Consumer lending strategies to stay relevant and drive growth

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contents

Introduction

The saying "the only thing constant is change" could be the catchphrase for consumer lending today. Emerging from the COVID-19 pandemic, consumers, having transitioned their banking experiences from brick-and-mortar branches and ATMs to mobile and online channels, expect their lenders to understand and address their evolving financial needs and provide an accessible, seamless and secure digitally enabled lending process. But simply providing digital capabilities is just the minimum entry requirement, as consumers expect lenders to enable convenient, personalized and innovative experiences akin to the ones offered by big tech and FinTech providers.

The transformation of consumer lending allows traditional lenders to benefit from emerging opportunities to deliver effective customer engagement, build loyalty and trust, and drive relevance and growth.

As such, financial institutions (FIs) that have successfully met the challenges and captured the benefits of this changing environment are transforming their consumer lending enterprises by focusing on three core principles:

1
Treating data as their greatest asset in understanding consumer behavior and placing the customer at the center of the lending model

2
Leveraging technology to deliver a frictionless experience across retail asset classes and channels

3
Integrating ecosystem partners across the lending lifecycle to curate personalized service bundles and provide holistic value to the customer (i.e., move from singular transactions to experiences that meet multiple customer needs)

Three core principles for transforming consumer lending

1 | Placing the customer at the center of the lending model through a data-driven approach

Gaining and using meaningful insights from customer data

Historically, consumer lending has been an in-person experience that revolves around relationships, but with the pandemic accelerating the use of digital channels, and with customers progressively making lending choices based on their digital experiences, innovative lenders are tailoring products to fit their customer needs by using data to personalize that experience. FIs that use data to anticipate and offer the right products, services and experiences to their customers at the right time can create positive customer experiences, which can encourage loyalty, build trust and advance additional banking needs across the spectrum.

To derive meaningful insights from customer data and deliver real-time offers and services, lenders need to understand the customer from every angle – by aggregating customer data through continuous event streams of transactions and interactions – and home in on signals and life events. While adhering to regulatory and consumer privacy requirements, FIs that break down data and business function silos and work toward establishing a shared customer data repository that is continually enriched can increase transparency and accountability throughout the enterprise. And with every employee on the same page with access to customer data, FIs can shift from offering one-off, compartmentalized lending transactions to offering collective experiences across P&Ls, tailored for each customer.

An example of gaining meaningful insights from data and delivering real-time services to customers would be a hotel guest who has stayed at a different property within the same hotel brand. Their desired room type, floor, meal preferences, wake-up times, laundry needs, etc., and any customer reviews on social media from past stays can be stored and made available to the current hotel so that the property can leverage these insights to enhance the guest's stay. And after the stay, the data is enriched further with any new insights gained.

2 | Leverage technology to deliver hyper-personalized customer experiences

With a recent EY survey reporting that consumers expect FIs to offer truly customized experiences across channels, products and lines of business, delivering differentiated and hyper-personalized customer experiences requires more than just digitizing and customizing front-end processes. It requires leveraging technology to transform front-, middle- and back-office processes to deliver consistent, streamlined customer engagement through an omnichannel experience, regardless of entry point, across the entire lending lifecycle, as well as driving efficiency and cost optimization throughout the lending process itself.

For example, a few large FIs are working to seamlessly integrate the personal touch of legacy banking with innovative technologies to provide an integrated digital experience for their customers across all lending asset classes (mortgage, unsecured, auto, student, etc.). They're using advanced analytics and trusted digital assistants (through artificial intelligence) to give customers greater access and information to manage their cash flow, balances and transactions or to pay bills, while striving to provide little to no differentiation between in-person, web-based or mobile app customer experiences.

Other FIs are leveraging technology to drive efficiency throughout the lending process. For example, FIs can automate and streamline data collection wherever possible by obtaining asset, employment and collateral data through trusted application programming interfaces (APIs), eliminating the need to collect it from the borrower. Subsequently, the FIs can validate both data and processing documentation, reducing fraud and operational risk, while enabling them to make more accurate credit decisions and deliver these decisions faster — nearly instantaneously for card and auto products, with significantly reduced cycle times for mortgage and home equity loans.

3 | Integration with ecosystem partners

The third principle involves integrating ecosystem partners across the lending lifecycle and adjacent services supporting the borrower's journey to curate personalized service bundles and provide holistic value to the customer beyond singular transactions. Embracing this principle enables earlier and more effective engagement with the customer to potentially help them save and shop for a lending need before they are drawn to competitors and can ensure connectivity with the customer long after the initial transaction is completed.

In this example, the consumer has unique needs across her home journey, with the bank addressing those needs through a combination of partnerships and self-originated products.

> " I want to purchase and furnish my dream first house while focusing on my career.

