How to create a simplified loan application experience (and why you should)

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Executive summary

Customers expect to get what they want in minutes, if not seconds, so where does that leave lenders? Customer satisfaction is the primary playing field for lenders. Borrowers are looking for a simpler and easier experience - the kind they've become accustomed to from other industries. Aggregated data can deliver that ease and simplicity, however the technology is moving fast, creating new opportunities for agile competitors. The question is: are you one of them?

What's changed about lending?

The industry is operating in a landscape altered irrevocably by the echoes of the GFC, a Royal Commission, a shift in community perceptions, and the seemingly instantaneous service provided by other industries.

So you have to do things differently. If not, you won't be missed. There are plenty of new players poised to take your market share, whether it be neo-banks, digital ADIs, or, coming soon to a universe near you, companies that have no history of engaging in the financial space, but sure as hell know how to turn a profit in the digital economy.

Andrew Duerden, Director of Sales at Loanworks puts it this way: "When consumers can make purchases with their watches, manage investments and whole enterprises from their laptop, send encrypted messages effortlessly around the globe, access files with a fingerprint - in other words, live in a world that seemed like nothing short of science fiction just a decade ago - can they be bothered to jump through archaic hoops to access your product?"

Even the effort of answering that question seems excessive. When PwC asked people of various ages how much effort they felt it took to complete different elements of the application process, invariably the answer in the lower age groups was "too much". "Borrowers' expectations are being shaped by other industries that focus on customer satisfaction and operate in a collaborative environment," according to PwC research. Who wants to deal with a lender that doesn't have the tech capabilities mastered by a ride-share app, or a primary school fete organising committee? Certainly no-one under the age of 45.

In this brave new world, your established reputation won't save you. Brand loyalty has declined. There's comparatively little direct relationship between a customer and a bank representative (though there's often a great deal of communication that affects a familiar tone). Consumers are empowered to shop around. And they have very high standards.

> Your established reputation won't save you. Brand loyalty has declined. Consumers are shopping around. The winners will be those who make it simple and easy for customers. This means greater digitisation with access to quality customer service.

The customer's not going to do the work anymore

It's been a long time since people went cap in hand to the local bank manager to ask for a loan. The balance of power - at least in perception, if not entirely in reality - has shifted. "It has taken 20 to 30 years," says KPMG's Michael Rowland, "but government, regulators and consumers are now increasingly critical of the banks." He says it's imperative they get it right. "I believe the next five years will determine the winners and the losers. The winners will be those who make it simple and easy for customers."

What does simple and easy mean for a customer? It means greater digitisation, while also having access to human interaction where needed ("capable of smooth transitions between automated digital tools and customer support people" is how Andrew Duerden describes it). It means transparency and clarity when it comes to what you're offering in a product, and what it actually costs.

It doesn't mean filling out a lengthy application form, having to dig up paper copies of difficult to find information, waiting for a result, or providing the same information more than once. Borrowers find the experience stressful, overwhelming, and anxiety inducing. That's hardly consistent with a customer-centric approach in a highly competitive market.

To compete for business, you need to provide an experience that's exactly the opposite. How? Put yourself in their shoes (often referred to as understanding the "customer journey"). The person you're pitching to is busy - whether they're a business owner, a parent, or a full-time employee (and often several of these at once) there's a long to-do list that faces them when they wake up in the morning. Carving out the better part of a day to fill out an application that may not even be successful is not something they look forward to.

Global management consulting firm Oliver Wyman describes it as a "high friction experience". Half the borrowers they spoke to reported spending two hours just to collect the necessary documents, and one-third said it took at least five hours. That doesn't include filling out the application, of course, or waiting for approval.

Show, don't tell

The application experience requires serious thought. You must ask yourself: what kind of an application process can you provide (whether it be for a home, car, or personal loan, credit card or any other product) that will in actuality improve the experience for customers, and simultaneously demonstrate your capacity to operate in the modern world?

The adage of "show, don't tell" is very pertinent here. After all, this interaction could be indicative of the level of service they can expect from you if there is to be a relationship.

