

# CAPCO

## **GREATER EMPHASIS ON DIGITAL TRANSFORMATION IN LENDING**

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2021 TRENDS IN LENDING



As businesses begin to recover from the financial downturn caused by the COVID-19 pandemic and a sense of normalcy is restored, it should be acknowledged that 'BAU' cannot be the same as it was before. This year presents an opportunity for traditional banks to address the shortcomings that were exposed during the pandemic and giving way for competitors to emerge, especially in the lending space. This series will break down some of the most significant market trends disrupting the **lending** industry, what banks can do to best position themselves, and how Capco can help. **Digital transformation** has been aiding lending markets in the U.S. by providing

solutions to streamline traditionally cumbersome processes. This article dives deeper into the role digital transformation is playing in the lending industry.

Digital transformation is ubiquitous and even more so in the advent of the coronavirus pandemic, which forced a virtual environment upon us. The obvious necessity of digital infrastructure to conduct business, coupled with the growing demands by consumers for quick and convenient solutions have placed a greater emphasis than ever on embracing developing digital capabilities. Four key areas which are fast accelerating digitization are **Data, Technology, Cloud, and Automation.**

## HOW DATA IS TRANSFORMING LENDING

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Banks are realizing the power of data in creating a client-centric experience and leveraging data to quickly accomplish basic steps in the lending cycle, such as the often tedious KYC process. For example, by utilizing Big Data, a KYC officer can quickly analyze loan applicants and assess a truly comprehensive risk profile by reviewing metrics beyond a traditional credit score. This could also expand credit to the roughly 26 million people who are "credit invisible" in the United States due to limited traditional credit history, according to the Consumer Financial Protection Bureau. Data also provides the ability to:

An emphasis on data-driven lending practices will also create a more urgent need for proper data infrastructure to support secure and efficient data capture and usage. Capco has extensive experience in the data space and can work with clients to ensure adoption of proper governance and infrastructure to be effective and remain compliant with federal data standards

- Anticipate needs of borrowers using data on demographic, behaviours, and industry.
  - Create predictive capabilities to recommend products and services (loops in AI/ML).
  - Make the experience more personalized and tailored to the needs of the customer.
- Better assess financial health of borrowers while simultaneously streamlining the underwriting process. This could also allow for the creation of mobile/online E2E account opening.

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"Data Point: Credit Invisible." The Consumer Financial Protection Bureau, [https://files.consumerfinance.gov/f/201505\\_cfpb\\_data-point-credit-invisibles.pdf](https://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf).

# TECHNOLOGY ADVANCEMENTS IN LENDING

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With the growing competition from agile fintechs, traditional banks are adopting new technologies to provide better services to customers. This will be essential to attract new customers and stay competitive. At the helm of these advancements is a focus toward digitizing existing processes to meet the increasing demand for digital experiences. In a 2019 Fiserv survey, 65% of consumers who apply for loans do so either partially or fully online, a nearly 10% increase from the year before. With a growing expectation for digital to be the norm, it is important to deliver on that client experience.

This is a significant opportunity for financial institutions to utilize API and Open Banking technology to collaborate with specialized fintechs to expand their own offerings, without undertaking the additional risk.

- Open Banking: Using APIs to allow third-party developers to build applications and services around the constructs of the financial institution. This allows data to be shared openly, eliminating the need for cumbersome manual data collection exercises and helping lenders make better lending decisions.
- APIs/Banking-as-a-Service (BaaS): Could allow banks to develop new services and offer new, innovative processes into the lending process using links between different applications.
- Expansion: This is not a new realization, but the adoption of technology to lending could help expand lending services to

underbanked markets by lowering initial costs of entry for the borrower and lowering costs of lending for the loaner. It also opens the opportunity to adopt different methods of lending which are more accessible, such as P2P loans.

Capco has rich experience and specialized technology experts that have previously supported financial institutions and can work with clients to facilitate a partnership and oversee ongoing technology transformations with them.

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"Digital Loan Applications Rise as Mobile Device Use Increases." Fiserv, <https://newsroom.fiserv.com/news-releases/news-release-details/digital-loan-applications-rise-mobile-device-use-increases>.

# CLOUD IN LENDING

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Using cloud technology is becoming more popular, especially as physical branches close and more customers are turning to entirely digital processes. According to a 2020 IDG Cloud Computing study, over 55% of fintechs and financial institutions are using multiple clouds to store their data and an average of 32% of companies' IT budgets are dedicated to cloud transformation. By using the full extent of cloud capabilities, banks open themselves up to an entirely new way of functioning.

Capco has a strong network with technology specialists, including leading Cloud service providers, such as Google Cloud Platform, Amazon Web Services and Microsoft Azure. Coupling their technology with cloud consulting, architects, and engineers can provide clients with elite market initiatives.

- Cloud Storage: Storing large amounts of data in the cloud will provide deeper and more accurate analysis, which would be available to more people across the bank to access to keep decisions. It could also eliminate the various touchpoints to retrieve certain information if it were all available in one place.
- Cloud is flexible. It can be scaled and adapted to meet exactly the needs and wants of both the bank and customer. It can also quickly adapt to changes, allowing banks to react to market changes and demand changes more efficiently.
- Cloud encourages innovation. With lower costs and freed up resources, more time can be dedicated to improving processes and infrastructure.



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"2020 Cloud Computing Study." IDG, <https://www.idg.com/tools-for-marketers/2020-cloud-computing-study/>.

# AUTOMATION IN LENDING

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In a survey done by Moody's Analytics, 56% of bankers surveyed responded that the manual collection of data and subsequent back and forth with the client is the biggest challenge when initiating the loan process, consuming valuable time and resources for repetitive and mundane activity. Automation, coupled with other digital technologies, such as APIs, can create fully digital, client-facing data collection forms which can automatically prompt at inconsistencies and incorrectly completed fields.

While upfront efforts to building out automated process are quite costly, once implemented, automation will, in a sense, pay for itself by drastically simplifying lending processes and reducing associated costs. Automation can:

- Streamline the lending process and could eliminate certain steps on the front and back end.
  - This would directly impact the approval timeline and could shorten that waiting period.
- Reduce the risk of human error by replacing mundane manual processes, particularly those related to data input.
- Free up resources so more time can be focused on building and improving the customer relationship and customer experience.
- Put more power in the customers' hands by giving the opportunity to start the lending process on their own time, not just when a lender is available.

When you engage Capco, we will work with you to drive the Digital Transformation journey in your businesses which shall help removes inefficiencies, improves customer experiences, brings about greater savings, and promotes innovative thinking for even more growth. With our extensive experience in digital transformation projects and an entrepreneurial mindset, which lends itself well to technology projects, we are well-equipped to usher clients into the digital age, whether through a reconsideration of data practices or an entire redesign of existing processes.

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"Maximize Efficiency: How Automation Can Improve your Loan Origination Process." Moody's Analytics, <https://www.moodyanalytics.com/articles/2018/maximize-efficiency-how-automation-can-improve-your-loan-origination-process>.

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## ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

To learn more, visit our web site at [www.capco.com](http://www.capco.com), or follow us on Twitter, Facebook, YouTube, LinkedIn and Instagram.

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