Josie, 27
UI/UX designer

Saving for a home	Finding a home	Buying/financing the home	Insuring the home	Buying items for the home	Maintaining/ renovating the home
Related products					
High-yield savings Student loan Investments	Home search Real estate broker	Mortgage Originations Mortgage servicing	Getting insurance Insurance claims	Interior design Furniture Entertainment (e.g., TV, BBQ)	Maintenance Renovations Repairs (e.g., after storm)
Pain points					
Not being able to conduct goal-based investing	Having to explore multiple third parties to conduct extensive home searching	Friction-filled and cumbersome process lacking personalization and without clear status	Confusing terms and policies for insuring a first home	Deals, offers or rewards for home purchases not available through her nonbank credit cards	Limited knowledge of home renovations needed and associated costs
Bank's role					
Provide the service or help find the right provider: Offer own saving/financial planning products or provide partner student loan refinancing and investment options	**Help finding the right provider:** Work search engines; potentially offer new propositions (e.g., "offers you are preapproved for")	**Provide the service:** Own the experience, including underwriting and servicing, potentially partner for certain capabilities across the mortgage value chain	**Help finding the right provider:** Create marketplace of home insurances Simplified, one-click experience	**Save and reward:** Enhanced points for new homebuyers at select furniture stores Access to specialized interior design services	**Help finding the right provider:** Integrate with maintenance providers to offer services (e.g., handyman) Simplified, one-click, vetted experience
Potential partners					
FinTech brokerage	Real estate agents	**The bank fulfills the mortgage and is the experience orchestrator across the lifecycle**	Insurers	Furniture stores	Contractors

When consumers buy their homes, they consider a wide range of financial products based on perceived needs.

Percentage of consumers identifying each product as most relevant to buying a home.

Our research indicates that consumers' value propositions are built around life events. Homebuying is a high-volume, high-value life event that offers lenders the opportunity to proactively address the next set of customer needs with lending solutions and product or service bundles, giving them the ability to capture their customer's total addressable wallet as well as promote stickiness, increase brand loyalty and build trust. Brands that are able to drive trust through a seamless and holistic experience and curate products based on needs can differentiate and win in the homebuying market.

Product	Buying 1st home	Buying forever home
Home mortgage	42%	55%
Checking account linked to debit card	38%	32%
Saving/money market/CD account	38%	30%
Credit card with loyalty program	32%	22%
Home insurance	30%	41%
Personal financial plan	29%	32%
Checking account, no debit card	29%	17%
Auto insurance	26%	19%
Advisor managed investment account	24%	16%
Multi-generational finance plan	22%	21%
Self-directed investment account	22%	13%
IRA/401K	17%	16%
Personal loan	14%	14%
Life insurance	13%	19%
College savings account (e.g., 529)	12%	2%

Key

- 0-15
- 16-30
- 31-45
- 46-60

Source: EY 2021 NextWave Global Consumer Banking survey

Different approaches to consumer lending

Some FIs are focusing on single P&L-centric or cross-asset-class approaches, while others are embracing a beyond-banking lending model or ecosystem that fulfills their customers' expanding needs.

The three core principles are being incorporated, to varying degrees, throughout different consumer lending models. And although some consumer lending approaches may be more effective than others, it's important to note that one size doesn't fit all when transforming your FI's lending model to meet your current challenges. Consumer lending can be viewed on a broad spectrum, reflecting changing customer needs and FI capabilities, with lending models ranging from providing simple transactional loans to delivering omnichannel holistic customer experiences. Let us now explore three approaches to consumer lending transformation:

1

Single P&L-centric lending transformation

2

Cross-P&L lending transformation

3

Fully connected lending ecosystem

Consumer lending **approach 1**:
single P&L-centric transformation

Whether it's mortgage, credit card, student, unsecured or auto loans, some FIs focused on "vertical" lending model transformations are having success enhancing their individual capabilities by upgrading their legacy platforms and technologies to digitize the product-driven consumer lending process to make it more streamlined, automated and personalized.

Although this approach is effective at improving the asset class in focus, there are some issues in employing this lending model. Data remains transactional and siloed, limiting integration and the ability to obtain enterprise-wide insights that can be used by other parts of the business. And instead of delivering a consistent experience across all lending products, customers may realize completely different experiences when requesting a new credit card versus applying for a student loan, for example. In addition, because processes may vary drastically by loan type, this may result in inefficiencies that are increasingly unwieldly for the FI to maintain. Using this model may also leave money on the table, as loan officers within each business unit are incentivized solely for product sales and growth of their individual units, in contrast to capturing the customer's total addressable wallet across multiple lending products and business functions.

