Why Banks Should Adopt White Label Lending Platforms

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In the new normal of post-pandemic lending, lenders are challenged to find new and more efficient means of serving small businesses clients. The answer has proven to be in digital lending. Yet internal debates of buy-versus-build continue to slow progress.
A recent survey by Greenwich Associates found that 1 in 5 companies said that the pandemic lowered their opinion of their banks. One of the biggest gripes among small business owners was a lack of attention; too many banks and credit unions poured all their resources into serving large companies.
The problem was that financial institutions were unprepared for the sudden and unexpected surge in lending activity. They relied on outdated lending processes that were ill-suited for an evolving landscape.
A digital transformation is taking place, however, with lending platforms allowing banks to effectively serve both large and small businesses. Lending platforms streamline the customer experience; loan approvals that used to take weeks can now be completed in a couple of days – or less. On top of that, digital lending makes loan management, security, and compliance easier than ever.
The question isn't whether you should use a lending platform – you should – but whether you should build or buy.
The answer, it turns out, is that using a white label lending platform is your best bet – unless you are a unique (and rare) case.

Building a Lending Platform is a Major Endeavor

If you want to build a lending platform, it will require a heavy investment in the form of human and financial resources.
A common argument in favor of building a lending platform yourself is that once you create it, you won't have to devote any more staff or money towards it. That sure beats paying the ongoing expenses that come with a white label lending platform, right?
In reality, that's not how it works. Lending platforms require constant maintenance and updates. What happens when you face technical difficulties? What happens when a new regulation requires you to re-imagine your lending process? What about when your competitors – or their vendors – cook up an innovation that cuts the loan application time in half?
Those are just a few of the many potential things that will come up after you finish building your platform. The technology and regulatory landscapes are in constant flux; it's a matter of when – not if – they will change. You will have to change with them.
You may be thinking:
Can't I just hire staff to take this on? Isn't that what a third-party vendor would do anyway? Then, I can handle it myself without a markup.

That sounds like a good idea – at least at first. But it overlooks the economies of scale that a specialist can bring to the table. Many third-party vendors service hundreds or even thousands of clients. They can spread employee and technology costs among all those clients, typically allowing them to deliver you a solution at a more cost-effective rate than you could achieve on your own.

But even if you were able to make the numbers work – which is a big if – there are other reasons to use a white label lending platform.

White Label Lending Platform is Likely to be Superior

As a bank, your core competencies are building banking products and professional relationships; you likely don't have much experience building a SaaS solution.

A top-notch service provider, on the other hand, has spent years learning about the intricacies of building a white label lending platform through trial-and-error and the feedback loop that comes from working with several other banks.

With the right vendor, you don't have to fear obsolescence. That feedback loop is continually used to come up with ideas for improvements to the user experience of the lending platform. Let's say a few of their clients face an issue next month, but you wouldn't have faced it until six months later. If you had built your own platform, you would have to wait until the issue arose to fix it. But with a white label lending platform, the vendor can work on the problem as soon as the issue comes up – even if it doesn't for you.

In many cases, it won't even get to that point. A lending platform specialist will also specialize in adaptability because the only constant in the SaaS world is change. From predicting future trends based on industry developments to hiring the best and brightest staff, a top-notch vendor will be more proactive than reactive.

Ultimately, you need a platform that gives your customer base a seamless digital banking experience. A platform that lacks the functionality to create a smooth journey from application to approval is not going to cut it in such a competitive environment.

Your lending platform should feel like an ecosystem. There is a trend – not just in banking, but across industries – towards ecosystems that allow for easy, one-stop shopping. This trend has helped to turn Apple and Amazon into trillion-dollar companies. The same thing is taking place among fintech companies. A McKinsey survey found that 60% of US banks are likely to form or join an ecosystem. If you have a hodgepodge of financial services, your prospective borrowers are going to look for better options – and they are likely to find them.

How Long Can You Afford to Wait?

In the unlikely case that you have the resources and know-how to *possibly* build a better and more cost-effective lending platform than what's out there, you'd still face another harsh reality: it's going to take a long time.

You can plug and play a white label lending platform and be up and running in a few weeks. But building you own platform could take a year – or more.
After you find the funding and put the right people in place, you must wait for your team to develop a solution. The first version is probably not going to be good enough. Ditto for the second and third. All the while, you'll be second guessing yourself and wondering if there will be a payoff. Countless fintech startups have gone though the same process – it isn't worth it unless the risk/reward is very favorable.
At the same time, your competition will be gaining ground. If the McKinsey survey in the previous section is any indication, your peers are going to be rapidly adopting lending platforms soon – many of them will quickly implement white label solutions. With all the lending activity that is taking place due to the pandemic, you risk losing thousands of potential clients to competitors that have ready-made solutions. If those clients are satisfied, you're going to have a hard time prying them away even if you eventually create a solid platform.
With all of that said, there are legitimate reasons to build your own lending platform in certain circumstances. But it's also easy to think you are one of the (rare) cases even if you aren't.

Building Your Own Lending Platform Sometimes Makes Sense

There are a couple of common objections to buying a white label lending platform.
One of them has to do with customizability.
The thinking is that certain banks have unique and exact requirements and there is no adequate solution on the market. Some bank IT professionals fear that a white label solution will be tough to integrate with their existing tech stack.
That fear, however, tends to be overblown. A top service provider will offer a customizable solution. Biz2x, for example, has configurable and customizable modules that can be set to your policies, rules, and workflow. As for integration with your tech stack, ask prospective vendors whether it's possible, but you should be able to find a solution that integrates seamlessly.
The best service providers build lending platforms that can effectively serve the vast majority of banks and credit unions. Of course, you may be in the small minority of lenders that needs a custom-built solution. Just don't be too quick to think that's your bank.
Another objection comes from those who wish to monetize their lending platform and license it out to other banks.
Most banks want a lending platform for the sole purpose of originating their own loans. But there are some that believe they can leverage their resources to create a niche solution to benefit both themselves and others.
If you are in that category, it might make sense to build your own solution. Just remember that it can be a long process with an uncertain payoff. Make sure that all your ducks are in a row before you consider starting.

Embrace the Digital Banking Revolution

Lenders that still use traditional banking procedures for the origination of small business loans have their hands full. A volatile economic environment means that small business owners need funds to hit their bank accounts quickly. Or they risk bankruptcy.
Moreover, business owners have gotten used to uber-efficiency in other areas of their lives, such as e-commerce retail purchases and social media. It is hard to deal with a slow traditional bank two hours after ordering something for next-day delivery in one-click.
Adopting a white label lending platform, such as Biz2x, is likely the best way to modernize your banking services and meet those expectations.