Lending On Cloud Can Change Your Business Forever

September, 2020 | Version 1.01

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INTRODUCTION

In order to have a fighting chance against non-traditional competitors entering the market every day, the incumbents of the financial services industry need to look for ways to reduce costs, be more operationally efficient and provide great customer experience. Given the pace with which new age competitors are taking over every aspect of financial services, right from payments to peer to peer lending to wealth management, traditional financial institutions are under pressure to perform like never before. This technology upheaval is taking every aspect of the business by storm. Social data, for example, is being consumed by technology startups to create smarter choices for end consumers. This is backed by sophisticated data analytics and innovative algorithms. These advances have created an undeclared competition between banks and disruptors to use and make sense of simple customer data: restaurant bills, previous interest rates paid, investments made and even medical records and internet surfing details. From location based offers to IoT based payments, the world of banking is changing fast, with or without banks. Digital banking is now going beyond the definition of a mere business channel to be perceived a business strategy by many in the industry

This shift is naturally being percolated to the lending industry as well. Marketplace Lending matches the lenders directly with the borrower through an online platform. The demographic segments where consumer credit histories are unstructured and fragmented; creditworthiness is almost a misnomer. Innovative firms are using behavioral patterns and everyday tasks to find out more about consumers. These patterns are obviously a reflection of the evolving consumer behavior in the lending space across the lending lifecycle. Consumers research online before choosing their lender, apply for loan on digital channels, sometimes they start the application on one channel and finish it on the other, they then expect 24*7 servicing with chatbot and voice responses. Even to close the loan, they do not need to undergo the usual protocol of paperwork as they prefer simply clicking a button and completing the process.

To support this customer journey, lenders need to be digitally prepared by streamlining processes and eliminating redundancies. While a few years back, lending used to be a long and complicated process that is not the case anymore. Lenders are now serving what consumers want: quick, reliable and hassle free processes combined with innovative products and customized pricing. They are trying to adapt to the changing landscape with a fresh approach: digital by design. But as lenders prepare to monetize the customer lending journey, they face several challenges.

BUSINESS CHALLENGES

Lending businesses are operating in an evolving landscape and face several business challenges. While cost cutting has always been one of the top challenges, product innovation is an emerging requirement enforced by the new entrants in the market. Apart from balancing the cost and innovation factors, lenders need to have a clear visibility of the entire lending lifecycle not only from the end customers' perspective but also from the vantage point of the dealers involved. The operational efficiency and productivity of staff is equally significant as lenders continue to look for ways to eliminate redundancies. Back office automation and digitization of sales forces are some attempts lenders have been making to foster a culture of productivity.

Another important component of the entire lending ecosystem is the regulatory aspect. Lending activities in the United States are scrutinized by a robust compliance system that comprises federal and state specific laws. Lenders need to employ enterprise wide practices that focus on fulfilling regulatory norms at all times.

THE NEED FOR A LENDING SOLUTION

In order to simplify the lending process, lenders need an easy to use, secure and purpose built solution. They require a solution that enables them to provide better service and to minimize delinquency rates through comprehensive and flexible processing of booking, disbursement, and payment. A centralized originations function can bring in better customer experience and can reduce transactional overheads. It must have the flexibility to be implemented as a specialized point solution or as part of a core banking solution. Lending businesses need to fulfil various kinds of loan requirements such as installment loans, closed-end, fixed-rate loans for multiple, user-defined collateral types, lines of credit, in-store revolving credit program, overdraft credit lines, and leases, a lending and leasing solution needs to be comprehensive in its capabilities. The solution must be able to focus on providing a superior experience not only to the end consumers of loan and lease products but also to the distributor and the auto lender through its comprehensive and unified solution.

End-to-End Capabilities

A modern day lending solution cannot just perform originations and get done. In order to be able to wow the end consumers, it should serve them seamlessly along the journey of the lending lifecycle right from originations to servicing to collections.

