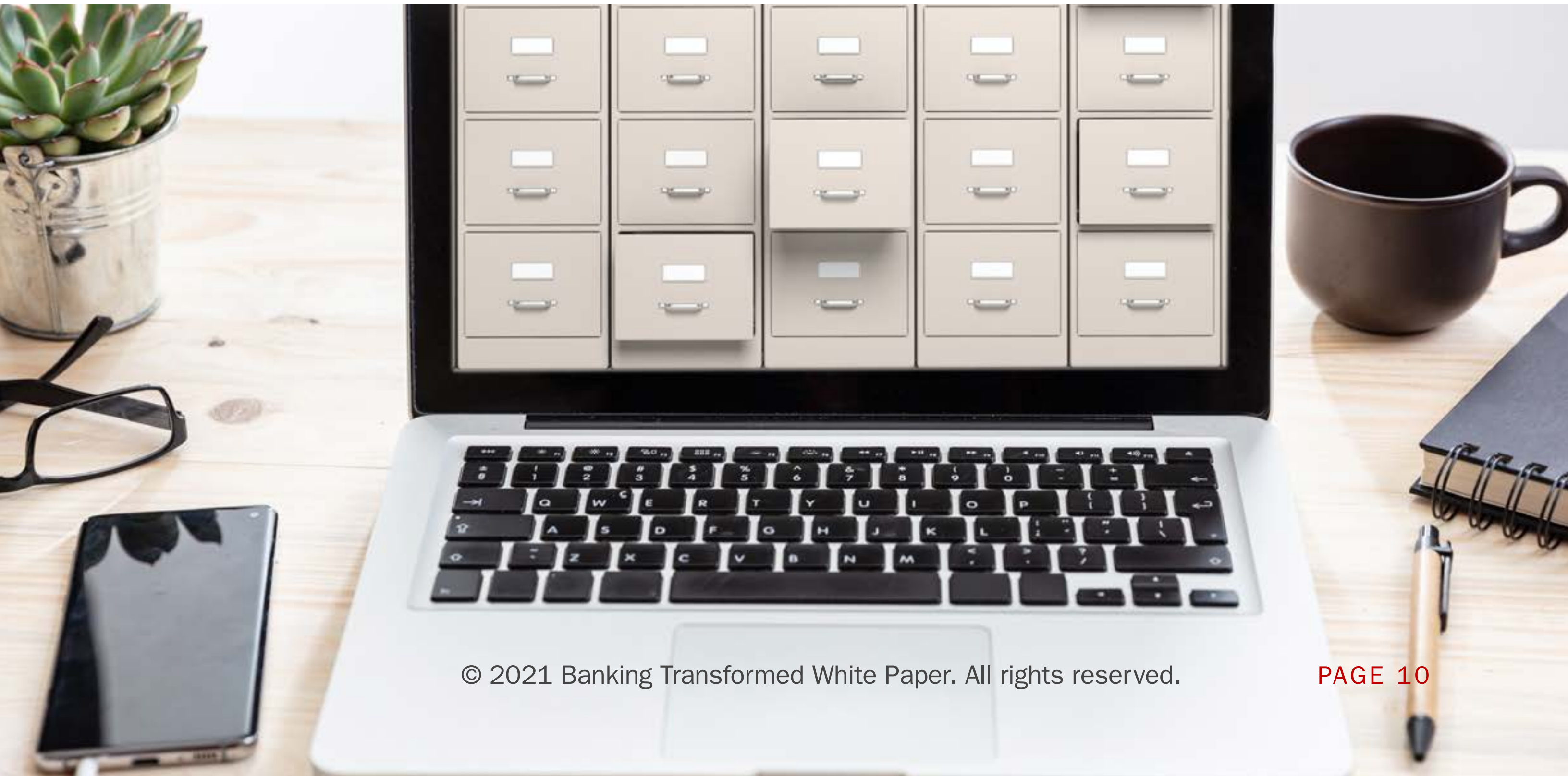
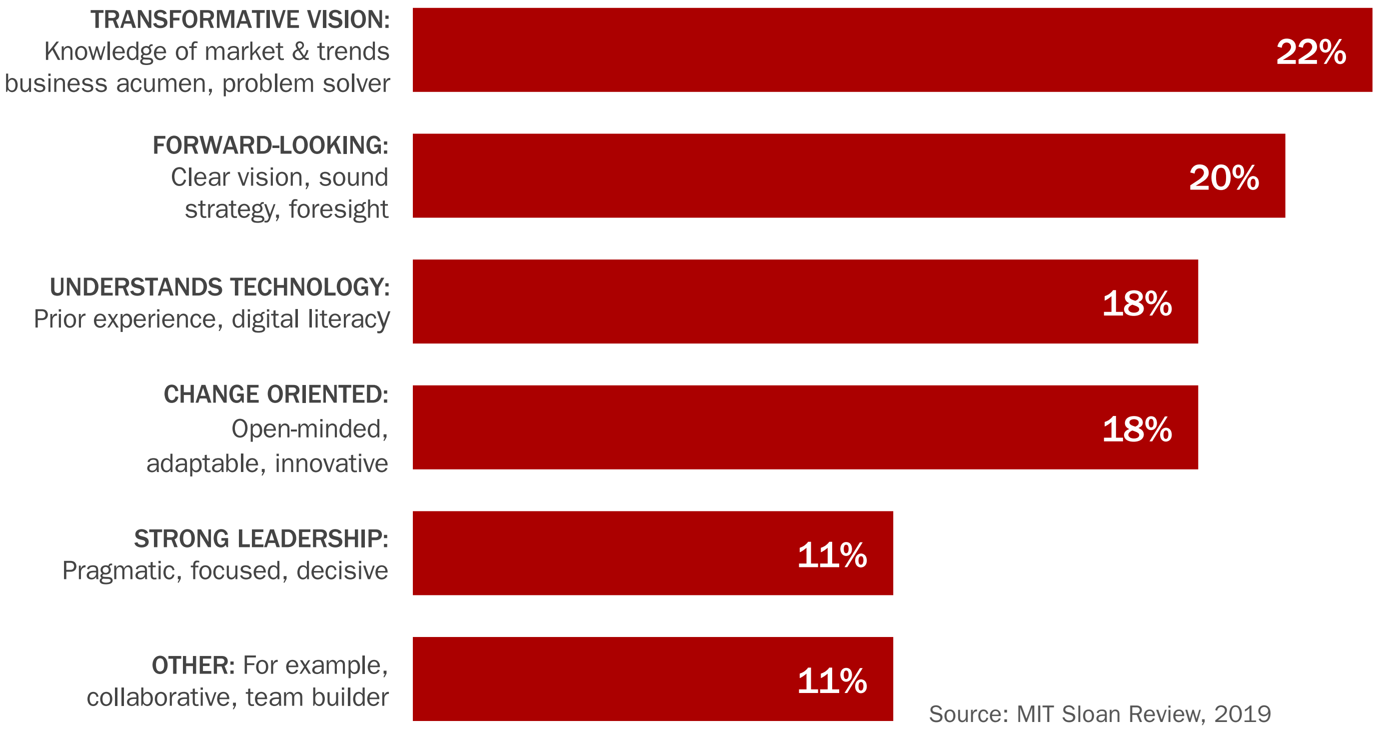


CHART 6:
MOST IMPORTANT LEADERSHIP SKILL NEEDED TO SUCCEED IN A DIGITAL ORGANIZATION



Source: MIT Sloan Review, 2019

Digital Lending Requires Back-Office Automation

"Having an online portal for lending is just the beginning. Banks and credit unions need to drive end-to-end automation of front and back-office processes with automated decision engine in order to accelerate digital lending transformation."

