Financial Services

6 Ways to Change the Conversation in Lending

From Origination to Servicing:

New Strategies for Improving Borrower Engagement and Reducing Risk

Realizing the Promise of the Digital Lending Revolution

As any financial services leader knows well, nearly every aspect of banking has been upended by digital transformation. Accelerated by the COVID-19 pandemic, lenders face rapidly rising customer expectations for digital engagement and an increasingly crowded competitive landscape. Meanwhile inflationary and other financial pressures, as well as new government regulations and forbearance programs, put pressure on profit margins. Lending is experiencing disruptive change unlike anything the industry has ever seen.

Whether shopping for a car or a business loan, borrowers now expect every interaction with a lender to be as seamless and engaging as shopping on Amazon or browsing Netflix, forcing financial institutions to step up their game. At the same time, lenders are looking to reduce costs and improve productivity through automation – with paper, postage and manual workflows the enemies of operational efficiency. Providing amazing customer experiences at scale can feel like a massive challenge, however.

Leading lenders are expanding their technology investments to meet these rising digital expectations, capitalize on the influx of demand, and stave off competition from digital upstarts, embedded lending and Buy Now Pay Later (BNPL) payment schemes.

All of this is happening as loan volumes are increasing, with customers increasingly feeling more confident about spending — albeit anxiously watching rising interest rates. In the U.S., in Q4 of 2021, total balances in unsecured personal loans shot up to $167 billion, while loan originations from fintechs have rebounded after having to pull back due to lack of funding during the worst of the pandemic.[1]

Additionally, the pandemic changed the way that regulators approach loan servicing, particularly when it comes to the ways lenders communicate with customers who get behind in payments. Lenders must find a way to balance an increased focus on empathy, compliance with new regulations and risk of non-payment.

Indeed, excellent communications with current and future lending customers are crucial to providing the omnichannel, two-way conversations consumers now expect, but legacy technology often holds lenders back from providing experiences that engage customers and achieve compliance at scale. Read on to learn how leading financial institutions (FIs) are changing the conversation throughout the digital lending journey.

> "Fintechs have led the way in offering digital lending services to both consumers and small businesses. Now financial institutions (FIs) are playing catch-up and are investing heavily in technology platforms for digital lending. By providing digital lending services, FIs will improve the customer experience and build sustainable banking relationships."
> – IDC[2]

Origination

To create truly standout origination experiences, leading firms are investing in innovative communications technology that empowers highly personalized, data-driven digital conversations at scale across channels, regions and time zones, leveraging new advancements in AI to supplement human interactions.

Capturing value and reducing costs at each stage of today's digital lending journey requires a different strategy. When it comes to securing credit, consumers have so many more options to choose from. Speed, scale, convenience and personalized, omnichannel experiences across devices are key to differentiating your lending products from others.

Looking at one slice of the market in particular, McKinsey research suggests that among first-time home buyers in the U.S., "learning—either through online reviews or word of mouth—that a lender delivered an exceptional customer experience was the most important factor in their decision to choose a lender."[3]

Further, the same research suggests that speed and personalization are especially critical in origination: "[Customers] want to complete the application quickly and, if they already have a relationship with the lender, they expect the lender to use the financial data it already has rather than ask them for more documents."[4]

This expectation, that lenders can and should use existing wdata to make the origination process more seamless raises the pressure to leverage tech stack integrations, which can be a challenge for siloed systems.

> Among repeat buyers, 60 percent of customers say that they are comfortable with a completely online application. ~30 percent are comfortable with online applications with some combination of phone and/or in-person support. – McKinsey[5]

Servicing

Investing in customer communications technology that builds trust and reduces customer effort not only enhances CX, but also reduces the cost of loan servicing and sets lenders up for success both today and in the future.

Creating positive loan servicing experiences can be challenging. Situations vary widely: helping a customer update their address is much lower stakes than contacting them about modifying a loan to avoid the risk of default. That being said, it is possible to build loyalty and increase wallet share across the gamut of servicing experiences — with the right technology in place.