According to Urvesh Vibhakar, Solutions Delivery Manager at Loanworks, an application experience that does all of that needs to prioritise the following:

- **Simplicity** (be clear about what the product is) **and transparency** (what it costs). KPMG's survey respondents rated simplicity and integrity as the most highly desired aspect of the customer experience.
- **High level functionality:** PwC found Millenials in particular would like to see borrowing calculators, product and rate comparison capability (which may seem counterintuitive), and the ability to lock in interest rates available within apps.

- **A well designed, omnichannel experience:** An applicant has to be able to move not only between channels (in person at a branch, through a call centre, on the website, using live chat, with a broker, or via a banking app) but also between devices - phone, tablet, laptop/desktop.
For instance, they might start it at home on the laptop in the evening while cooking dinner, and continue on the train to work the next morning. They should be able to start their application, stop when necessary, and pick up where they left off on any device that's convenient for them.
- **Clear communication:** Providing loan status updates can contribute greatly to improving the customers' experience. Send an email or a text to confirm when a stage of the application has been completed, provide helpful tips and information to assist the applicant at each stage, give clear reasons for rejection, use plain language in all communication. Remove any possibility for confusion.
- **A quick knockout process:** According to a recent ABC report, loan rejection rates are comparatively high at the moment. Don't waste the customer's time. If they're not going to be eligible for a loan, your process needs to determine that quickly, after the first five questions if possible. That means asking the right questions upfront, verifying their responses, and knocking out unfeasible applicants early.

- **Automatic gathering and verification of data:** As discussed, document gathering is extremely time consuming for borrowers. Furthermore, it is now incumbent on lenders to verify expenses as well as income. Everyone's interests are served by automating this process. More on that later.
- **Ability to complete** the whole application process **online** if desired, including uploading and signing of documents.
- **Vastly improved processing time:** Nobody wants to wait days for anything. The expectation is hours, or even minutes. Even seconds. Utilising data aggregators and automatic decisioning can result in a significant reduction in loan processing time for the bulk of straightforward cases. Again, more on this to follow.
- **Access to help** when they need it, via the channel they prefer - email, live chat, phone (and the person who's helping them should be able to see everything they've already entered, so the customer doesn't have to say it all again) or face-to-face contact with a human being if that's what they want.
- **Gamification of the application process:** Offering a reward can be a good way to motivate customers to complete the application process. A version of this that's currently enjoying some success is tying cash-back payments or discounted rates to an online digital channel.

Is your loan application experience:

- Simple
- Highly functional
- Omni channelled
- Providing loan status updates
- Quickly knocking out unfeasible applicants
- Automatically gathering and verifying data
- Able to be entirely completed online
- Utilising data aggregators and automatic decisioning
- Offering optional human interaction
- Offering gamification of the application process
- Providing loan status updates in real-time

Data is the key, and you're probably not ready

Moving to a customer-centred approach - prioritising their experience and their best interests - is a cultural shift in line with regulatory changes following on from the Royal Commission. Rather than making a lending decision based solely on risk to the lender, the lender must consider whether it will benefit the customer.

As part of this, you're now required to show that you've taken "reasonable steps" to inquire about and verify an applicant's expenses. It's much more labour-intensive to manually collect individual data on expenses than it is to rely on the Household Expenditure Measure (HEM). You have two options - increase your head count, or utilise data aggregators. Companies such as Illion, for instance, will retrieve borrowers' financial data for both income and expenditure by accessing their data (with their permission) wherever there's a digital trail.

Now, as with any (relatively) new process, there are those who will be hesitant. And that's as it should be. Data is a valuable commodity, and there are always questions to be asked about security and privacy.

But there's no holding back the tide. Australian Open Banking started on 1 July, 2019. It's part of the Government's Consumer Data Right (CDR) project, and is modelled on the UK's Open Banking system, set up by the Competition and Markets Authority on behalf of the UK Government, in January 2018. Essentially, individuals and businesses control who has access to their financial data - so if they want an approved entity - like a bank - to access their banking data, the bank is obliged to provide it. According to the UK Open Banking Impact Report, there were 21.1m open banking transactions in the six months to March 2022, a month-on-month growth of about 10%.