Anurag Shah
AVP and Head of Digital Products, Newgen Software Inc.

One of the major stumbling blocks in the transformation of digital lending is the comfort level with the automation of the lending process, including the potential of automating approval processes. Most financial institutions have long-tenured human-centered policies and procedures that include manual reviews and cross-checks. The concern around risk and the nuances of many past lending decisions causes hesitation around automation.

Risk assessments at most banking organizations use experience-based subjective assessments to achieve low default rates. While these assessments are often very time consuming, they are also time tested. Alternatively, while the success of data-driven, model-based decision making continues to improve, automation needs to have universal buy-in to be effective.

To build an automated decision engine, most organizations test automation against past decisions made without automation. According to several global examples, a data-driven automated engine – with a structured credit 'decisioning' framework – was better at predicting default risk than the subjective human assessments. The decisions were also more consistent, which provides the foundation for future automation.

Organizations also often start with a minor sub-set of loans to build both experience and a history of credibility. As internal processes are automated

"Transformation of the lending process is no different than the digital banking transformation being implemented across all product lines at banks and credit unions — it creates tension and disagreement between progressive and legacy bankers. Many transformation processes can get sidetracked due to legitimate but conflicting internal interests."

and legacy steps are rethought and reconstructed, the automation process can prove itself with increasing percentages of loans being added over time. At the end of the day, automation and rethinking legacy processes is not optional for organizations looking for digital lending transformation success.

The Need for Agility and Flexibility

Change is never easy, especially for people and organizations that have had decades of success following time-tested processes. The challenge is that the marketplace has changed dramatically, requiring a complete rethinking of the lending process.

Transformation of the lending process is no different than the digital banking transformation being implemented across all product lines at banks and credit unions — it creates tension and disagreement between progressive and legacy bankers. Many transformation processes can get sidetracked due to legitimate but conflicting internal interests. People and departments can stifle change and innovation as they look out for their own interests rather than collaborating on creating efficiencies and improving the customer experience.

An agile approach with built-in flexibility is paramount to successful credit transformation. This includes the use of cross-functional, dedicated teams that have decision-making authority with the mission of delivering results on deadline in intense bursts of effort called 'sprints'. Unfortunately, as we have seen in the area of innovation, many organizations know what 'agile' is, talk about being 'agile', but are not fully embracing the process — creating the impression, but not the impact of agile.

As referenced in the research done for this white paper, a significant challenge is the inability to embrace change when there are organizational silos. According to McKinsey, a cross-functional team with business, risk, IT, and operations is essential, for several reasons:

- Collaborating across all functions helps strike the balance of customer-journey and business efficiency objectives while focusing on improved credit decision making and adequate risk control.
- Allowing IT-development work to be controlled by the agile team allows rapid iteration and testing of journeys, data integrations, and results.
- Keeping a customer and 'time to market' focus helps to quickly assess trade-offs and work-arounds for IT and process bottlenecks as well as design solutions that allow rapid value delivery to customers.

The most effective digital transformation processes we have seen is at **U.S. Bank** for new account opening and at organizations worldwide for other transformation projects have started with a blank sheet, rather than trying to work with incremental improvements to existing process. These organizations realize that 'being digital' does not begin with a legacy foundation. While the learnings from the past are helpful, they should not negatively impact the ultimate customer experience.

"Effective digital lending requires seamlessly integrating with numerous solutions in real-time. Financial Institutions that do not have an automated and efficient lending solution that leverages real-time integration will not only miss out on acquiring new customers but also the potential customer lifetime value."

Pat Howard
Regional Sales Manager, Newgen Software Inc.

Leverage Third-Party Partnerships

Most organizations are ill-equipped to implement digital banking transformation alone. There is an increasing need for partnering with third-party organizations, including solution providers as well as fintech organizations.

Solution providers and fintech firms have the ability to evaluate current workflows and underlying credit processes without the bias of maintaining legacy journeys. There are several partnership opportunities in the marketplace that have already tested solutions and experienced the test and learn opportunities (and risks) to support real-time and online lending journeys. These types of partnerships allow banks and credit unions to develop new processes and create new solutions more quickly (and usually less costly) than developing everything internally.

Some of the advantages of third-party partnerships include:

- Understanding of the challenges and opportunities in the marketplace and within individual financial institutions.
- Ability to streamline decisions that are needed for all digital lending transformation, focusing on the unique components required at an partner organization.
- Experience in new lending approaches, including automated credit decisions, rethought internal processes and new product offerings.
- Skilled talent that specializes in digital transformation and digital lending.
- Data and applied analytics functionality that can enhance digital lending decision making and customer experiences.

The biggest benefit of third-party partnerships is the speed to market potential and scope of change. As opposed to incremental changes that could take years to implement, well formulated (and supported) partnerships can result in digital lending transformation being functional in months.

Don't Delay, Start Today

Transforming digital credit processes needs to start immediately, leveraging steps that will improve customer experiences and reduce costs, while at the same time reducing credit risk and expanding the potential number of consumers served. The steps used to improve digital credit offerings included the following:

- **Complete a Self Assessment.** How close is your organization to your desired state? What are the current times it takes for completing an application, assessing credit worthiness, approving a loan and disbursing funds? How does your organization find prospects and expand the credit portfolio? In other words, assess the entire customer journey, finding points of friction and removing steps that can be done more efficiently. Know your destination.

- **Embrace Process Improvement and Automation.** Assess where to start by ranking priorities based on the impact to the customer, impact to the organization and complexity of the solution. Engage a senior 'point person' to lead the process and get all impacted parties moving in the same direction. Be aware that change is both difficult and necessary. Don't allow parts of the organization to hold onto legacy processes that negatively impact the transformation objective.

- **Partner with Third-Parties.** Review the marketplace and determine what organizations have the desired future state in place already. Review third party solution providers and fintech firms that can get you to the desired future state the fastest. Many of these potential partners can provide innovative processes and products that can be the foundation for future transformation initiatives.

- **Use an Agile Approach.** Move from talking about agility to actually implementing change through agile processes. Establish the parameters of the most valuable product (MVP), determine the target IT architecture needed for the solution, and work across functions (business, risk, technology, and operations) on the components of change, following well-defined timetables.

- **Focus on Constant and Never-ending Improvement.** Understand your organization's desired future state of digital lending transformation and use this goal as a motivating factor. Place the consumer at the center of the process and focus on the speed, simplicity and channel agnostic capabilities of leaders in the industry. When you have reached your initial future state of digital lending transformation, move the needle even further. Consumer expectations continue to set the bar higher as new offerings are made available.

