Future-proofing the Lending Experience

Insights from the filmed webinar hosted by MoneyLIVE in partnership with TransUnion

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This is a revolutionary time for banking, with the industry changing beyond recognition over the last decade. Lending has not been immune from these changes, with the emergence of P2P lending, digital-only mortgages and innovative products designed to meet the needs of an aging population and the rising gig economy.

Yet, as panellists at MoneyLIVE's Future-proofing the Lending Experience webinar highlighted, there are concerns it is technology companies rather than mainstream lenders that are racing ahead with innovative solutions and compelling customer experiences.

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"Mainstream lenders and banks are not keeping up with innovation in this market," said Nick Harding, Chief Executive Officer of personal loan disruptor Lending Works. "The tech giants are leaping ahead and the mainstream industry has not really done much about it."

Maria Harris, Director of Lending at Atom Bank, agreed. "Banking has not been at the forefront of digital innovation for a long time," she said. "The technology and pace of change now is breath-taking so that gap is just getting wider and wider."

Despite the slow start, digital innovation is now on the agenda for all players. "Everyone has it front of mind," said Rob Cox, Decision Services Director at consumer credit-scoring agency TransUnion, which works across the sector, from big Tier 1 banks to small lenders. "Everyone is looking at digital processes, where they can speed up the customer journey, reduce friction or even remove friction."

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Harris pointed out that lending has long been the Cinderella of the banking industry. "Most of the innovation and investment is in high customer touch and engagement products, where there's an opportunity to wow in real time every day and most lending products do not fit in that category, so it does feel like we tend to be at the end of whatever tech changes come along," said Harris. "There has been some cool stuff in lending in the last couple of years but it's definitely not as advanced as the rest of the industry."

Yet innovation is essential, our panellists agreed, if mainstream lenders are to stay relevant and their products fit for purpose in a world where more people operate in the gig economy or have flexible work patterns and younger customers have changing views of ownership and steer clear of credit cards.

The need for speed

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When it comes to lending, much of the innovation is focused on reducing friction and speeding up decision-making. "The borrowing needs of customers come at absolutely critical moments of their lives so it's extra important to get a good, compelling and quick service at those moments," said Andy Piggott, Director of Lending Products at Metro Bank, adding that frictionless has to be the goal. "If you get that right, then you would see lending journeys completely transformed from where they are today, where you have to go to a lender to ask for money, and instead it would be completely built into the shopping experience," said Piggott, offering the example of a loan seamlessly built into an Amazon checkout.

Nick Harding of Lending Works agreed that faster processes really deliver when it comes to impressing customers. "We can prove through multivariant testing that things like taking a line off one of the forms really improves the conversion rate and the revenue line," said Harding.

Maria Harris of Atom Bank pointed out, however, that many aspects of the lending process are beyond the reach of the banks alone, particularly when it comes to mortgages. “It’s not a great customer experience as it stands, it hasn’t changed in decades,” she said, pointing out that Atom Bank’s digital platform can move from mortgage application to offer in just 14 seconds but the customer experience then hits a roadblock because the other players in the chain – estate agents, conveyancers, valuers, the land registry – sit outside the banking ecosystem.

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“The fundamental process today is pretty broken and even the bits we have managed to digitise are not joined up for the full end-to-end,” said Maria Harris, adding that the industry doesn’t have a great track record when it comes to working collaboratively.

Andy Piggott of Metro Bank agreed that collaboration is essential – but challenging. “There’s a willingness to work together but it’s not always easy when you have all sorts of different components in the value chain,” he said, adding that the key is to forge partnerships with companies with similar customer-centric mindsets.

Open APIs are key to this collaboration. “Customers have an expectation of how they want to engage and that’s always on, 24/7 in real time, and that means we have to be API-driven because it’s the only thing that gives you the connectivity,” said Maria Harris of Atom Bank.

The customer first, always

Our panellists agreed, however, that lenders mustn’t get so caught up in the possibilities of the latest technology that they forget why they’re doing all this. “It’s important to understand that the technology is not an end in itself but a means to an end,” said Andy Piggott of Metro Bank.

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Rob Cox of TransUnion agreed. "From a hardware perspective it's all about the smartphone," he said, highlighting the statistic that there are more smartphones on the planet than toothbrushes. "But you have to realise that it's just an entry point to the process and what really matters is how to engage with the customer."

Increasingly this means rethinking processes so that they become customer-centric rather than relics of now obsolete ways of working. "The customer should feel it's their process and not feel they are being forced to jump through hoops," said Rob Cox. "They should understand why you are asking them these questions and why these processes are in place."

Maria Harris of Atom Bank said she hopes the Open Banking rules will be the key to unpicking existing processes in order to make life better for customers. "I hope it can be used as a tool to help customers actually manage their financial wellbeing, so that before you even start the process of looking for a house or leaving home, you can make sure you are financially fit and mortgage-ready," she said.

Agility: a work in progress

Delivering lending systems that are fit-for-purpose in this fast-changing world will require lenders and banks to foster innovation and work in new ways. Agility is something that software developers have been talking about for decades but it's a challenging concept when it comes to lending strategies, explained Nick Harding of Lending Works, adding that the sensitivities around a test-and-learn approach to lending money mustn't deter lenders from taking new approaches.

"We have to embrace some of those [agile] characteristics and make sure we are not just sticking to what we know from 50 years ago," said Nick Harding. "We have the data now and we're continually modelling it and looking for ways we can improve. That may not mean taking more credit risk but perhaps increasing the automation rate so customers do not have to wait for underwriter to say yes or send in their bank statements. It's about using data and automation to remove friction points and make the customer experience better."

"That agile mindset is critical"

Andy Piggott, Metro Bank

Andy Piggott said organisationally agility is as much a mindset as anything else – and it's easier for some organisations than others. "That agile mindset is critical to get you comfortable to put in place those products and services that customers need."

Maria Harris agreed. "Technology is literally out-of-date within five years," she said. "You have to build core tech that allows you to plug in and plug out and be prepared to make those choices when something better comes along. You almost have to have your tech as "unbundleable" as possible so you can plug things in and out without disrupting your customer journey."

Rob Cox of TransUnion, which works with lenders on decisioning systems, said ultimately, it's not about how you structure the IT but what you are trying to achieve that should drive change. "You have to build trust with a provider that understands what you are trying to achieve and has that flexibility built in," he said.

AI: smarter decisions or big brother?

Inevitably, the discussion turned to AI, with Maria Harris praising its potential to transform lending by facilitating previously unachievable levels of personalisation. "When we get to a point where we can use quantum computing to use the data really effectively, we can actually start disaggregating a lot of the systems we have now, such as our processes for pricing for risk, so that the customer gets a product designed for their lifecycle and priced for their own individual risk," she said.

Nick Harding of Lending Works also sees unprecedented opportunities to transform lending by using AI and machine learning to limit risk, improve the customer experience and increase revenues. "Machine learning is clearly here to stay and is already a huge part of what we do," he said.

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Rob Cox of TransUnion said he's seeing mixed adoption of AI technologies across the industry, with organisations having different tolerances for the risks of the new technology.

"We do need to be careful," he cautioned. "Customers want transparency and they don't want their neighbour getting a better price than them, so you need to be able to explain why you have made that pricing decision and with AI there is a danger that you can't explain it. There's a buzz around AI but there's a need to balance the benefits of the technology with the need for regulation, transparency and openness."

Future-proofing lending is about so much more than investing in the latest technology, it seems. It's about delivering solutions that meet the needs of a fast-changing world and treating customers fairly.

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Future-proofing the Lending Experience

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