How Banks Are Transforming CX in a Volatile Credit Market With Digital Lending Technology

By: Karen Oakland, VP of Financial Services Marketing at Smart Communications

Times are certainly strange for lenders and credit servicing businesses. Economic data is telling competing stories about the health of the global economy and overall lending trends. Either way, consumers are still requesting new loans or lines of credit and manual processing isn't cutting it. Could digital lending technology be a catalyst for lenders to future-proof?

In some markets, demand for credit has continued to increase. For example, Ally Bank reports a "25% jump since 2019 in [auto] loan applications from people with incomes above $50,000." The Los Angeles Times reports that American consumers currently have auto loans totaling $1.4 trillion, double the amount from 10 years ago and now larger than credit card debt, citing the Federal Reserve Bank of New York. College loans have grown so fast that one in seven Americans carry student loan debt.

Yet historically high inflation and recession fears are denting demand in other areas, as some borrowers pull back. Auto loan delinquencies are on the rise, particularly for young and subprime debtors, according to the Los Angeles Times. "Auto loans more than 60 days late were up 30% in May from a year earlier, although defaults so far remain below pre-pandemic levels, Cox Automotive said." This means loan servicing and collections staffs are under more pressure than ever.

What's Driving Lending Demand Now?

On the consumer side, many people have spent the savings they accumulated during the pandemic. This has driven an increase in credit card loans, with JP Morgan and Wells Fargo both reporting a 17% jump. This seems to be offsetting in some ways the weakening home mortgage demand brought about by higher interest rates. Further evidence of this trend: "Average loans for Citi's personal banking and wealth management division, which includes cards, rose roughly 4% from a year ago."

On the commercial side, the war in Ukraine and the need to cover costs due to rising inflation seem to be driving the need for financing. In 2Q22, "JPMorgan, for example, saw strong growth in corporate and industrial loans, which grew 6% on higher use of revolving facilities and new accounts opened."

Shifting Regulations Put Pressure on Lenders to Stay Agile

Additionally, changing government regulations are keeping lenders on their toes. For example, the UK's Financial Conduct Authority (FCA) is launching a new Consumer Duty. It's designed to improve the customer experience but will inevitably put extra pressure on lenders to ensure compliance. It calls out clear and understandable communications as a requirement, meaning that lenders must have robust content review policies and have technology capable of rapid changes at scale. The Consumer Financial Protection Bureau (CFPB) is also increasing scrutiny in the U.S., especially in the area of debt collections.

Now's The Time for Consumer Lenders to Invest in Digital-First Customer Experiences

So, at the end of the day, what are lenders to do with so much curious, conflicting data and a rapidly shifting regulatory environment? What they should do regardless of external circumstances: focus on the customer and their evolving needs. Specifically, this means investing in creating fast, easy, digital-first lending experiences.

In fact, banks are investing in improving digital lending as a key priority, according to analyst firm Celent. In its IT Strategy and Priorities for Retail Banking 2022 survey, Celent reports 56% of banks are investing in improving the digital lending experience — the single biggest product priority.

We're seeing this in our conversations with banks and lenders as well, speaking with transformation leaders who are finding a return on the investments that modernize the way they engage and communicate with borrowers as well as front office customer service staff and internal back office loan operations teams.

Here are a few things consumer lenders can do to take advantage of this unique environment, while setting themselves up for success regardless of what the future holds.

- **Double down on digital customer experience.** As we revealed in our ebook, 5 Trends Shaping the Next Generation of Client Reporting, research from EY suggests that clients are willing to pay more for better digital experiences. You can grow rapidly and avoid price sensitivity by boosting your digital lending technology, particularly ensuring that mobile experiences are just as excellent as desktop.
- **Automate as many processes as possible.** As The Bancorp and many other leading financial services firms (who also happen to be Smart Communications customers) can attest, the more you automate the lending journey, the faster and easier it is for customers to work with you. That translates into big gains in terms of more originations and higher margins, while reducing costs like manually rekeying data, postage and printing, and other relics of the time before digital.
- **Increase agility to navigate regulatory changes.** For customers in collections, or in areas like student loans, make sure you have the business agility to make changes to your communications and forms processes quickly. For example, the UK's FCA, US CFPB, or Australia's APRA regularly issue new guidance that must be complied with, but it doesn't have to derail your operations. The right technology gives you the power to quickly modify your communications at scale, even analyzing tone and readability scores.