The process of digital lending transformation is not easy. The path to success is not always evident. But, the potential to leverage third party providers that have already reached the desired state are available to assist.

Improving the digital lending process will make your organization more competitive in the marketplace, more efficient and more profitable. According to McKinsey, "Success means much faster credit decisions, with customers getting cash up to 80 percent sooner; lower costs, with 30 to 50 percent less time spent on decision making; and better-quality risk decisions, which translate into greater profitability down the road."

How Financial Institutions Can Fire Up Their Lending Engines in 2021

Article by: Steve Cocheo, Executive Editor at **The Financial Brand**

With consumer borrowing returning gradually to normal levels, banks and credit unions have a limited opportunity to rethink how they offer credit and build the systems to make new strategies possible.

As U.S. consumer lending climbs from the depths it fell to in 2020, signs are strong that banks and credit unions that want to regain, maintain or even grow market share will have their work cut out for them.

Facing a combination of new competitors, new forms of consumer credit like "buy now, pay later" and increasing digital expectations from consumers, financial institutions will have to bolster their marketing, add distribution channels and partnerships, and consider new forms of credit.

These challenges will run through 2021 and at least into 2022 in some aspects of consumer credit.

A Hopeful Road Ahead:

Oxford Economics projects that U.S. real consumer spending growth will rise by 9.6% in 2021 and 5.1% in 2022, reflecting the unleashing of pent-up demand. The 2021 projection would be the highest since 1946.

The challenge for traditional lenders like banks and credit unions will be staying in the game as demand grows sufficiently to drive credit appetite. Andreas Kremer, a partner with McKinsey, warns that major ecommerce players like Amazon may represent a greater threat to consumer lending volumes than fintechs have, to date.

"The big players in ecommerce actually might just disintermediate the banks and bring customers not only the products but also the credit to buy it with," says Kremer. "Remember, consumers don't want to think about loans, they just want to buy something. If you can buy something and a loan comes with it, it's just that much more convenient. And usually it doesn't have to be the cheapest option as long as it's cheaper than most."

Even traditional consumer loan rivals will present a growing source of competition. "The market will become twice as competitive as it was pre-pandemic — probably even more so — because banks have much more in deposits to put to work," says Leo D'Acierno, Senior Advisor at **Simon-Kucher and Partners.**

Understanding Where We Are and Where We're Going

Oxford Economics anticipates that consumers will begin tapping into the savings built up during the pandemic as 2022 approaches. That said, the firm's research indicates that higher-income people hold most of the savings that remain from the Covid period. This suggests that many other people will need a healthy dose of credit.

"Many lenders are feeling good about the direction that things are going in and they think there is going to be growth ahead," says Matt Komos, Vice-President of Research and Consulting at **TransUnion**.

A Nuanced Picture:

It is a bit of a misconception that consumer credit dried up through all of 2020.

Much has been made about the paying down of credit card balances, a good deal of it with stimulus payments. However, new credit card account openings, which hit a low in mid 2020 at 8.6 million, rebounded to 12.3 million in the third quarter and 15.5 million in the fourth, according to TransUnion. These are considered normal levels, though TransUnion notes that the credit lines associated with the new accounts were smaller due to lender caution.

While the supply of new cars has fallen — due first to closed factories in 2020 and more recently due to shortages of computer chips — that is not the whole story as applied to auto credit, according to TransUnion. Komos points out that the limited supply has driven up car prices and thus loan amounts. As a result, the average debt per auto borrower has risen to over $20,000, versus $14,800 in 2018 — a 35% increase. In addition, people who would originally have chosen new cars have been buying used models, pushing out some typical used car buyers.

The downturn in credit card lending has shrunk demand for unsecured personal loans — often obtained from fintech lenders for debt consolidation. However, TransUnion's Liz Pagel, SVP and Consumer Lending Business Leader, says that "as more states re-open their economies, we expect to see more activity as consumers seek to finance vacations, home improvements and other large purchases." She adds that as lenders gain more confidence in the economy they will begin to offer credit to higher-risk consumers, who stand in greater need than some other prospects.

Gravitating to the Familiar:

TransUnion notes that a growing number of lenders are offering prescreened credit offers via email and even direct mail, in order to stimulate greater demand.

"We are going through the valley of the credit cycle right now," says McKinsey's Kremer. He believes that after a few quarters of shakeout, during which usage will be growing, lenders will see a return to normal levels of consumer borrowing on most fronts. The trick will be getting their share of it as demand comes back.

Strategies for Rebuilding Consumer Loans Post-Covid

Here are strategies recommended by Kremer and D'Acierno for making the comeback:

1. Meet credit-ready consumers where they are looking for credit.

Traditional outbound marketing, even in digital forms, depends on grabbing the right eyeballs at a time when the consumer is actually seeking credit. That's a tough challenge, according to Kremer. He suggests that financial comparison sites, such as Bankrate.com, The Ascent and NerdWallet, present a better opportunity for exposure.

Today's consumers, should they not have an offer of financing directly with their prospective purchase, are not going to wait to stumble across a web banner promoting loans, suggests Kremer. Proactively, they go hunting the best credit deals, he says, and the comparison sites are the first stop.

2. Seek opportunities where people are seeking new credit.

Even as the "new normal" continues to unfold, a key opportunity for lenders is the home improvement market, which began during the pandemic, and continues to grow, according to D'Acierno.

Improving Your Shelter in Place:

Reports indicate that the housing supply is tightening in many parts of the country, so this and continuing work-from-home arrangements should drive ongoing demand for home improvement money.

D'Acierno points out that home equity credit, a classic source of home improvement funds, continues to erode for two reasons. First, consumers have found it cheaper to include remodeling funds in a cash-out refinancing over the last year or so. Second, unsecured personal loans don't have the hassle that home equity credit does and are relatively cheap at today's rates.

The consultant says the banks and credit unions need to give more thought to new product design as competition heats up. A nonbank player that he points to as a trend of the future is **PowerPay**. The company offers unsecured credit at purchasing time through both home improvement contractors and dealers, and decisions are rendered quickly. There is nothing this fintech is doing that couldn't be done by a bank or credit union, even on a more local basis. The innovation here is in packaging and distribution, D'Acierno adds, rather than in the loan itself.

3. Stop bringing paper to today's digital fight.

There's no going back from the reality that shutdowns and social distancing accelerated demand for digital services. Kremer believes many consumers have grown more used to conducting financial business online, so financial institutions that don't offer digital ways to apply for credit will be competing at a disadvantage.

"You have to make it as seamless as possible to get a loan," says Kremer. "So it is even more important now to be prepared and have the systems in place as more people begin borrowing again."

Where institutions can form partnerships with ecommerce players, that will add entrée to an institution's digital credit capabilities. D'Acierno points out that the companies behind the "buy now, pay later" trend started out as "fly specks" and grew and grew. So ecommerce partnership doesn't exclude smaller financial institutions. Some of the most active banking-as-a-service players are community banks.

Automation grows increasingly important because consumers want fast responses nowadays. D'Acierno thinks the desire for instant gratification can't be overstated.