Single P&L-centric lending transformation

Individual P&L-specific data repositories
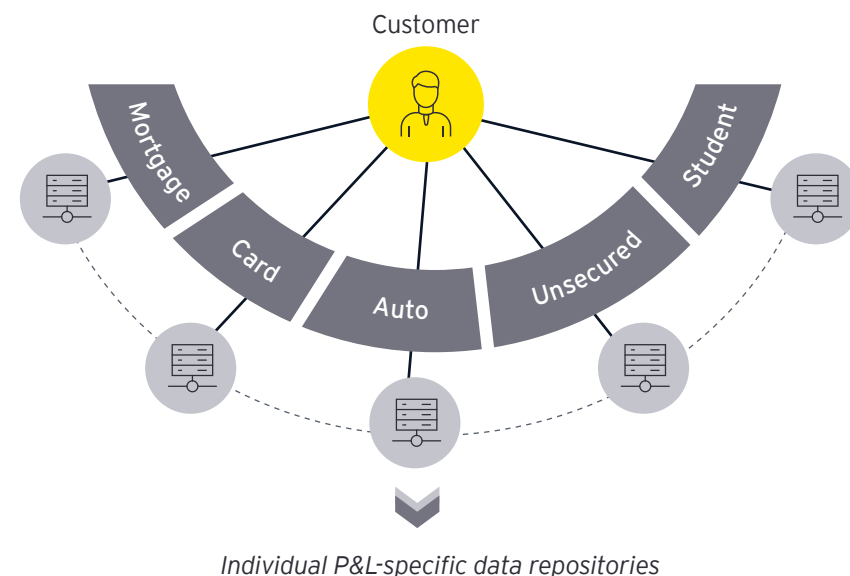
✓ Digitized and streamlined process for in-scope P&L

✕ Data is siloed, so unable to derive and apply insights to other parts of the business

✕ Customer receives different experiences based on product, service or channel

✕ Varied processes result in inefficiencies and are more cumbersome to maintain

✕ Employees are primarily incentivized for their product sales vs. capturing total addressable wallet

Two examples of the single P&L-centric transformation approach

EXAMPLE

1

An Irish bank, using a single P&L-centric approach to mortgage lending, is increasing lead conversions and transforming mortgage originations by providing omnichannel customer journeys. By supplying online calculators, scenario analysis tools and mobile communication channels, they've realized £4 billion in applications in the first 10 months, a 50% reduction in internal processes and calls, and a 75% reduction in application completion time during a 12-month rollout.

EXAMPLE

2

Meanwhile, a large Czech bank is bolstering its consumer lending business by teaching its members to manage their finances and achieve prosperity by offering unsecured loans to nonmembers within 15 minutes. The bank has a fully online channel leveraging robust underwriting mechanisms and innovative credit scoring approaches using internal and external data.

# Consumer lending **approach 2**:
cross-P&L transformation

Other FIs are employing a transformation strategy across retail asset classes to drive consistent experiences regardless of channel, product or service desired, with data, process and customer experience silos reduced between business units, product owners and front-, middle- and back-office functions. These silos are replaced by data-enabled customer-centric processes and experiences with a shared customer ownership layer (respective of all applicable privacy regulations) across business functions.

Employing this shared customer ownership model establishes a common and exhaustive data repository to understand the customer from every angle to predict and meet their current and future needs, with data that may include lending and servicing information, signals, triggers, internal transaction history, voice of the customer, channel and other preferences, customer satisfaction survey results, and curated external data.

But this kind of data store may be too complex to curate and maintain. What can be created is a repository with a continuous event data stream of relevant customer transaction history that is continually enriched and leveraged to drive real-time insights for best actions and offers, respective of all applicable privacy regulations.

Benefits of using the cross-P&L lending approach include improved efficiency and lower costs by standardizing, simplifying and digitizing front-, middle- and back-office processes across all lending functions. It also enables more effective cross-selling opportunities between business units to increase customer wallet share and generate a personalized customer experience regardless of service or channel desired.

Cross-P&L lending transformation
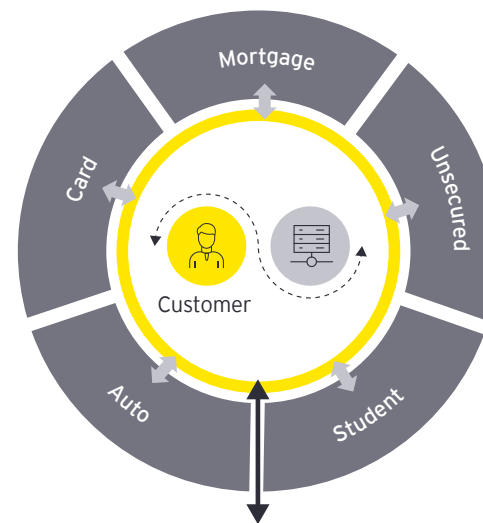
Shared customer ownership layer
(representation across all business function owners)