Apart from making it much easier for customers to do business with banks, open banking increases competition across the banking sector, allowing customers to compare rates and more easily switch between lenders, so non-traditional and smaller operators get more of a look-in.

"Open banking and comprehensive credit reporting will help new competitors to challenge established players," APRA Chairman Wayne Byres told the 2018 Curious Thinkers Conference. "And, of course, regulators are making it easier to navigate the process of entry into the regulated financial system. Taken together, competition in the supply of financial services will only intensify."

Deloitte sees it the same way. They describe open banking as a "seismic shift… [that] has the potential to change competition in the sector and see the creation of new products and services based on that data."

But are Australian banks ready? The short answer is no. They've all registered as CDRs, but very few have become Accredited Data Recipients (ADR), so they're not utilising open banking customer data.

"Banks and lenders place most value in income and expense verification at 77%, followed by credit scoring algorithms at 62% and PFM, at 57%"

Australian regulators are already accessing aggregated data to assist them in the task of monitoring what's happening in the lending space. And the Australian Securities and Investments Commission (ASIC) expects lenders - if not immediately then in the near future - to avail themselves of the data that technology is now giving easy access to, in order to fulfil their regulatory obligations. "We consider the reasonable steps to verify information of a person's situation will change over time as different sources of verifying information become available or more easily accessible," ASIC's Michael Saadat told the RFi Group Australian Mortgage Innovation Summit.

So, all things told, the move towards data utilisation is largely unavoidable. But, rather than being an imposition to be resisted, it is in fact better seen as an opportunity. Ultimately, embracing it will serve you well if you're planning to be competitive and deliver on customer expectations, as well as those of regulators.

Who's got the advantage?
It depends.

Non-bank lenders have long been perceived, justifiably, as customer-centred, providing personalised service, and more cutting edge than the banks. They've been much quicker to focus on providing a good customer experience. Small business borrowers, for instance, are twice as likely to be frustrated by banks' processes - such as application length, communication of next steps, and time to approve loan applications - than they are dealing with alternative lenders.

Fintech lenders, in particular, "are very competitive when it comes to providing fast service and a streamlined application process," according to Urvesh Vibhakar. "Alternative lenders such as neo banks hold only a fraction of the market, but they've shown that it's possible to have far more streamlined and digitized application processes, faster service and other customer experience improvements." In other words, they're winning on the new playing field - customer experience.

If you were an early adopter, congratulations. You're in the minority of lenders. But it's not wise to rest on one's laurels. Technology, and customer expectations, continue to move on apace.

And while smaller lenders have the advantage of being more customer-focused, agile and able to implement change quickly, banks - who still enjoy the advantages of size, like low cost capital, a large customer base and physical locations - are now paying attention. In fact, according to PwC, "enhancing customer service is the number one investment priority for banks, globally." They predicted that by 2020 "banks will organise themselves around customers instead of products or channels ... tailoring their offerings so that customers view banks as 'meeting their needs' not 'pushing products'." Once they do that, survival - for all lenders, big and small - will hinge on being able to compete on access to and efficient use of data.

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So who's going to do the work?

If everything's easy for your customers, then who's actually doing all the work? It has to be you.

You need to simplify the process for your customer: reducing the time it takes for them to apply for a loan, and the time it takes for you to make a decision regarding the outcome of their application. That means taking on the work of obtaining and verifying identity, income and expenses data, making credit decisions and processing applications faster.

That begs the question, of course - how can you support the service levels required to perform all the 'extra' tasks without massively increasing cost to serve? None of this would be possible for any but the biggest enterprises without the use of technology - specifically automation and data aggregation.

By automating your decisioning process, you simplify the loan application process, reduce the time it takes to apply for a loan and the time it takes to make a decision regarding the outcome of an application without increasing your cost to serve.

Automating your decisioning process, credit policy and exceptions management

The only way to reduce the amount of time it takes to process a loan is to either take on more loan officers, or automate a majority of your credit decisioning.

The ability to do the latter means going back to basics - clarifying your credit policy, and reducing exceptions. If you can do that, you can automate the bulk of your decisioning, and free up your lending staff to make the complicated calls.