Additional Articles of Interest from Steve Cocheo and The Financial Brand:

- *'Buy Now, Pay Later' Impact on Consumer Credit Behavior Expanding Fast*
- *How Consumers Prioritized Debt Payments During The Pandemic*
- *Banks Toy With Dumping Credit Scores from Lending Decisions*
- *Fintech Lenders Will Come Roaring Back As Economy Re-Opens*

Driving Digital Lending Transformation with Connected Banking

Digital lending transformation requires an understanding of the components of digital lending transformation and the benefits of connected banking. As part of the strategic planning process, each organization must look at improving the customer experience, building an innovation culture, enhancing operational efficiency and working within risk and compliance guidelines.

Digital lending transformation involves the integration of data, advanced analytics and digital technology into all areas of the way the lending process is supported, changing the way work is done, priorities set and services are delivered. More than just a technological upgrade, digital lending transformation requires a cultural change that challenges legacy processes, encourages innovation, and rethinks all aspects of risk and reward.

The objective of an organization's digital lending transformation process must improve the customer experience, reduce costs, streamline operations, reduce friction, become more agile and increase profitability … or any combination of these objectives. In any case, digital lending transformation will disrupt business models that have been the foundation of the organization for decades. This is why true digital lending transformation is so difficult to achieve — it's more than simply delivering the same services on a new app.

Before the pandemic, every banking organization knew there needed to be an improvement in the way lending was done and the way borrowing by consumers was supported. This is because digital engagement was no longer novel — every organization in other industries was 'doing digital' as well. But, in the wake of the pandemic, there was a need to go beyond the 'talk' of digital lending transformation.

As consumer expectations changed, competition increased. Thus the need to adapt quickly became the norm. Digital lending transformation has become a matter of survival.

McKinsey data shows that the accelerated shift towards digital channels in banking is likely to stick, and continue to increase. This not only changes the way traditional financial institutions engage with consumers, but also the scope of banking options the consumer is likely to consider. This is because both fintech and big tech organizations are creating borrowing solutions geared to the growing digital banking public.

Digital lending transformation efforts will vary widely based on an organization's business objectives, target audience, current digital maturity, organization structure and existing culture. That said, the seven key components of digital lending transformation success are:

- Become a Data and Analytics Leader
- Enhance Consumer Experiences
- Foster Innovation
- Leverage Modern Technologies
- Upgrade Systems and Processes
- Reskill Your Workforce
- Align Leadership and Culture for Digital Future

To succeed, organizations must embrace the concept of 'connected banking'. In a connected bank, everyone (customers, workforce and partners) transact and engage in an orchestrated manner; anytime, anywhere, and through any channel. In a connected bank the end-to-end customer journey is guided and enabled, operations are nimble, and sustainable innovation is realizable. A connected bank allows you to achieve customer-centricity in today's hyper-connected environment.

Use Data and Analytics for Decisions and Experiences

Financial institutions must rethink how data and insights are collected and used. In the past, most data was used to create reports that management used to determine progress on annual objectives. In the future, data and applied analytics must be used much more broadly, across the organization.

According to a report from IBM on business transformation, data must be the basis for reimagined intelligent workflows that streamline processes that directly impact faster and simpler customer experiences. In addition, applied analytics must be deployed to all areas of the organization, enabling employees to provide humanized digital experiences.

In some cases, existing job functions will shift from transaction processing to customer engagement, supporting enhanced customer journeys that include proactive advice and product/service recommendations. In other cases, data and applied analytics will support new product innovations.

"Financial institutions that leverage a flexible and efficient unified platform with end-to-end process automation based on the industry best practices will provide the most successful personalized customer experience. A unified platform will help you strengthen your customer loyalty and drive improved business outcomes."

Susan Davis Whitner
Regional Sales Manager, Newgen Software Inc.

By combining advances in technology and intelligent workflows, not only is the customer experience enhanced, but efficiency is realized as automation, real-time decisions, the innovation process, utilization of the hybrid cloud and other enhancements work together.

Focus on Customer Experiences

The pandemic shifted consumers' use of digital technology in an instant, creating more awareness of the potential of digital apps and creating new digital habits. The integration of new technologies, improved use of data and analytics, ubiquity of mobile devices, and new digital apps have enabled consumers to get what they want almost exactly at the moment they want it.

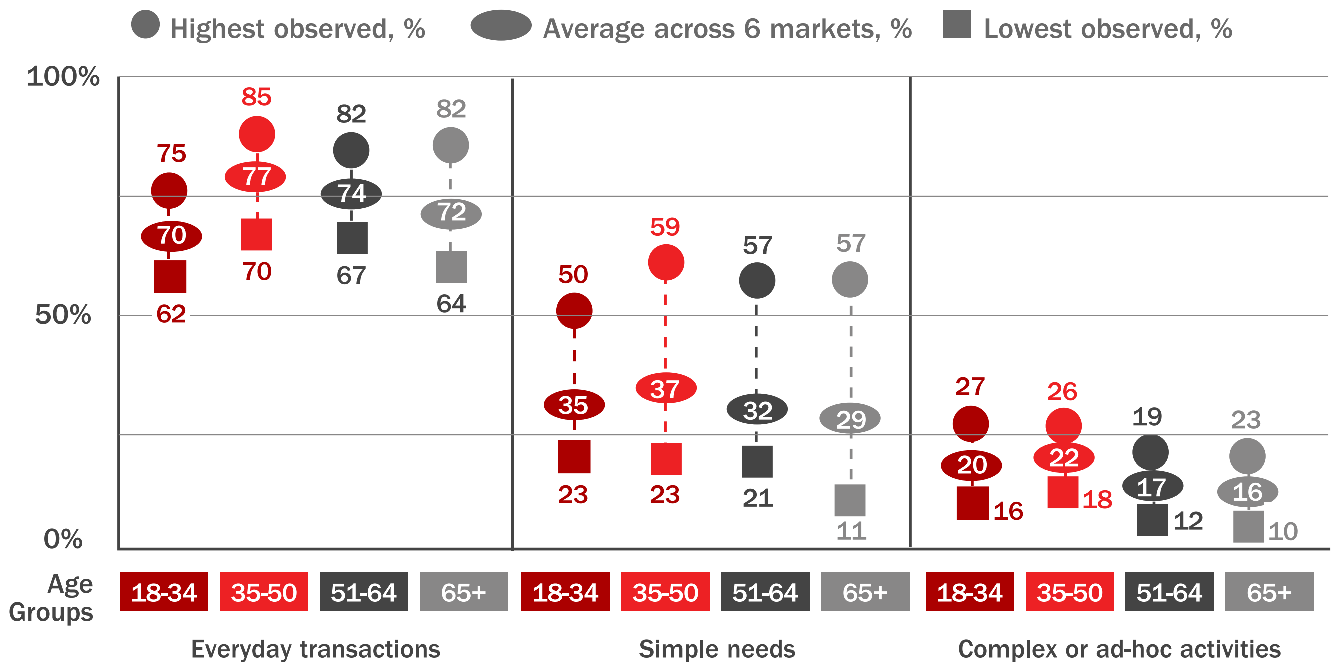
This has impacted the way consumers bank and the expectations consumers have around digital lending solutions and digital engagement. According to McKinsey, not only have consumers moved away from traditional physical facilities to digital options in increasing numbers as a result of the pandemic, but age is no longer a differentiator for digital preferences.

