3 Ways to Know Your Bank Needs a Digital Lending Platform

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The global digital lending platform market was worth $5.58 billion in 2019. The lending platform market size has already grown quite a bit as fintechs like Biz2X, nCino, Temenos, Fiserv and others have led a shift away from traditional lending. But the market is likely to get a lot bigger; Allied Market Research expects the global digital lending platform market to grow at a CAGR of 16.7% from 2020 to 2027, reaching a value of just over $20 billion.

Many financial institutions would benefit from adopting a digital lending platform. This article will give you three ways to decide if your bank, credit union or financial institution is one of them. But first, let's discuss what the digital lending process entails and which regions are ripe for a digital takeover.

A Digital Lending Platform Automates Loan Origination

A digital lending platform allows banks and credit unions to create an enhanced consumer experience for borrowers, giving them access to a variety of product offerings in a timely manner.

With a digital lending platform, the loan application can be completed online. That removes the need for several in-person meetings – a time-saver in normal times, but a game-changer during the COVID-19 pandemic. From there, a platform reduces loan processing times through digital verification and risk assessment, turning around a decision in as little as five minutes. Finally, the funds can be disbursed to clients such as small business owners – assuming they use online banking – in 24 hours or less.

The process is a dramatic improvement from the days when lenders would routinely take *months* from the time the borrower submitted an application to "time to cash."

If you have a global bank, you may be wondering: is digitalization in the lending process happening everywhere?

Yes. But to varying degrees. North America was the biggest digital lending platform market in 2019. While Allied expects North America to remain the dominant market during the forecast period, the Asia-Pacific region could gain ground. Why is that?

Many Asian economies – most notably China – are rapidly expanding in all industries. But Asian governments are prioritizing the digital lending space in particular, coming up with initiatives to turbocharge growth. Open banking in particular has taken hold in economies in Asia and the Pacific region faster than in many Western economies. As a result, digital lending has become easier as the transfer of customer data into a digital loan application can generally happen instantaneously, no matter where the client does their banking.

So it's clear that digital lending platforms have advantages over legacy processes and that the trend of digital loan management is only growing around the world. Now, let's look at three ways to know your bank needs a digital lending platform.

1. Your Customers Aren't Happy with the Lending Experience

If a large percentage of your customer base isn't satisfied with the lending experience at your financial institution, you need to make a change. It's as simple as that.

But how do you know if the customer experience isn't good enough?

One way is to do market research. By creating surveys where you ask your borrowers how they feel about each step in the loan process, you can pinpoint areas for improvement. Another is to listen to day-to-day feedback from your bankers – focus your attention on recurring complaints to filter out the noise.

But surveys and feedback can take some time to gather and aren't always foolproof. A complete evaluation of the customer experience is an excellent starting point that can give you immediate action items. Set up a team that can do some secret shopping of your lending process, or conduct an end-to-end process review with the various teams responsible for each step in the loan origination workflow.

Earlier, we addressed the importance of a loan process that puts money in the borrowers' accounts as soon as possible. The importance of a fast "time to cash" cannot be overstated.

Why fast access to loans matters so much to your clients:

1. Business owners are everyday people too. And everyday people have gotten used to ordering products online and having them in hand the next day. These expectations have carried over to the lending experience. Business owners don't want to be twiddling their thumbs for two months waiting on a decision. Even if they are able to. Which brings us to the second reason.
2. Many borrowers, particularly in the midst of the COVID-19 pandemic, are struggling and need funds immediately to do everything from paying suppliers to making payroll. The Paycheck Protection Program (PPP) has been a lifesaver for many small business owners, but others haven't been able to get the funds in time. Urgent needs demand urgent funding.

While the pandemic is eventually going to end, a (smaller) percentage of business owners are always going to be in make-or-break situations that can only be solved by a fast influx of cash. So, the second reason to strive for fast "time to cash" may not be as much of a factor in the future. But it will still be a difference maker. And there's no doubt that increasing the speed of your institution's funding to clients will increase their satisfaction levels.

That's because the expectation for a speedy decision isn't going away. E-commerce companies are only going to get products to customers' doorsteps even faster in the future. Moreover, the millennial generation (and subsequent generations) are going to become a bigger part of your customer base in the future; their expectations for efficient, digitized interactions with businesses are even higher than older generations.

