ZUCI SYSTEMS

WHITE PAPER

TRANSFORMING LENDING IN THE DIGITAL AGE WITH TECHNOLOGY

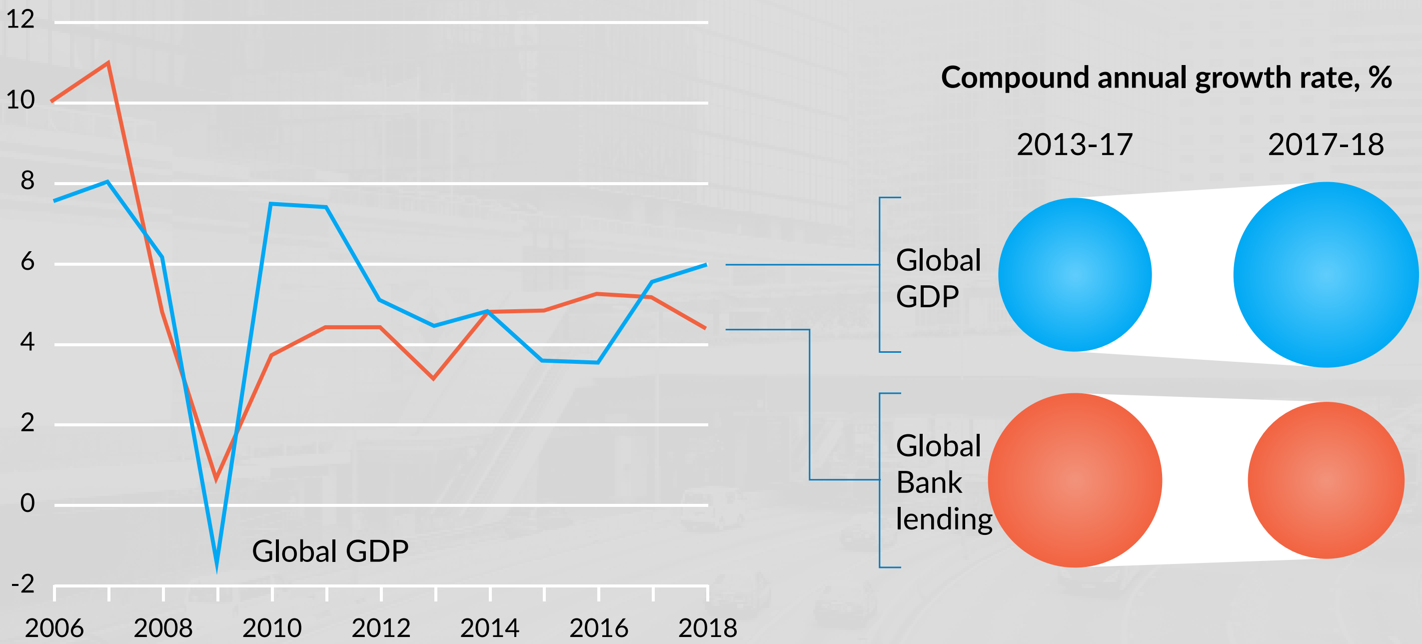
To Help Financial Institutions Reach New Customers, Drive Engagement, Increase Market Revenue and Promote Financial Inclusion

INTRODUCTION

In recent times, the average "time to decision" for the life span of a debit or credit loan seems antiquated and unacceptable as the two to three weeks is adequately vast. Credit is at the heart of most customer relationships and easing the lending process would offer significant advantages to lending institutions and customers alike.

According to the latest report from McKinsey, the growth in volumes and top-line revenues is slowing, with loan growth of just 4% in 2018 - the lowest in the past five years. Financial Service Providers (FSP's) are facing a tough time to quickly find and fund more creditworthy borrowers. As growth slows, financial institutions across the globe need to urgently consider a suite of radical organic or inorganic moves before we hit a downturn.

Global bank lending by market and GDP growth rate, 2018 constant Fx[1] rate, %



[1]Constant foreign-exchange rate (FX) used to remove FX volatility in result; 2018 is an estimate.
Source: Global Banking Pools, Panorama by McKinsey

In this whitepaper, we will look at the core lifeline principles that every financial institution should be aware of before deep diving to build digital-lending capabilities and transform their institutions with the support of emerging technologies to help financial institutions reach new customers, drive engagement, increase market revenue and promote financial inclusion.

THE FUTURE OF DIGITAL LENDING?

"Hotels, Taxis and Retail", "What do these industries have in common?"
They are being disrupted by new players by new business models.

UBER	AIRBNB	ALIBABA
OWNS **ZERO** VEHICLES	OWNS **ZERO** REAL ESTATE	OWNS **ZERO** INVENTORY

This transformation of industries was led by three things which were in common among the industry veterans.