In other words, digital isn't just for the young anymore.

CHART 7:

AGE IS NO LONGER A DIFFERENTIATOR FOR CHANNEL PREFERENCES IN BANKING

Internet/mobile banking preference by activity across age groups, % of respondents by market



Source: McKinsey © June 2021 Digital Banking Report

Today's consumers expect organizations to know their personal preferences, leverage their relationship insights, and use data from outside sources to provide real-time, contextual recommendations. According to **Accenture**, 75% of customers admit being more likely to buy from a company that recognizes them by their name, knows their purchase history, and recommends products based on their past purchases. In research done by the **Digital Banking Report**, most consumers want their financial institution to use their data, yet 94% of financial institutions can't deliver on the "personalization promise."

Despite massive investments by financial institutions on digital transformation, just one quarter of consumers report any significant improvement in the experiences offered. In addition, 63% of consumers said that their primary financial provider is either 'behind' or just 'keeping pace' with similar companies. In other words, the investment in digital transformation is not creating a differentiated experience.

One reason is that most institutions focus on internal, not consumer, goals.

Our research indicates that only 28% of digital transformation initiatives at businesses are started specifically with customer needs as the priority. In contrast, 68% of digital transformation efforts were focused on business outcomes such as cost savings, revenue enhancement, etc.

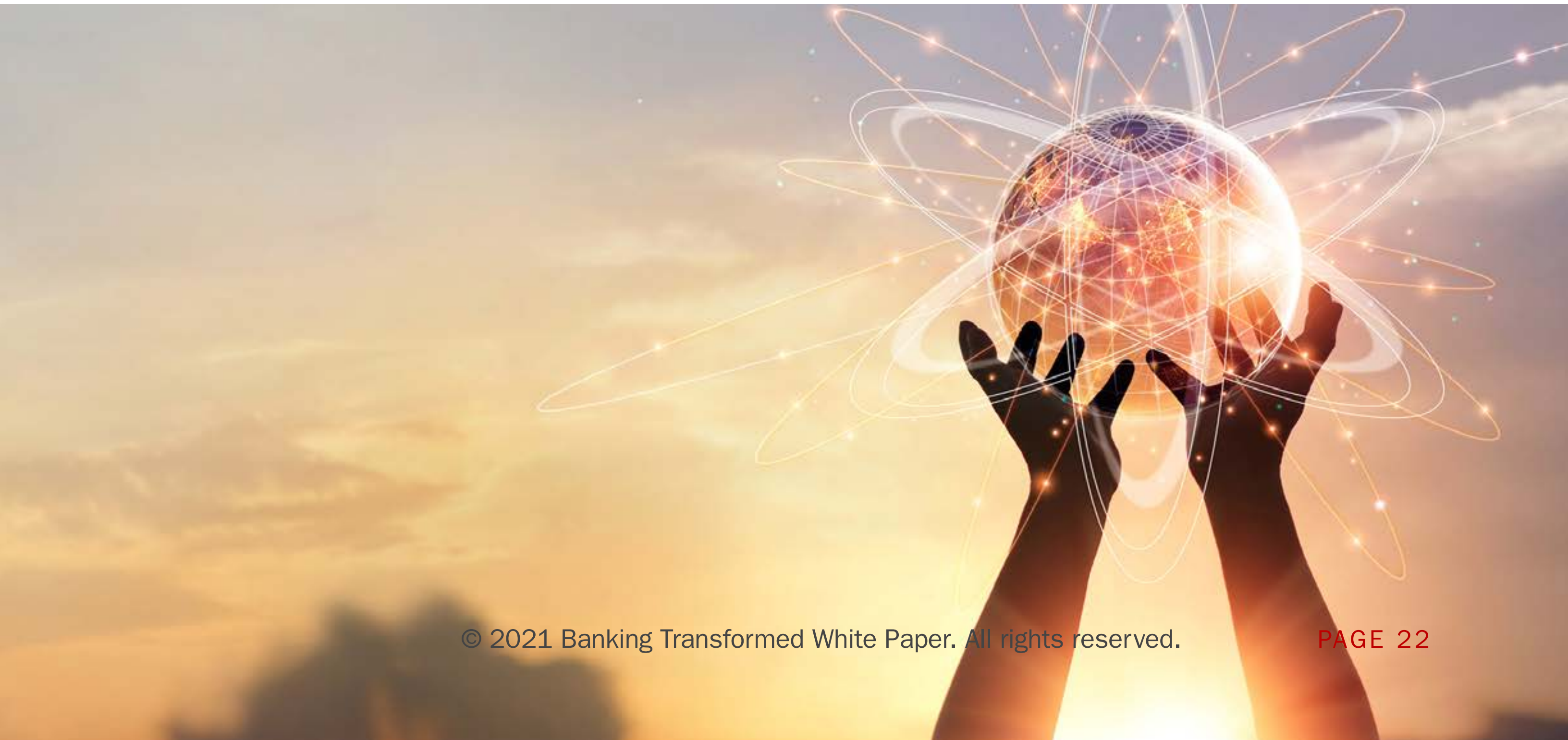
The good news is that financial institutions are planning to increase investment in consumer-focused initiatives. Banks and credit unions are particularly focused on enhancing integrated online and mobile experiences, rethinking back-office operations and processes and delivering services faster and easier. This re-thinking of how banking is done is being driven by the increased competition from non-traditional digital organizations.

Support an Innovation Culture

Digital lending transformation cannot be achieved without a culture of innovation. As we have interviewed dozens of founders of disruptive fintech firms and leaders of exciting new digital units of legacy banks for the **Banking Transformed podcast**, the first thing they mention is the importance of an innovation culture.

Innovation and digital lending transformation are interlinked and correlated. The organizations furthest along in the digital lending transformation journey are also those that are innovation leaders. As was found during the early stages of lockdown with COVID-19, there is an opportunity when financial institutions can use digital to drive innovation and reset the paradigm for both the present and the future. The threat for those organizations not fostering innovation as part of the digital transformation process is that traditional and non-traditional competition is changing the banking ecosystem by embracing innovation as part of their business model.

When looking at the financial services industry, we need to remember that technology is available to all institutions equally, therefore technology, in and of itself, affords no distinct competitive advantage. Instead, it is the leadership, culture and human component behind the technology and innovation process that sets firms apart. In other words, digital technologies provide the opportunity for efficiency improvements and improved customer experiences. But, if the people



"In today's day and age, even the banking customers expect an Amazon-like experience. To deliver modern customers experience and stay future-proof, financial institutions must continually invest in new-age technologies."

Kurt Dyer
Regional Sales Manager, Newgen Software Inc.

within the organization lack the innovation mindset to change current processes and solutions, the technology will simply magnify flaws within the organization.