2. Your Financial Institution Struggles when Lending Conditions Change

The only constant in the economy is change and the lending industry is no exception. The events during the COVID-19 pandemic are a perfect illustration of what can happen. To recap:

- COVID-19 came out of nowhere and ravaged the world economy. In a matter of weeks, thousands of thriving businesses didn't know if they would make it to the summer.
- The United States government responded by injecting trillions of dollars into the US economy through a series of relief packages, including hundreds of billions of dollars into business owners' bank accounts through PPP.

Some financial institutions – many of which had top-notch digital lending platforms – were able to quickly adapt and get borrowers PPP money before the government well ran dry *and* their businesses went under. But others – many of which were using traditional lending practices – had to scramble to put the right procedures in place and process the flood of loan applications in time. Countless approvals came too late to save struggling businesses, or before those business owners had packed up and taken their banking business elsewhere.

The COVID-19 pandemic can easily be dismissed as a once-in-a-century event. It is the worst pandemic since the Spanish Flu that began 102 years earlier, after all. But financial crises have been, and will continue to be commonplace. The *reasons* for future crises will vary, but each crisis is likely to bring new loan programs and require the fast disbursement of funds.

So, how do you know if your lending solution is ill-equipped for changing conditions?

One of the best ways to find out is by comparing yourself to your competition. When a change to a loan program is announced, how long does it take your bank or credit union to start approving the new types of loans? Are your competitors faster or slower?

Are your systems overloaded if there is a sudden increase in demand? If your financial institution can't handle a sharp spike in loan activity, it may be forced to revert to manual and time-consuming workarounds. Doing a simple readiness assessment with the teams responsible for each area of the lending process can be very revealing.

By applying traditional lending practices to your financial services, it's going to be tough to change with the times. A top-notch digital lending platform, however, is flexible. If you need to, say, update your pricing or enable customization options for your end users, a digital lending platform is up to the task.

A digital lending platform's ability to take repetitive tasks off your staff's plate through automation is extremely helpful in the event of a sudden increase in demand. This way, your bank or credit union doesn't have to turn away potential customers, sending them to competitors and losing long-term market share.

3. Risk Management Capabilities are Lacking at Your Financial Institution

Risk management is one of the most challenging parts of business lending. It's hard enough to assess the risk profile of your individual borrowers, but on top of that, you have to factor in market/crisis risk. The issue with market/crisis risk is that crises are often difficult or impossible to anticipate. Exhibit A: COVID-19.

But risk management is still a worthwhile endeavor, because even if you can't eliminate lending risk altogether, you can mitigate it. To do that, it's necessary to take a systemwide approach that monitors your entire portfolio and models a number of market scenarios.

While it's *possible* to use legacy processes to take on risk management, they are likely to be insufficient for all but the smallest, most local banks and credit unions. With global financial institutions, there are way too many moving parts and you need actionable insights immediately in the event of a sudden development.

What happens, for example, if there is a currency crisis in the Middle East and the Turkish lira takes a tumble against the USD? Can your current risk management systems quickly offer a course of action in such a scenario? If you don't have a digitized system, the answer is probably no.

A digital lending platform, on the other hand, can give you real-time assessments of your risk profile by constantly sifting through your customer data and pointing out threats before they materialize. This allows the decision makers at your financial institution to be in a position to take preemptive action instead of put out fires.

What's more, digital lending platforms improve your institution's ability to maintain effective compliance management, providing your regulatory oversight team with visibility into the way that lending programs are being administered. This is especially important if your bank is engaged in government-backed lending programs, such as the SBA loan programs for small business lending.

A Digital Lending Platform Can Increase Customer Retention

According to an October 2020 Greenwich Associates survey, around 16% of small and mid-sized companies switched banks over the prior 12 months. That was well above the industry's historic average "churn rate" of 10-11%. The pandemic was clearly the culprit, as many business owners were less than impressed by their lenders' ability to get them funding in their time of need.

With market growth in the lending segment expected to continue in the years ahead, financial institutions should examine their workflows and look for ways to improve the customer lifecycle – from start to finish.

If your bank or credit union is experiencing any of the three issues raised in this article, you should consider turning to a digital lending platform, such as Biz2X, to solve the issues and position your financial institution for long-term prosperity.