- Dissatisfied Customers
- Undifferentiated Products
- High costs and low efficiency

Take the example of Uber, Airbnb, Alibaba or Amazon. They own ZERO inventory. Definitely this model is more profitable and all are trying to enter this space. By leverage digital channels such as smartphone apps and USSD (Unstructured Supplementary Service Data) menus to reach new and existing potential customers where ever they are: at home, at work or on-the-go.

WHERE IS LENDING HEADED?

The lending ecosystem is complex and evolving. Digital lending models are rugged when it comes down to distinct market structures, regulatory environments, and customer needs. A very few offer end-to-end digital solutions, while others focus on a specific component of the lending process and leverage partnerships to supplement their models.

According to Harvard Business Review on disruptive nature of alternative lending models, "Alternate lenders such as MPLs (Market Place Lenders) also take more risks with lending - with approval rates as high as 64%, as against 19% for Big Banks, and 43% for Credit Unions. These lenders also use various data sources hitherto untapped by traditional banks, such as Intuit and Bill.com for cash flow, Census data and BEA data for firmographics, Yelp and other social media for other social factors."

The rise of equity models and the complexity of technology, traditional business models have made it difficult for financial institutions to cope up with the expectations on the top line. Few of the challenges are as follows.

- **Smaller margins:**
  Small Business loans and SBA loans provide for much lesser margins with much higher expectations on speed and volumes than larger commercial lending products.

- **Threat of Fintech:**
  Lending is one of the core profit making offerings for financial institutions. However, marketplace lenders (MLPs) and P2P lenders have started making a dent, starting from retail side of affairs.

- **Change of focus:**
  Increased regulatory pressure and conservatism shifted the focus of banks towards cost efficiency and compliance.

- **IT Department:**
  Siloed and disparate systems continue to be a source of inflexibility and disadvantage in digital economy

THE NEXT 10 YEARS

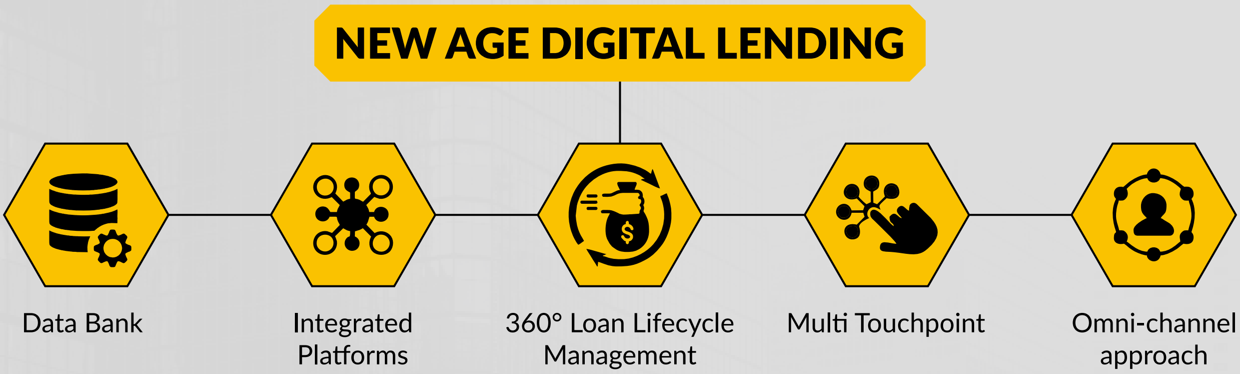
Given the rapid pace of change in the development and implementation of technology development applicable to financial services, it is difficult to predict the future. Still in the near future, new-age digital lending platforms will be disrupting the lending industry globally.

The tradition loan lifecycle will have a break through to simpler and easier route through the '3-1-0' model of lending- three minutes to decide, one minute to transfer the money and zero human touch. Yet, this model still needs validation and support from regulators and government initiatives to work on a large scale.

The right combination of innovative technologies and agile business model can help you stand out. Technology led lending can help you to improve customer convenience, deliver digitized services, launch new tailored products, and most important make better credit decisions faster while reducing overall cost. The new age lending will provide deep insights to create the connected customer experiences, delivers faster time to value with pre-built analytics, IoT-ready integration, and industry-specific dashboards, personalized services and drive revenue growth with targeted cross-sell/up-sell, and subscriber base management functions in an Omni-channel approach. Financial institutions will break through themselves from product-focused to customer-centric enterprises.

NEW AGE DIGITAL LENDING - KEY ASPECTS TO CONSIDER

In order to tackle the major threat from the Fintech and the Emerging technologies, consider the following key aspects to New Age Digital Lending.