When looking at lending innovation initiatives, banks and credit unions must start with consumer needs. In other words, any effort must be preceded by a diagnostic phase with in-depth input from consumers around what they expect — knowing that these expectations are shifting rapidly. And, as opposed to trying to hit the center of the target in a single major change, most organizations have found that the best way to improve a customer borrowing experience is to make smaller-scale changes to different components of the engagement that can be implemented more easily with rapid iterations over time.

Remember, as with digital lending transformation, innovation is not a destination, but a journey that involves evolution over time.

Leverage Modern Technology

Research discussed in the book *The Technology Fallacy: How People Are the Real Key to Digital Transformation* reveals that the human and organizational aspects of digital transformation are often more important than the technological ones. That said, modern technology is still required to digitally transform an organization.

In other words, banks and credit unions must deploy new technologies into all areas of the business, changing the way we deliver value to customers. It also requires an ongoing challenge to the status quo, with experimentation and an increasing comfort with failure. The reason for embracing new technologies is because the playing field in banking has changed because of new competitors and a greater awareness by consumers of what is possible as they order meals from a voice device, engage with others with video, hail a cab with their phone, and get a home loan in minutes.

Some of the technologies that enable digital transformation in banking include:

- **Mobile apps.** One of the fundamental changes in the lending industry is the movement from branch delivery to web and online applications to mobile apps. In fact, many organizations are foregoing the development of online capabilities, using mobile upgrades to be the forerunner to online improvements. The most progressive organizations are making incremental upgrades more frequently than ever, focusing on speed, simplicity and user experience.
- **Cloud computing.** Cloud computing has democratized data collection and increased the capacity and security of information processing, allowing financial institutions of any size to upgrade legacy systems piecemeal or all at once. By moving most services to the cloud, banks and credit unions can move quicker and better manage scale.
- **Automation and AI.** More and more functions within banks and credit unions are being automated and improved with robotics and artificial intelligence. One of the most common uses of automation and AI is in process improvement and customer service, where firms use data, analytics and automated systems to eliminate human steps and respond to basic inquiries from consumers. This not only saves money, but improves the standardization

"Financial institutions must completely rethink existing back-office processes that were created decades ago. These processes transcend the roles of product development, delivery, sales, marketing, and customer service. It goes beyond simply using a digital channel to deliver legacy solutions. Digital transformation must begin and end with the customer experience and therefore be built from the inside-out."

of solutions, allowing humans to be used for more important tasks.

- **Voice technologies.** While still in the formative stage and many organizations, the ability to perform inquiries and transactions using voice is quickly becoming a differentiator as consumers become accustomed to the functionality of Siri, Alexa, etc. **Bank of America's Erica** solution is a leader in financial services.

- **Internet of Things (IoT).** From smart watches to sensors throughout the home, the potential for embedded borrowing is becoming more commonplace. As organizations are looking for ways to make borrowing and overall banking easier, more and more will be done using interconnected devices that talk to each other for payments, loans, savings and investments.

- **5G.** As digital transformation hits full-speed, the speed of data processing and customer engagement become more important. Fifth generation wireless (5G) technology will enable exponentially faster data transmission and uninterrupted connectivity, opening doors for solutions previously impossible with 4G technology.

Create Operational Efficiency with Improved Processes

The prevalence of legacy systems still hinders most financial institution's ability to successfully embark on a digital lending transformation strategy. In research done by the **Digital Banking Report**, legacy systems are considered a primary barrier to transformation. If an organization is spending 75% of their IT budget on supporting legacy systems, there is a limit to what is available for modernization.

The good news is that there are many solution providers that can upgrade systems incrementally, allowing organizations to focus on areas of greatest need. For banks and credit unions to keep pace with the rapid marketplace changes, many firms are also moving to cloud computing and adopting agile principles, which allow for the processing of massive amounts of data and insights in real times and at a greatly reduced cost.

Legacy systems modernization doesn't happen in an instant. It is an incremental process that differs for each organization based on institution objectives and anticipated business needs. For most financial institutions, it will involve the integration of cloud computing, mobile technologies, advanced analytics, cybersecurity, etc. The goal is to build a flexible infrastructure that can support existing needs and future innovations.

Just as important as changing legacy technology, financial institutions must completely rethink existing back-office processes that were created decades ago. These processes transcend the roles of product development, delivery, sales, marketing, and customer service. It goes beyond simply using a digital channel to deliver legacy solutions. Digital transformation must begin and end with the customer experience and therefore be built from the inside-out.

All existing processes must be rethought from the perspective of digital delivery, which requires the removal of friction, the contextuality of engagement, and a focus on speed, ease of use, and user experience.

Reskill Employees for Digital Lending Future

The skills needed for embarking on a digital lending transformation journey most likely do not exist in sufficient numbers in most financial institutions, making talent management and employee reskilling particularly important. While some of the new skills required can be solved through hiring, banks and credit unions must consider a long-term approach to growing their talent base using training and cross-functional deployment.

Beyond the hard skills required for digital lending transformation, organizations also must consider the adjustment of legacy mindsets that will be required, especially as back-office processes and procedures are rethought. For instance, how does a tenured product manager expand their thinking around how a digital loan needs to be built or a digital loan application process needs to be simplified?

Unfortunately, most financial institutions are continuing to under-invest in training in a sector where the skills shortage is particularly acute. In a relatively short period of time as many as two-thirds of current employees will need to be skilled to become ‘digital workers’ and ‘digital makers.’

Align Leadership Thinking and Culture

As mentioned, digital lending transformation requires more than just updating technology or building new digital applications. Failure to align the efforts, values and behaviors of leadership and employees can create friction and risks within an organization.

Alternatively, when leadership embraces the changes that are needed, and supports a comprehensive and collaborative effort to advance digital lending transformation, all efforts to ‘become digital’ will have a greater chance of success. Part of any successful digital lending transformation effort is having communication and actions support the efforts at the top of the organization. It also requires support and buy-in by those in other levels of the organization, including the same middle management that has been doing things the same way for decades.

In addition to making the goals of the digital lending transformation clear, and how the process will positively impact corporate objectives and strategies, top management and boards must focus on communicating the cultural aspects that will help efforts succeed, including transparency, accountability, and a willingness to experiment and even fail.

Connecting the Dots with Connected Banking

Connected banking is about bringing all of the elements of digital lending transformation together in a seamless way to support an improved customer experience, an innovation mindset, streamlined operations, and support of risk and compliance guidelines.

It seems logical that a financial institution’s digital lending transformation process should begin with a customer experience perspective, but many organizations do not have a good handle on the performance gap between a superior digital experience and what is currently being delivered. When banks and credit unions ask, “Where should we start?”, we recommend starting with looking at the overall customer journey. The goal is to make the process faster and easier – with a channel agnostic capability and personalized delivery.