- ▸ Lending and servicing data
- ▸ Internal transaction history
- ▸ Voice of the customer
- ▸ Channel and other preferences
- ▸ Satisfaction survey results
- ▸ Curated external data

- ▸ Establish a shared customer ownership model to promote open sharing of information across product areas and business functions within regulatory guidelines

- ▸ Establish common data repository with real-time event triggers to understand the customer from every angle

- ▸ Standardize, digitize and personalize front-, middle- and back-office processes across all asset classes and channels

Two examples of the cross-P&L lending transformation approach

EXAMPLE 1

A large North American bank is redesigning its loan originations and servicing capabilities and modernizing its technology stack to offer a digitized and standardized customer experience across all mortgage, auto, card and unsecured lending functions. This transformation is expected to reduce processing time from application capture to close by 35% and yield greater than $100m in annual benefits while providing markedly improved customer experiences.

EXAMPLE 2

The second example concerns a global bank that is using its customer experience labs to create digital capabilities across all lending functions and is more effectively offering adjacent products and services, such as an unsecured loan, post-mortgage closing, when many homeowners are in the market for additional home improvements.

Consumer lending **approach 3**:
the ecosystem model

More and more FIs are extending their consumer lending models to create a fully connected lending ecosystem. By broadening the aperture beyond singular lending offerings and providing interconnected services, lenders who establish these ecosystems can effectively integrate partner solutions and curate bundles that serve their customers' holistic buying needs.

As such, FIs should embrace a fully connected lending ecosystem model by partnering with technology, FinTech and other third-party providers to streamline processes, cut costs, and provide the products, services and experiences that their customers want and demand, while increasing wallet share and customer loyalty.

Fully connected lending ecosystem
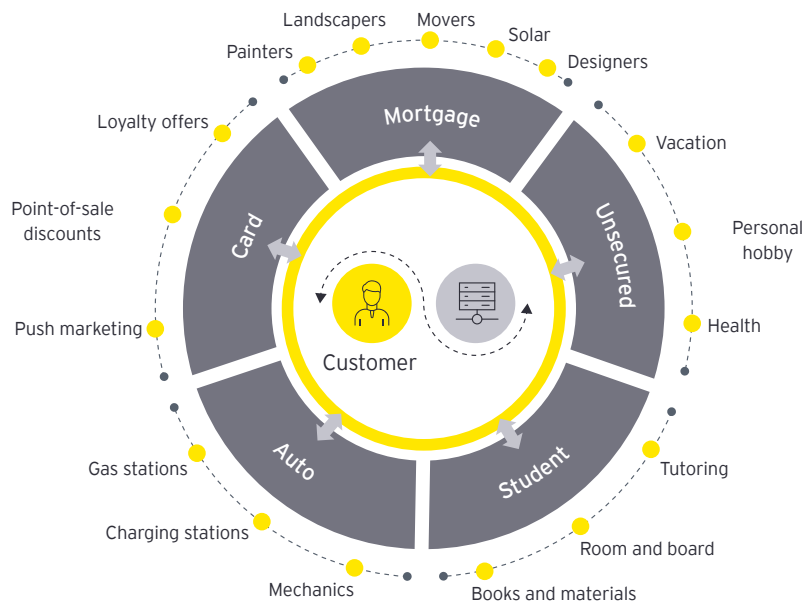
▸ Extend shared customer ownership model to broaden the aperture beyond lending products to related services

▸ Expand the points of access to financial products to capture total addressable lending wallet

▸ Promote stickiness and brand loyalty and understand moments that matter to attract customer's broader network (spouse, dependents, etc.)

Two examples of the fully connected ecosystem lending approach

EXAMPLE

1

A Singapore-based bank created its own consumer lending marketplace to remain competitive by offering a one-stop portal for property listings, cars, travel and utilities, allowing its customers to secure loans instantly.

EXAMPLE

2

Meanwhile, a Chinese insurance giant built a staggering online audience of 538 million users by integrating the user experience for finance, health care, auto and real estate products and services.

Where does the consumer lending industry go next?

While ecosystem lending is a major consideration and a step many FIs are taking, "buy now, pay later" (BNPL) and embedded finance models are becoming more mainstream and affecting the lending landscape. On the horizon is the emergence of the "super app," which is a model for "everything banking." Instead of offering multiple apps with singular functions, such as banking, shopping or making payments, a super app offers a one-stop shop or full ecosystem of products and services in one application.

Benefits of the super app approach include leveraging data to deliver new and improved services, growing the customer base with minimal disruptions to the customer experience, using existing digital products and customer experiences to increase brand value in different industries, and offering the opportunity to intercept customers from competitors.

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