Servicing

Best practices include:

- Making it fast and frictionless for customers to get what they need, with as much self-service as possible for simple tasks like changing an address or requesting a payoff quote (freeing up support agents to handle more complicated tasks).
- Personalizing and orchestrating customer engagement – no matter what channel customers reach out on – even for more complicated tasks like loan modifications or requests for deferrals.
- Giving customers a choice of channel, whether it's SMS, an online portal, push notifications, email, or even print – or some combination thereof. Allowing them to start a process on one device and continue on another without starting over.
- Using automated technology to evaluate your communications content, including sentiment, tone, readability and potential overlap with other templates. Shifting away from reliance on printed statements and correspondence. Reducing contact center demand – but also empowering contact centers to personalize follow-up correspondence while locking down content for compliance.
- Providing a full audit trail of what communications were sent, when and via what channel (and auditing who made changes along the way).

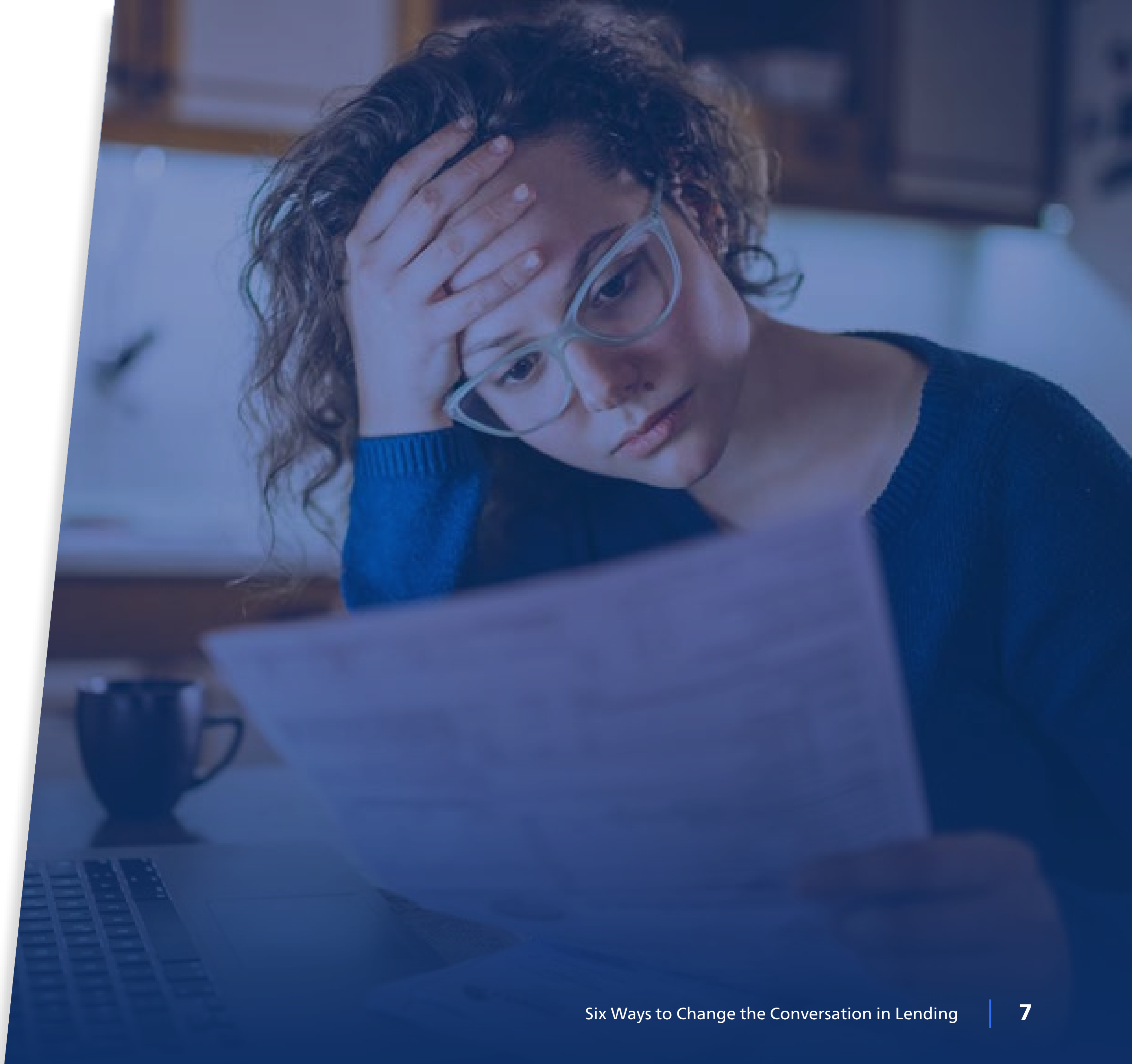
The benefits of incorporating these best practices are many: reduced contact center volume, lower costs from paper and postage, fewer errors that need resolution later, and less manual work rekeying data – all while avoiding fees for running afoul of regulations. This all means massive cost savings, while mitigating risk.