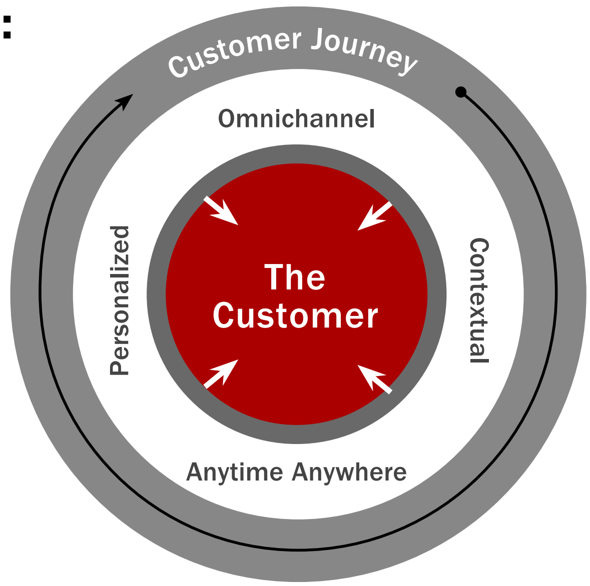
Currently, most financial institutions have a digital loan abandonment rate of between 40% and 80% depending on the complexity of the process. When fintech competition (and some legacy financial institutions) can process loans in minutes using only a digital device, as opposed to a process that currently takes days for a loan, the performance gap is massive.

Banks and credit unions that have reduced the friction in digital lending to replicate what is ‘table stakes’ for a digital-first organization have seen increases in new business from 50%-100%. Not only does this elimination of lost business pay for the engagement of a third-party solution provider, but it also improves efficiency that reduces operational costs.

“Financial institutions must make all customer interactions as magical moments. To ensure this, connected banking is the only option. A connected bank cohesively operates to enable customer experience, product innovation, and operational efficiency while managing risks and compliance.”

Ashish Deshmukh
Head – Banking and Financial Services, Newgen Software Inc.

CHART 8:



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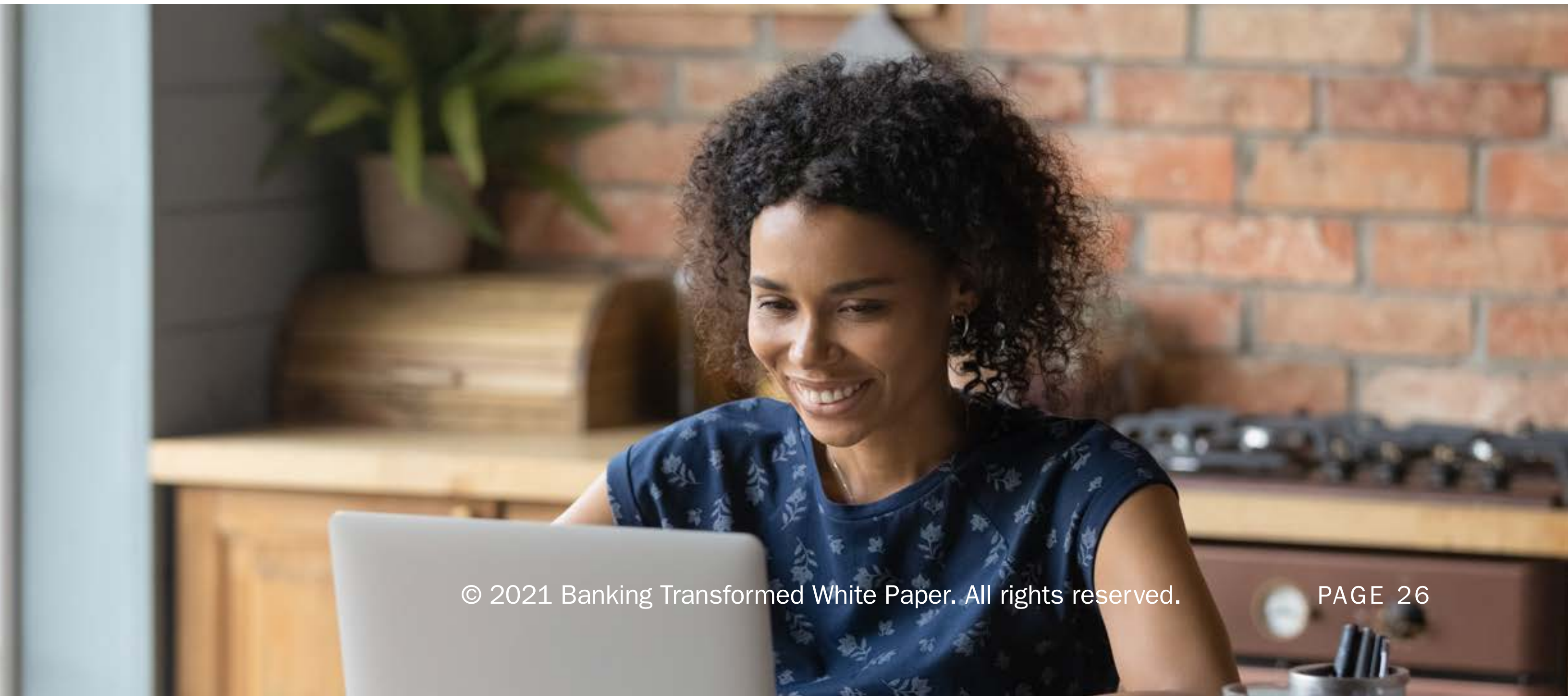
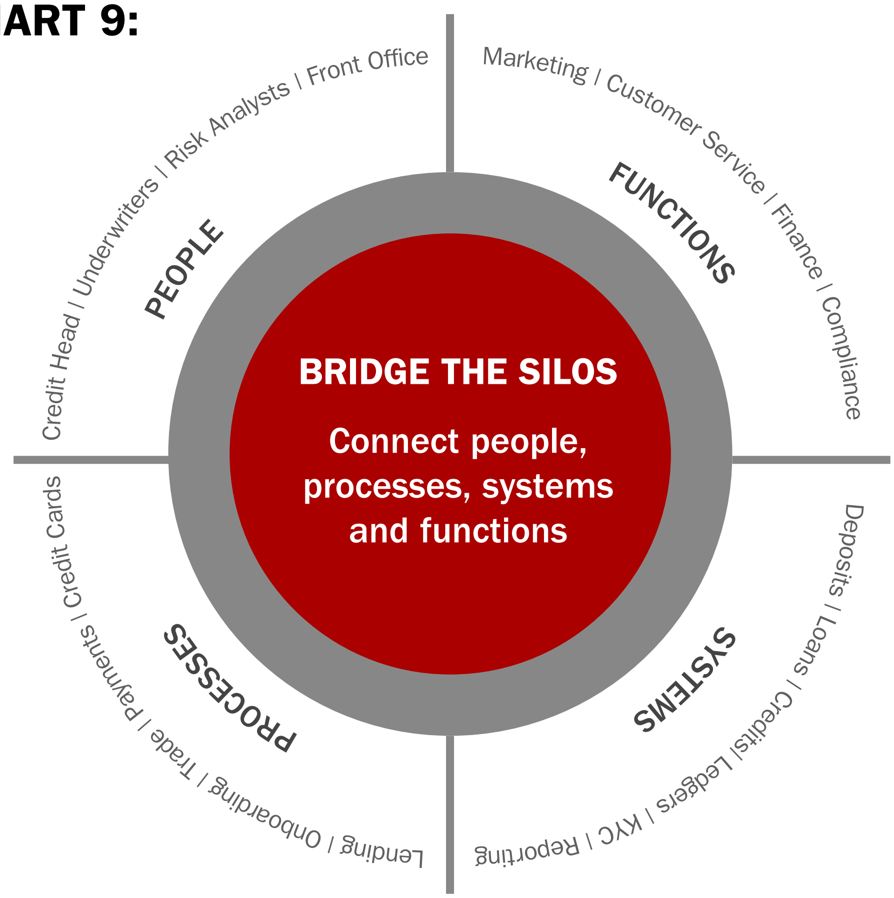


Customer-centricity drives this cohesive connect to orient all your actions toward the holistic customer journey. The customer journey forces your organization to think outside-in and helps you align your operations to achieve concrete outcomes.