Decision engines are particularly suited to the task of gathering data on policy exceptions, tracking them, identifying patterns, and feeding that back into the decisioning loop. That results in a far tighter process, which means you have a great deal more control with regards to your risk profile.

Now, you already have your own data to feed into your automated decisioning, but that's limited by the size of your customer base and the length of time you've been in operation. Obviously, the larger and more established your enterprise, the more data you have access to.

Data mining, however, lets you move beyond those limitations, and gives you the opportunity to greatly enhance and expedite your decisioning engine's 'learning'. Partnering with a data aggregator gives you access to information about exceptions gathered across millions of tracked policy exceptions (TPEs).

Of course, you need to configure the parameters of your own decisioning engine according to your credit policies, so taking an appropriate amount of time to look at the data and determine how exceptions fit within your risk profile is essential. But once that's done, your staff will only be dealing with the cases that truly require their skills and experience. The rest are handled quickly - allowing you to deliver the extremely fast response times that loan applicants are looking for.

> A decisioning engine will allow you to deliver the extremely fast response times that loan applicants are looking for.

Everybody's pairing up, but it pays to be picky

Clearly, the technology required to deliver on customer expectations is high end and requires smart collaboration with a technology partner. "The capability to assess and manage technology partners can be vital to digital-lending transformations," says McKinsey. They can bring:

- "full platform capability and data feeds for end-to-end journeys in new markets
- "experience in new lending approaches, such as automating credit decisions through the use of alternative data sources (such as open banking data via APIs from financial-data aggregators...)
- "individual analytics components, which can be integrated into existing bank processes"

But fintech partnerships are not a silver bullet. "Why on earth would a banker think that a startup with possibly no experience in or understanding of the banking industry, or with no proven business model, would make for a good partner?" asks fintech expert Ron Shevlin. Obviously, not all partnerships are created equal. And just because everyone else is doing it, that doesn't mean you should rush into something unsuitable, out of fear of missing out.

Furthermore, if the culture of your organisation isn't truly about providing a service for customers today, then adding a digital veneer won't do very much.

"Ultimately, what the customer experiences as a simple, painless application process is the tip of the iceberg," says Urvesh Vibhakar. Below the surface lies a great deal of work - strategic planning and thinking, setting up solid systems, ensuring everyone involved knows exactly what they're doing.

That's the approach Loanworks is taking. We've developed a customisable, straight-through processing origination solution that utilises digital customer onboarding journeys and workflow, and credit decisioning engines to get the work done. It's part of a broader suite of software for lenders that also includes an ecosystem of partner integrations, workflow automation, dynamic pricing, document management, and omni-channel origination.

About Loanworks

Loanworks has been in the lending space for over 20 years, both as a lender, and as a fintech provider. We've already built relationships with data experts and successfully integrated the technology into the complex framework of lending in the current cultural and regulatory space.

If that's the direction in which you're headed, it's a collaboration worth considering.

You can learn more about Loanworks at www.loanworks.com.au

About our straight-through processing digital origination system

"Straight-through processing origination" is quite a mouthful. Especially when you prefix it with "digital". But as you know that's the new holy grail in the lending world - a digital solution that automates the entire lending process, from customer onboarding to settlement.

No human intervention, whatsoever. Unless, of course, there's a policy exception. Then the system will tell you something needs your attention, and you can get a real, thinking human onto it.

It will drastically reduce your cost to serve by cutting headcount costs and error rate, dramatically improve customer satisfaction, and significantly boost productivity, while simultaneously increasing your capacity to meet regulatory obligations.

Perhaps most importantly, it keeps you relevant. It gives your customers what they actually want: faster loan processing and fewer hoops to jump through.

Straight-through origination processing keeps you relevant. It gives your customers what they actually want: faster loan processing and fewer hoops to jump through.


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Want to learn more?

To discuss how we can tailor a loan origination solution to dramatically improve your customer experience and future-proof your lending business, please call **Andrew Duerden, our Director of Sales, on +61 403 048 757** or email andrewd@loanworks.com.au

Andrew has played a key role in the design and delivery of solutions for many clients across multiple decades. He'll ask questions, listen, and help you find your particular way forward.

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