Collections

No one's favorite topic, debt collection is nonetheless a major component of lending operations. New (and constantly changing) regulations levy heavy fines for breaking the rules, especially around consumer protections. Meanwhile lenders are constantly looking for ways to reduce risk of potential losses. So, it's more important than ever to have a cohesive collections communications strategy and the right technology in place to make it happen.

Debt collection has always been a particularly challenging area of lending for both customers and financial services firms to navigate, for obvious reasons. During the pandemic, it has been even more important to get these communications right. Whether borrowers ran into financial challenges affecting their ability to pay – or they simply lost track of the due date – lenders needed to communicate with empathy, while reducing loss risks. No one wants to end up in collections, but it can also represent an opportunity to build the customer relationship.

As lenders enter "recovery mode" and initiate collections, it turns out that how they go about communicating with customers can make all the difference.



Collections

The research is clear: traditional methods don't work. Fabio Piccinini, Partner at EY Parthenon, suggests that "even before the pandemic, the average collections rate was below 20%, the lowest in 25 years. Moreover, banks' outbound collections strategies have been costly and inefficient, with their success rate standing at roughly 5%."[6]

He goes on to say that "65% of bank-initiated contact is still through "traditional" channels (phone, voice, mail or letter) despite poor response rates."[7]

On the flipside, the power of using digital communications methods is just as clear:

- Digital-first customers who are contacted through electronic means make 12% more payments than those sought out through traditional channels.[8]
- Lenders favoring digital-first solutions have seen monthly installment payments triple across portfolios and the cost of collections fall by more than 15%.[9]

Not only are digital methods more effective, but they also hold the potential to better mitigate risk of non-compliance. Frequency of contact, tone and the ability to "opt out" are tracked much more easily via digital channels, with some technology solutions offering a full audit trail of every communication sent and received. Providing a full audit trail of what communications were sent, when and via what channel (and auditing who made changes along the way).

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6 Ways to Change the Conversation in Lending

By thinking holistically, it's possible to change the conversation around lending from a potentially negative one to a focus on helping people achieve their dreams in life, empowered by digital experiences that fit in with their lifestyle.

In part one, we looked at key lending industry trends and how to innovate at each step of the lending journey. In part two, we'll take a closer look at specific ways lenders can use advanced customer communications technology to increase revenue while reducing costs.

1

Change the Way You Collect Information From Customers

At each stage of the lending journey, customers need to submit information. Leading firms are investing in advanced technology that leverages existing data where possible and makes gathering new information a breeze.

When was the last time you abandoned an online shopping cart because the checkout process created barriers to completing the task at hand? The credit card in your wallet in the next room over might as well be a mile away. Today's consumers have little patience for digital information gathering experiences that aren't fast and easy. These same rules apply to lending.

Financial services firms need to make it simple for customers to open accounts, borrow money or make changes. This starts with how they gather information.

Paper forms, PDFs or static web forms no longer cut it. They create a series of challenges, including:

- Slowing down internal processing turnaround time, creating the need to manually enter data into different systems
- Introducing risk of Not in Good Order (NIGO) data errors that require internal resources to resolve
- Lacking personalization with known information from core systems of record, like Fiserv, Temenos, Jack Henry or Salesforce – so borrowers feel like you don't know them
- Aren't mobile friendly or responsive across a range of devices
- Are disconnected from integrations that can automatically assess Anti-Money Laundering (AML) and Know Your Customer (KYC) risks to ensure compliance

What about scanning paper forms in using OCR – isn't that basically the same thing as digital collection? Not even close. OCR isn't perfect, requiring human intervention to manually review and correct, which increases costs. Forward-thinking lenders are re-imagining the data-capture process without the actual artifact of a traditional form at all.