Originations: A truly digital lending solution should provide improved user experience by accepting, processing and making decisions on credit applications in a paperless mode with a single data entry process via multiple digital channels. The solution must allow financial institutions to customize credit guidelines in the system to ensure compliance. It must be controlled by a flexible workflow management system that can be configured to reflect the step in the company's underwriting processes. The most common problem with most loan origination systems is the lack of collaboration between the origination, adjudication and servicing systems

Servicing: A lending system that aspires to go beyond merely originations to create a holistic experience for the consumers, needs to provide the lenders the ability to manage all customer information in a centralized location. A robust servicing engine needs to also improve the personnel productivity of the lending staff by allowing them to manage all customer information in a centralized location. This will not only assure data integrity but will also simplify the customer service and management processes. A unified customer record with a common customer relationship view across all financial products will ensure that the entire relationship is always visible, allowing the institution to provide better customer service, resolve queries and improve service personnel productivity.

Collections: In order to be able to minimize losses by loan defaults, lender need to have a system that allows better debt management with a comprehensive functionality to support specialized collection-related activities, including tracking all occurrences and related histories associated with bankruptcies, repossessions, foreclosures and deficiency (bad debt) management. This will help the lenders manage delinquency in a better manner and also improve productivity. A good collections system also needs to provide 360° customer view with a common customer relationship view across all financial products.

Comprehensive Enough for all the Stakeholders

An all-encompassing lending solution is the one that looks at the needs of all constituents of the auto lending lifecycle, including the customer, the dealer, the organization staff and the management.

Customer: Lenders need to offer enhanced user experience through solution enablement across channels, providing a single stop lifecycle processing, quick credit scoring and decision making along with scenario analysis.

Dealers: An advanced lending system shall facilitate more sales with wholesale floor planning, flexible commissions, subvention and an efficient bad debt management.

Staff: The productivity of the staff needs to be improved with superior operational control, ease of product modification and consistent real-time customer data across all access points.

Management: In order to be able to make impactful business decisions, the management needs to get personalized views of the business, dedicated dashboards for business insight and an efficient risk and compliance management

Built on Scalable and Futuristic Technology

To support a growing lending business, lenders need a solution that is built upon a robust technology platform that can provide their businesses with predefined processes derived from industry leading practices. The flexibility to choose the way to deploy the solution from options like on premise, public cloud, and managed cloud and SaaS cloud can give them the freedom to run the solution in a way that is aligned to their specific business aspirations.

A new age solution built upon a modern technology architecture can assure their business are ahead of competition. They can not only provide a holistic view of customer relation to ensure a better customer experience but can also minimize costs with a purpose built solution deployed on cloud. Lenders can also roll out new products faster and with increased operational efficiency if they choose the right technology partner.

How can they choose what solution to opt for? Does the answer lie in cloud?

LENDING ON CLOUD

While adoption of cloud is slowly increasing across the industry for various business areas within the lending business, the concern of data moving out of their control has been keeping lenders from being completely comfortable with the technology. Regulatory bodies and central banks have been taking due steps to eliminate the risk associated with cloud adoption. The idea is not to discourage moving to cloud, but to deeply analyze the business priorities before taking a call. The amount of risk one financial institution is willing to take might vary from the other, and so can the cost adjustment they intend to make. The parameters of cost, risk and return have to be examined carefully to arrive at the most viable business decision.

1. When innovation is the top priority?

The possibilities to enhance digital offerings are immense on cloud since it gives the flexibility to swiftly tailor-make offerings as per the demands of different geographies, products and markets. Varying consumer requirements can be met ahead of the competition.

2. When cost cutting is the top priority?

Cost pressure has always been one of the biggest drivers for financial institutions to look at cloud as an alternative. If cost cutting is an area of concern for a lender, cloud can save them money not only in terms of infrastructural hassles of physical data centers but also the training and maintenance of on premise teams. Low cost and high volumes can hence lead to the scalability that lenders have always wanted for their businesses. Cloud is now been seen as a catalyst to the process of turning IT from a cost center to a transformation hub.

3. When customer experience is the top priority?

Businesses who are not on cloud factor all the cost spillovers into the final pricing to the customers. The customers, hence, become victim to the overheads of infrastructure. By moving to cloud, lenders can choose to offer competitive prices to their customers and hence expand their customer base. Cross selling and upselling also becomes easy since the money saved from cloud can be put to use to customize prices. Cloud can also help lenders optimize customer experience across multiple touch points.

