Core modernization for consumer lending

Consumer banks can future-proof their lending business by flexing to align with new customer expectations while bridging physical and digital delivery channels.

FACT: Banks that lead with customer-centric operating models have outperformed traditional models over the last three years, growing revenue by 25 percent and EBIDTA 31 percent.[1]

How can you transform your consumer lending model to reap those kinds of rewards?

Capabilities that drive deeper client connections

It's a simple concept that banks need to be more responsive to their customers by integrating borrower expectations into their lending capabilities. The challenge, of course, is in the execution.

Leading banks look at lending through the lens of customer needs—as opposed to the lens of a specific lending product. For example, instead of asking how it can increase the number of direct auto loan applications, it would examine how it could support its customer in identifying, negotiating, acquiring, and maintaining a new vehicle. This view expands the bank horizon across auto ownership—a journey of needs that changes with each step in the ownership process.

Data is the greatest resource a bank has to support and satisfy its customers. By aggregating the massive amounts of voice, transaction, and performance data, insights emerge that drive greater personalization and deeper connections with borrowers. Once again, simpler in concept than execution. Building the data analytics competency, modernizing core platforms, and addressing the necessary organizational design changes is where the rubber meets the road.

Technology underpins a lender's ability to master its use of data. Historically, banks had dozens of decentralized mainframe platforms that typically represented 30 to 50 percent of the bank's overall technology spend. Centralizing these capabilities across a common integrated agenda has reduced costs 20 to 40 percent while increasing portfolio growth and margins—as well as access to data.

Transform how compliance interacts with the business

A consistent challenge across new technologies and processes is the orchestration and integration of risk and compliance. In leading banks, the risk and compliance teams are part of the overall business case—engaged much sooner in process redesign, technology development, KPI monitoring, and testing. All of which enables better and earlier automation, prevention, and detection. When done correctly, compliance accelerates program success while significantly lowering operating costs.

Integrating risk and compliance governance into the workflow is critical, especially with heightened regulatory expectations around consumer fairness and protection across the lending life cycle. This additional scrutiny has banks focused more intentionally on underserved or vulnerable populations—for example, those with limited English proficiency. Regulators, including the Consumer Financial Protection Bureau, are concerned about model inputs and the use of key enablers such as artificial intelligence and machine learning, aiming to understand how unconscious bias, a racial bias, for example, might impact loan decisions.

Regulators want to understand how the more granular loan components are managed and how it all comes together from a comprehensive top-down oversight capability. Because the stakes are high, now more

[1] A commissioned study conducted by Forrester Consulting on behalf of KPMG, April, 2021

than ever, banks must have the tools and capabilities to align their regulatory frameworks within their decisioning methodologies.

Where to begin

Most banks prefer a tactical approach to drive change within their consumer lending models. Typically, pilot program opportunities are identified, often centered on a specific new capability or experience such as "buy now, pay later." As value is demonstrated and the organization becomes aligned, momentum is created for the next effort. Modern agile methods are required to sustain interest in what will likely be a multi-year effort. Smaller deployments that drive bottom-line value can be organized every few months to fund future deployments on a larger scale. The process becomes a virtuous circle of exciting the business, especially senior leadership, with new products and services that drive success.

Four keys to the lending transformation journey

While there are numerous ways that you can approach modernization in consumer lending, below are the four most fundamental factors critical to success:

— Drive a digital-first credit origination experience that allows borrowers to complete application intake through fulfillment without the need for any human contact.

— Master your data to enable a true 360-degree view of your customer, leveraging both internal and external data points to allow for higher degrees of personalized interaction.

— Expand automated decisioning capabilities across all consumer products to enable the automated underwriting and servicing demands of modern customers and banks.

— Engage risk and compliance teams early for better and earlier automation, prevention, and detection.

By placing core modernization at the center of your consumer lending, you are positioning your bank for greater efficiencies, stronger attraction to new borrowers, and better engagement with current customers while helping to ensure fair loan practices for all.

For more on how to be a future-ready bank, please listen to our podcast:

Modernizing the core: Consumer lending

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