Connecting Your Entire Lending Ecosystem

Silos within financial institutions continue to slow processes, hamper digital lending transformation and negatively impact the customer experience. The presence of disjointed digital technologies or interfaces over and above existing core applications also act as roadblocks. You must bridge these silos by focusing on process, content, and communication — the three pivotal ingredients of a connected banking paradigm. Connected operations provide you the leverage to further create a boundaryless lending environment that is extensible to a broader ecosystem.

CHART 9:



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What differentiates the bank of the future is a boundaryless paradigm, where all your internal and external customers, including partners, can participate and benefit in a self-service mode without hard dependencies. It is also an extended banking ecosystem where your bank connects internally as well as externally to serve customers holistically and create a greater lifetime value.

Listen to our podcast with ***Ankur Rawat*** *Director, Products and Solutions, Newgen Software Inc. and learn about "Transforming Consumer Lending with Connected Banking."*

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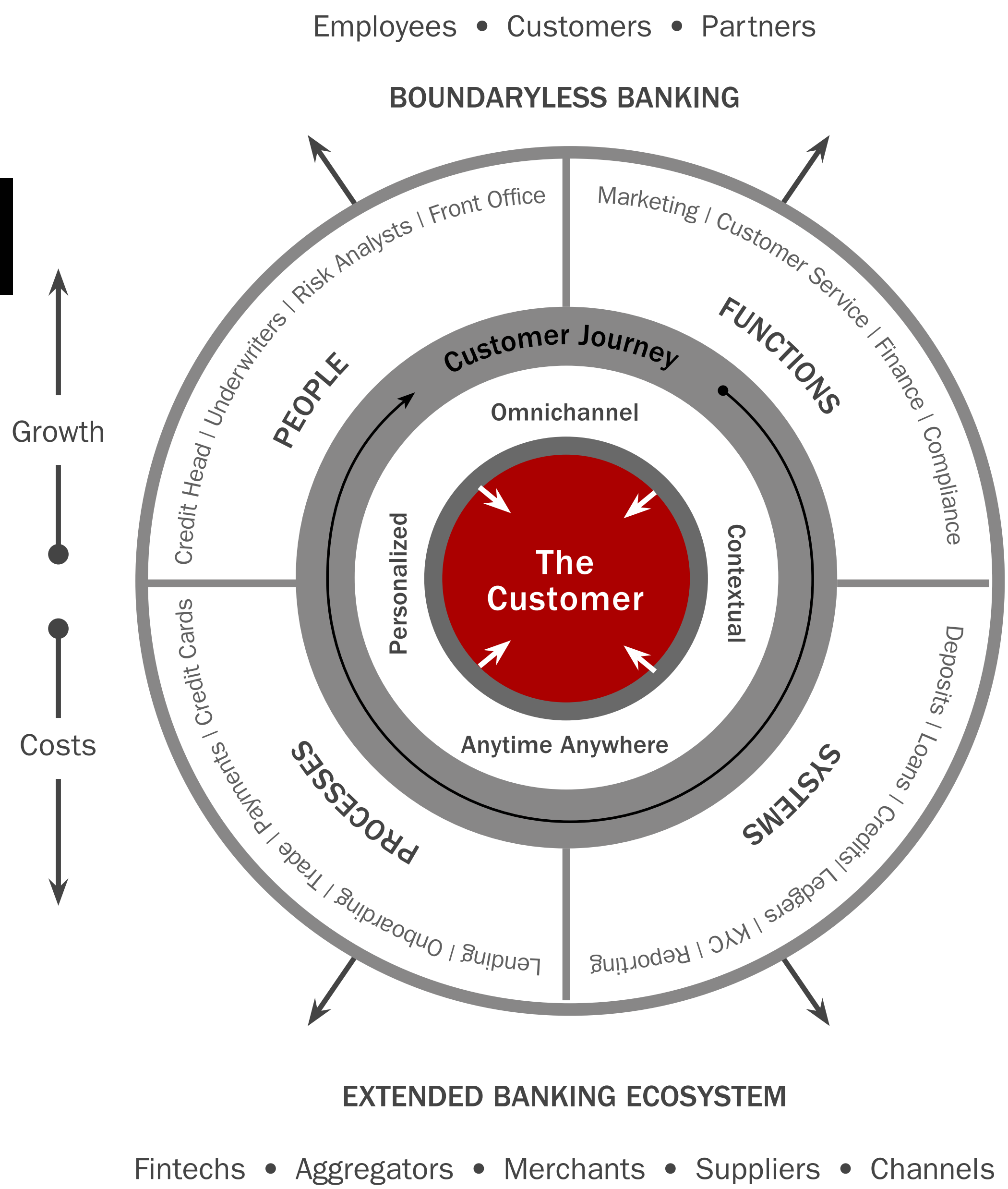
CHART 10: CONNECTED BANKING

The Four Drivers

- Customer Experience
- Operational Efficiency
- Product Innovation
- Risk and Compliance



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About the Author

Named as a top 5 influencer in banking, Jim Marous is an internationally recognized financial industry strategist, co-publisher of **The Financial Brand**, owner and publisher of the **Digital Banking Report** and host of the **Banking Transformed podcast**. The Digital Banking Report is a subscription-based publication that provides deep insights into the digitization of banking, with over 200 reports that can be accessed in its digital archive.

The Banking Transformed podcast features weekly interviews with global leaders who provide insights into the impact of digital disruption across all industries.

As a sought after keynote speaker, author and recognized authority on disruption in the financial services industry, Marous has been featured by CNBC, CNN, Cheddar, The Wall Street Journal, New York Times, The Financial Times, The Economist, The American Banker and numerous other global publications. He has spoken to audiences worldwide on the impact of change to the banking industry. Jim has also advised the White House on banking policy and is a regular contributor and guest host for the Breaking Banks podcast.

You can follow Jim Marous on **Twitter** and **Linkedin** or visit his professional website.

About Newgen

Newgen is the leading provider of a unified digital transformation platform with native process automation, content services, and communication management capabilities. Globally, successful enterprises rely on Newgen's industry-recognized low code application platform to develop and deploy complex, content-driven, and customer-engaging business applications on the cloud. From onboarding to service requests, lending to underwriting, and for many more use cases across industries. Newgen unlocks simple with speed and agility.

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