4. When security is the top priority

While security on cloud has always been a reason for apprehension in the industry, the need for consolidation of IT costs has been the primary motivation to overcome the skepticism. It is time for lenders to observe and learn from other segments and industries that rely heavily on security but are yet performing safely on cloud. Abiding to IT policies and corporate governance rules will make sure the security of important data is not compromised.

A whole new perspective on the security aspect is also being considered in the industry. Several pro cloud industry experts believe cloud might actually prove safer than on premise deployment. In fact, the security ecosystem built by some cloud service providers may be far stronger than that of lenders themselves on premise. To ensure a safer environment, lenders need to not only look at the technology but also look at the larger picture: the entire ecosystem of the data and applications that will be put to use. By opting for a vendor who follows world class security standards, lenders can ensure impeccable security.

BUSINESS BENEFITS

Technology will play a key role in helping a bank drive centralization, digitization and automation to deliver superior results with fewer human resources.

Moving solutions to cloud can be a way to answer these questions efficaciously. It can:

Reduce operational and infrastructure costs

An OpEx based cost model can help lenders control their costs by giving them room to move away from old hardware and to cater to high demands without having to commit long term spending. Paying only for the services and volume consumed, lenders can save cost and time of investing in and maintaining expensive IT infrastructure. Cloud can drastically cut down cost spillovers and create a culture of better return on investment. Moreover, IT costs become more predictable when lenders use cloud.

Free up resources to take care of the core business

Since SaaS model allows lenders to pay as per their usage, it can free up their internal resources for projects that are of a higher strategic value and require internal expertise and focus. It removes the burden of IT maintenance, especially repetitive and tactical work, thereby freeing up funds and talent for increased business innovation. It also empowers lenders to closely focus on the core business objectives including customer acquisitions and retention.

Optimize workflows towards better operational efficiency

Lending systems on cloud are not only cost efficient but also quick and easy to implement. They facilitate a single version of all the enterprise data thereby eliminating redundancies and offering single source of truth. Standardization of processes imply better credit analysis and relevant and timely decision making. This further percolates to a more seamless lending lifecycle experience for the end consumers right from loan approval to money disbursement to loan closure.

Regulate security and data control

The cloud service supports seamless data file integration, optimizing performance and enhancing data retrieval response times. It provides secure and high performance tools to move data back and forth between the cloud and the customers' on premise environments both in batch and real time mode.

Dedicated cloud vendors understand the cloud business thoroughly, and they typically are capable of providing a more secure environment with a well monitored coordination between security admin, server, data storage, and application. By investment in security and compliance frameworks and resources, they ensure flawless data security for their clients. Since maintaining security is one of their core responsibilities, they usually abide by the highest compliance standards and more efficient reporting mechanisms. This translates into a better security ecosystem as compared to an in-house cloud environment by a lending institution.

Reduce total cost of ownership

Since there is no baggage of infrastructure and related resources, the overall cost comes down drastically. Cloud also involves a significant cost saving through standardization of processes and cheaper roll out of core business services.

Minimize risk

The cloud vendors can provide customers with a private cloud environment including multiple instances for configuration, testing, production and disaster recovery. The cloud services in a high availability environment minimize the risk to customers business due to system downtime.

Give more room for innovation and collaboration between entities

Cloud can facilitate better idea collaboration and better insights from unified data at one place. It can also foster better collaboration between different environments within and outside of a financial institution through APIs.

CONCLUSION

As the move to subscription services gathers momentum, markets inevitably become more competitive. And no matter how creative and innovative your business is, you can find yourself held back by legacy Lending and Leasing systems. Traditional on premise systems are typically too expensive or not agile enough to handle the demands of a dynamic business.

Contact Oracle to find out how you can leverage Oracle Financial Services Lending and Leasing Cloud Service turn your Lending and leasing system from a barrier to innovation into an enabler of a successful business.

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October, 2020