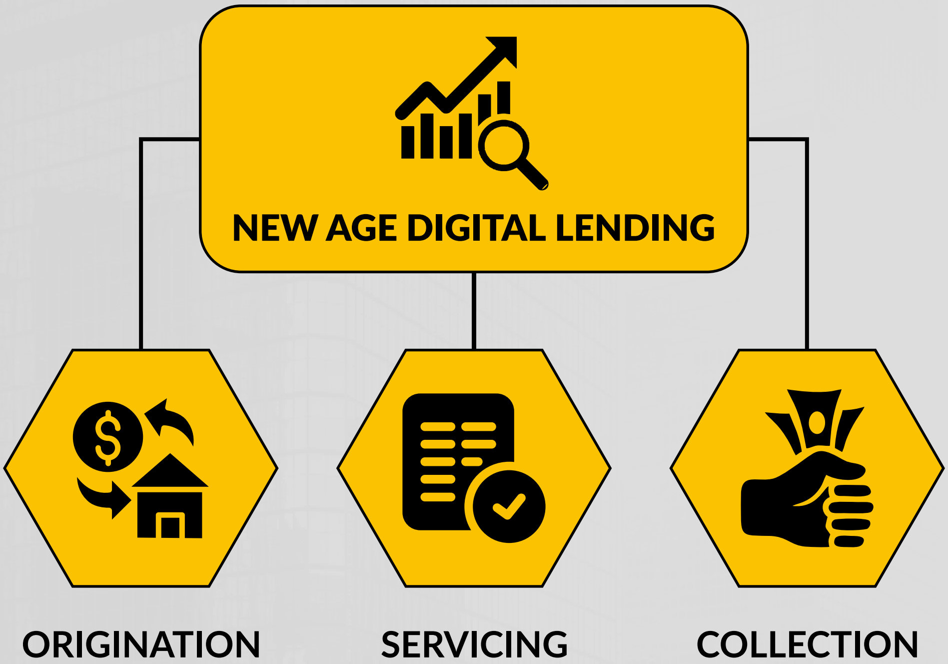


TRADITIONAL DATABASE VS. DATA BANK

The power of data in solving the everyday problem is hinged on the predictability of the data itself. In an age with abundant personal data, smart algorithms enable precise predictive models to predict willingness and capacity to repay, cross-sell/ upsell the next best product with an Omni-channel approach.

Every lender has abundant data sitting somewhere which is not given the attention it should get. Data on your organizational functions will give you the actual picture of where you stand and how you could progress ahead. Data analysis is important in business to understand the problems faced by an organization, and to explore data in meaningful ways. Data in itself is merely facts and figures. Data analysis organizes, interprets, structures and presents the data into useful information that provides context for the data. Building a Data Bank should be the ideal step to run any further machine learning and AI-based technologies to your front, middle and back-office.

Once the first aftermath of building the data bank from various business functions such as HRMS, Core business solution data, Inventory/ Supply Chain/CRM (Essentially Non-Core Data), Field Management Data, Enterprise Collaboration Data and the production logs etc. and other personalized data sources on customers such as bank statements, bill payment histories, e-commerce transactions, call data records, credit bureau information and a lot more. Further, we can integrate the data bank with the machine learning and AI-based technologies for a 360 ° Loan Lifecycle Management.



- **Integrated platform v/s Siloed applications:**
  To improve the lifetime value of customers, and offer enhanced customer experience, lenders need to break the silos and create processes that cut across departments, functions, and systems seamlessly and also carry the transactional and customer context.

- **360 ° Loan Lifecycle Management v/s Transactional SLAs:**
  Breakthrough of transactional SLAs that do not add up to customer-centric objectives to more customer-centered.

- **Multi-Touchpoint v/s Contact:**
  The traditional physical contact should be replaced by the ability to leverage touchpoints, establishing continuity of connecting across channels.

- **Omni-channel approach v/s Mobility & Social:**
  The lending experience should be integrated across all the platforms. This will help financial institutions for loan origination, loan servicing support automated collections and advanced analytics, and supporting an Omni-channel approach.

This will drive financial institutions to deliver the products and services customers want using the channels they expect anytime and anywhere. The predictive analytics driven by machine learning and AI enables targeted customer segmentation, higher lead conversion, reduced customer churn, improved collections and reduced NPL's.

FINAL THOUGHT

The Consumer Lending market started leveraging technology to turn the winds. And, when we say leveraging technology it's not about humanity vs. the machines but instead, our clients' machines vs. their competitors' machines. To paraphrase Elon Musk, if your machines aren't learning and your competitors are then they will crush you. The stakes this time are high. Who will win? The race is on ...

About The Author

Janaha Vivek is Senior Marketing Executive at Zuci Systems with expertise in Financial Service Providers with a background in Marketing and Sales. He is extremely passionate about new technology, innovation, and learning.

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