What To Do Instead

Lenders should implement technology that empowers intelligent, adaptive digital interviews at scale, collecting the right information at the right time as conveniently as possible, while leveraging existing data to streamline the experience further.

A low-code digital platform that has integrated information gathering capabilities is ideal and takes the pressure off internal IT departments, who are not well positioned to maintain the massive volume of digital forms needed to be agile and avoid disruption by swifter competitors.

By improving the way information is collected, form logic is achieved seamlessly, abandonment decreases, switching devices is not a problem and NIGO rates drop to almost zero.

Additionally, you can sleep better at night knowing that you're automatically mitigating AML / KYC compliance risks by always collecting the right information required by regulators.

Advanced Features to Look For

- The ability to start and stop the digital interview experience with progress automatically saved, allowing customers to pick up from where they left off on another device
- Intuitive and convenient document upload using a mobile device camera
- Seamless and secure integration with e-signature tools, core systems and third-party data, like underwriting systems
- Embedded workflows that support process automation

CASE STUDY

Digital-First Auto Trader Transforms the Buying Experience

Consumers today want the car buying experience to be fast and painless, and one Smart Communications auto financing client is on a mission to deliver on that promise. Its challenge was in finding a way to produce and manage “deal jacket” paperwork ready for e-signing, fully in compliance with regulatory standards. In the past, this process required significant manual effort, creating inefficiency, time lags and potential errors.

With the Conversation Cloud™, the company’s loan agents now collect the necessary information via a digital interview, which then triggers automatic assembly of a complex document package that can include up to 40 pieces of information. This includes information coming from third-party systems like CarFax and RegUSA. These packages are then dynamically sent to the customer for e-signing and information is synced back to Salesforce. The lending conversation is fully digital from end-to-end.

2

Change the Way You Communicate with Customers

With so many communications involved in lending, it's easy for customers to become overwhelmed or turned off. Fortunately, there are ways to ensure that the conversations you have with customers are timely, relevant and compliant, every time.

Creating valuable conversations with today's consumers is more challenging but also more rewarding than ever. Channel preferences are shifting. The pandemic-driven adoption of digital isn't going away any time soon. Accelerating the digital transformation of lending conversations is at a "now or never" tipping point.

And it's not just getting one channel right. Lenders have to ensure that every communication is timely, relevant and compliant across any and all of the channels customers prefer (and new channels are emerging all of the time!). The game has changed, and legacy communications technology simply wasn't built to meet the omnichannel, 24x7x365, heavily regulated world we now inhabit.

Instead, lenders need a flexible platform that enables omnichannel customer communications at scale, both inbound and outbound. By having a single source of truth, lenders can simplify template management while maintaining a clear, auditable log of all communications for compliance purposes.

Not only does this empower a better customer experience by creating two-way conversations that move the needle on brand loyalty, but it also ensures agility as regulations inevitably change. And unlike Microsoft Word, it's possible to lock down sections of templates so they can't be changed, avoiding compliance issues.

Bonus features to look for include AI-powered textual analysis that assesses sentiment, tone and readability to ensure that communications always hit the mark. And, look for audit capabilities that demonstrate who changed what information, and when, in critical document templates.

Finally, many lenders are looking to modernize on cloud-based platforms that provide more flexibility, enterprise scalability and integrate more easily with other parts of the tech stack.

CASE STUDY

Construction-Based Lender Generates Origination Documents On Demand at Massive Scale

A system outage can have major consequences for any business, but in lending, it can mean the loss of a customer – and significant reputational damage. For this financing company, it was losing an estimated $500,000 per day when its previous document generation system went down. The company sought a stable, cloud-based platform to produce loan origination paperwork in real time, on demand.