What's Next for Lending?

While everyone's crystal ball is cloudier than usual, experts are making some predictions on what's ahead. Though Morgan Stanley said it grew its loans by $7 billion year over year in 2Q22, their CFO still predicts consumer demand will soften as central banks around the world raise rates to ease inflation. Similarly, the research director at CFRA Research predicts "commercial loan growth would be flat in the second half" of 2022.

Another major trend we expect to intensify is more focus on embedded finance and Buy Now Pay Later (BNPL) credit, with banks partnering with non-finance entities closer to the point of sale. Even if consumers don't pursue large loan amounts, many will still take advantage of BNPL financing options on purchases big and small. The appeal of getting what you want now and dealing with the consequences later may rule the day as bank balances shrink due to higher costs of all types of goods and services. [*We're currently partnering with OneSpan on a survey around Embedded Lending trends. Contact us for details on the results.*]

How Can Digital Lending Technology Help Lenders Prepare for Uncertain Times Ahead?

Though no one really knows what the future may hold, if you're responsible for growing your loan portfolio, building loyalty or reducing credit default risks, here are some steps you can take to futureproof your business, come what may.

- **Make the right technology investments now so you're ready for what's next.** Don't wait for a rainy day (or an invitation from angry shareholders) to invest in improving your lending customer experiences. Modernize every aspect of your digital lending journey, improving integration and agility with flexible cloud-based solutions wherever possible. Expand your use of digital channels such as SMS, chatbots, virtual meeting rooms or even home devices to communicate with customers. Don't let your competitors leave you in the digital dust.
- **Reduce inefficiencies and go lean.** The tighter your operations are now, the better positioned you'll be no matter what happens. Investing in digital lending technology that eliminates manual processes while delighting customers is a win for everyone. Reducing friction for the customer means improved conversion rates – and more revenue.
- **Improve the personalization and consistency of your communications.** Customers want communications that are relevant, timely and available on the channel and device they prefer. They expect you to know who they are and what other financial products they have with your institution, across every interaction. By choosing a robust customer communications platform, integrated with your core systems and e-signature platform, you'll be able to orchestrate a truly omnichannel experience that puts the customer in the center of the lending journey.

We hope this advice is helpful, but we're just scratching the surface of digital lending technology. For a deep dive into the many ways lenders can modernize their digital lending experiences, check out our new white paper, 6 Ways to Change the Conversation in Lending.

About the Author

Karen Oakland is Vice President of Vertical Marketing, Financial Services for Smart Communications, focusing on thought leadership and solutions development for banking, investment advisory firms, and other financial services institutions. For more than 20 years she has been dedicated to helping enterprises transform the way they communicate and engage with their customers, partners, advisors, and other stakeholders, driving revenue and profitability. Karen previously held leadership roles with content and business intelligence software providers including Intelledox, dunnhumby, Thunderhead, FileNet and Epicor.

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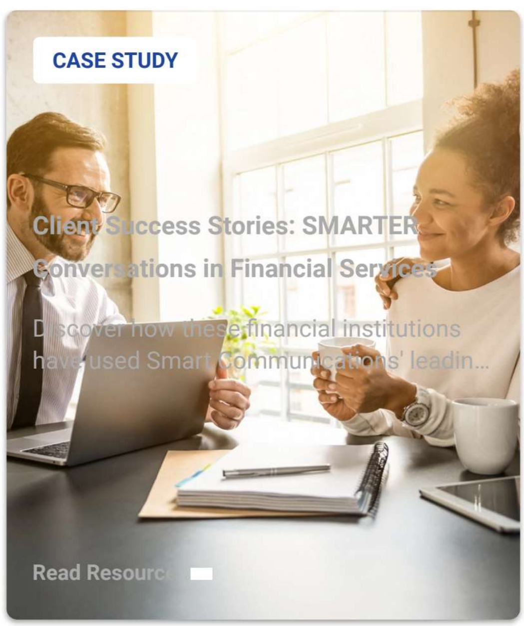

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