“We wanted to have the ability to grow and scale, so we chose as much as possible to be 100% cloud,” said the lead IT architect. Powered by data in its Salesforce back end, tied to its loan origination front end, and then connected to DocuSign and Box for archiving, the system has delivered an estimated 30 to 40% gains in speed and performance.

3

Change the Way You Collaborate On Loans

Some loans are straightforward and may only involve two parties – the customer and the lender. However, more complex commercial loans may involve multiple parties and negotiations to get across the finish line. It's important to be able to manage loans of various complexity well through robust collaboration.

Complex business loans offer great opportunities for lenders to increase revenue. But without the proper processes and tools in place, they can burn valuable resources, squeezing profits and stressing employees. Parties on both sides will inevitably jockey for position to get the most favorable terms, creating a lot of back-and-forth in the process. Multiple parties may be contributing information along the way, or several commenters on a larger financing deal.

Instead of separate communication streams that limit visibility (and therefore increase compliance risk), it's much more effective to have all of the back-and-forth communications managed in one place, with data coming in and out of the core banking systems and CRM you already use every day.

A cloud-based customer communications platform ensures that everyone is on the same page at every step of the lending journey. From emails to e-signatures, having one source of truth reduces operational inefficiency and risk of costly errors. Internal silos break down when information is visible and easily accessible to all relevant parties, allowing for a unified approach to negotiations, and ultimately helping customers achieve their dreams by providing access to capital.

> "Financial institutions will devote significant technology spending around digital lending in areas including credit decisioning, fraud management, process automation, and customer experience."
> – IDC[11]

4

Change the Way You Coordinate Conversations with Customers

Customers want to communicate on more channels than ever, but many lenders still struggle to achieve a true omnichannel approach. To overcome this challenge, leading lenders are using technology to orchestrate conversations, resulting in higher customer satisfaction while reducing costs and risks.

While many financial institutions have made progress on digital conversations, there are still too many "one-way streets" that frustrate customers and end up costing lenders in terms of time, resources and fewer / lower payments. Two-way messaging channels, such as SMS, WhatsApp, chatbots and push notifications are becoming new ways for banks to interact with customers. This capability is even more critical as lenders look to attract younger customers seeking to borrow money.

One reason why a true omnichannel approach is so important to today's borrowers is the level of personalization it provides. Customers want to feel like they're at the center of the banking experience and are more than willing to receive communications that are timely and relevant. Research supports this: according to a J.D. Power survey on banking personalization, 46% of customers say they want help in avoiding fees and 37% say they want to receive account alerts.[12]

The only way to achieve this level of responsive personalization across channels is through an enterprise-class technology platform. Connected to other systems, this platform enables you to orchestrate every communication throughout the lending process, across channels and devices.

Just like conducting an orchestra, a centralized platform allows each channel (or instrument) to play in concert with all the others in perfect timing and tune. One example is to orchestrate a conversation across in-app messaging, text messages and other digital channels to send timely notifications and reminders, such as missed payment alerts. If the customer doesn't respond, it's easy to fall back to mailing printed communications – with everything tracked and organized in one place for compliance purposes.

CASE STUDY

Student Lender Saves $2.5 Million by Streamlining Communications

One of the largest providers of student financial aid in the U.S., PHEAA embarked on a project to improve the way letters, statements and other communications were managed and produced. With the help of Smart Communications, the business produces more than 600 million individual communications every year and has shifted much of that from print to digital. Users include more than 1,000 contact center representatives who can personalize correspondence while being unable to edit sections of content that are locked down for compliance purposes. Through the use of business rules, PHEAA was able to shrink the number of document templates in use by 50%. And, with the reduction of maintenance costs and physical equipment, the company recognized a total cost savings of $2.5 million just in the first few years.

5

Change the Way You Integrate with Internal and External Systems

Banks and other lenders have many existing technology platforms that must be considered in order to make lending more profitable. Leading FIs are changing the way they think about interoperability, or how they can use data in their core systems to deliver personalization.

Most lenders do not have the luxury of working with a completely blank slate when building their ideal tech stack. Legacy systems that have served banks well for many years might be showing signs of age, but they often can't be replaced (or even upgraded in some cases) without business disruption. Even more modern CRMs or e-signature solutions need to be connected with other technology platforms to keep data in sync and drive greater personalization.

Integrations are an important aspect of modern IT architecture, and when done well, offer tremendous upsides with very few downsides.

Pulling data automatically from core systems like Temenos, Fiserv, FIS, Salesforce and/or Microsoft Dynamics allows lenders to minimize the amount of information existing customers need to input, enhancing speed and convenience. Similarly, when there's new data, it's easy to push that back into those same core systems so everything is in sync.

Integrations are also key for compliance and process automation. From KYC / AML checks to e-signatures to RPA systems like Pega, a cloud-based customer communications platform with robust integrations can help to unleash value while lowering costs across the board.

Smart Communications partners with leading core technologies like these to deliver a fast, easy lending experience.

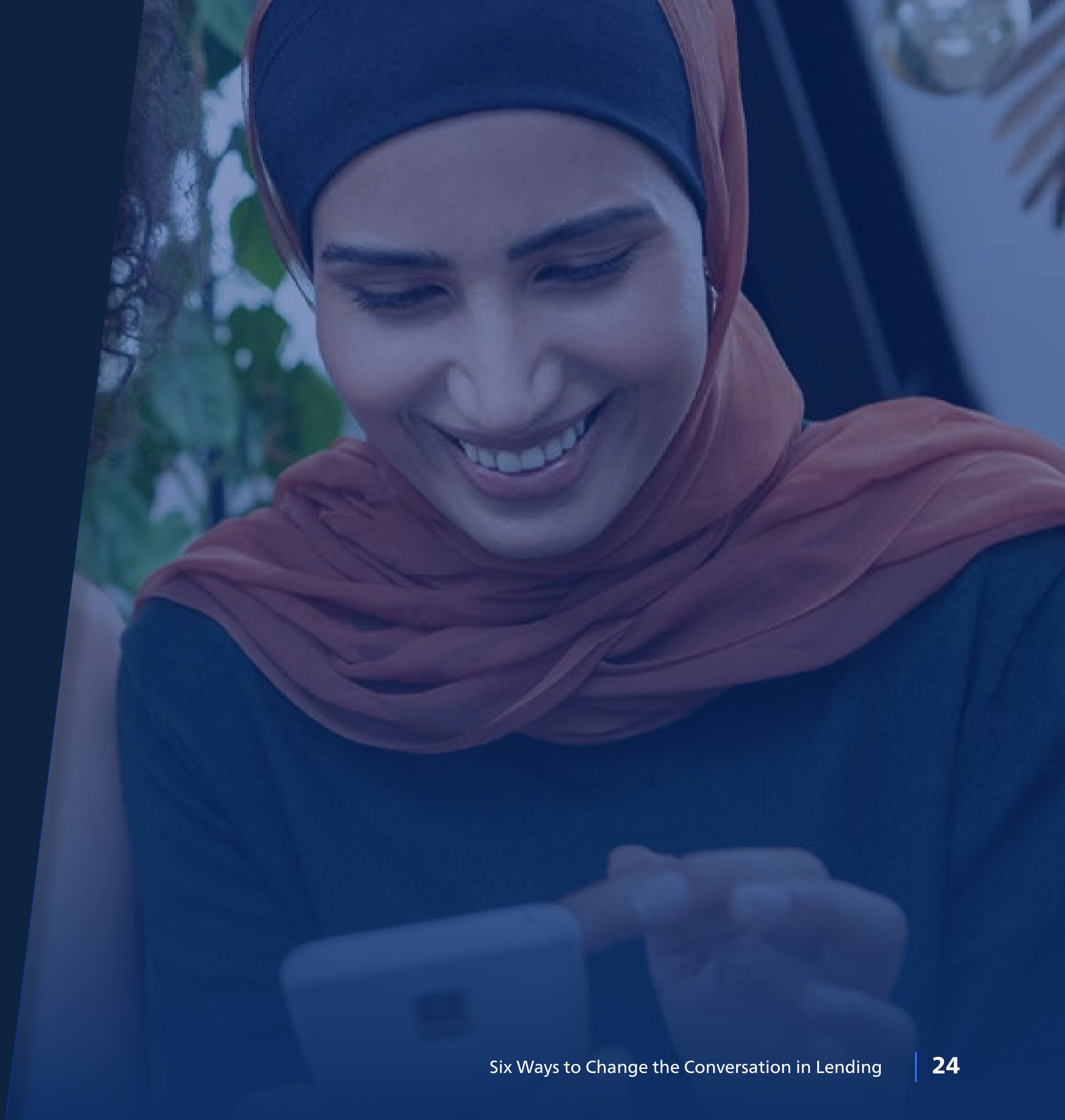
DocuSign Microsoft salesforce aws

OneSpan MuleSoft PEGA

CASE STUDY

The Conversation Cloud™ Supports All Customer Communications for UK-Based Lender

As a UK-based lender looked to launch a new brand for consumers not served by traditional financing, it decided the time was right to build a new "state of the art" tech stack and chose the Conversation Cloud as a key component. The solution needed to be low code, low maintenance and highly configurable, with integration to Salesforce and DocuSign. Further, it needed to scale easily to support future growth. Today the company uses the Conversation Cloud to produce a variety of communications, including loan agreements, regulatory debt notifications, account statements and ad-hoc customer support correspondence.



6

Change the Way You Use Intelligence Gathered During the Digital Lending Journey

Data is still the new gold. Lenders need to know at all times how customers and employees are interacting with various digital touchpoints in order to optimize those experiences. This is the smarter path to increasing lending revenue while reducing costs.resulting in higher customer satisfaction while reducing costs and risks.

In your online loan application form, do you know where the process breaks down and potential customers abandon it?

Do you know how customers are responding to your communications content? How about how readable it is and whether it's striking the right tone?

These are questions that every lender can and should have answers to. Tracking this data and turning it into actionable insights is key to continually optimizing customer interactions and internal processes.

Based on the amount of data generated throughout the digital lending journey, lending should always be getting smarter. New AI and Machine Learning capabilities empower analyzing all this data at scale in a way that simply hasn't been possible previously.

Armed with these insights, lenders can remove common barriers and accelerate the journey towards more profitable loans. It all starts with investing in a platform capable of tracking and analysis at scale.

"Cloud, mobility, and big data/analytics will increase lending process productivity, reduce errors, and optimize operational resources while driving innovative capabilities to improve customer experience." – IDC[13]

How Smart Communications Can Help

The Conversation Cloud empowers better lending conversations between customers, employees and banks. Here's how:

Origination

- Complete loan applications faster with guided, digital / mobile interviews from any device
- Automatically pull existing data so customers never have to re-enter information
- Leverage process automation and run compliance checks via third-party integrations
- Streamline complex loan origination involving multiple parties and negotiations by centralizing communications

Servicing

- Give customers the power to easily update their information, request a loan modification, or initiate a payoff request from any channel
- Reduce costs by maximizing use of digital while minimizing print
- Reduce contact center demand while empowering agents to send compliant yet personalized communications on demand
- Automatically analyze communications for tone, sentiment and readability to ensure high-quality, relevant and compliant messaging

Collections

- Make it fast and easy to guide borrowers through debt resolution using digital channels
- Quickly adapt processes and templates to comply with new regulations governing collections outreach
- Orchestrate communications across digital and print channels, with easy channel switching
- Ensure communications are empathetic and effective through textual analysis and tracking

About Smart Communications

Smart Communications is a leading technology company focused on helping businesses engage in more meaningful customer conversations. Its Conversation Cloud™ platform uniquely delivers personalized, omnichannel conversations across the entire customer experience, empowering companies to succeed in today's digital-focused, customer-driven world while also simplifying processes and operating more efficiently. Smart Communications is headquartered in the UK and serves more than 650 customers from offices located across North America, Europe, and Asia Pacific. Smart Communications' Conversation Cloud platform includes the enterprise-scale customer communications management (CCM) power of SmartCOMM™, forms transformation capabilities made possible by SmartIQ™ and the trade documentation expertise of SmartDX™. In 2021, the company acquired Assentis, a leading European software solutions provider specializing in customer communications management (CCM) with a focus on the financial services industry. To learn more, visit smartcommunications.com.

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