EVALUESERVE

Lending Transformation – Digital Way

Corporate and Investment Banking Practice

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Traditional Banking Challenges

In a world of traditional banking when a customer applied for a loan, it took weeks to get to the loan approval decision. Traditional banks made the process seem as difficult as swimming across an ocean! Undeniably, we have entered an age of banking where such conventional, stretched-out lending cycles are not sustainable. Traditional banks and credit unions are losing credibility due to their legacy systems and antiquated processes, which ruin the customer experience.

In the post-COVID-19 era, businesses and individuals are looking for lenders that can make their financial journey swift and seamless. Therefore, digital transformation is quickly becoming a ‘new normal’ for lending institutions. The drivers of this change include rising customer expectations and fierce competition from peers and fintech operators / digital lenders. Banks are under pressure to make a paradigm shift.

To understand this evolution better, let us look at the major pain points associated with conventional lending:

1. **Cumbersome manual processes**

The conventional process of onboarding a new customer is primarily manual and requires a lot of paper-intensive underwriting, resulting in delayed loan disbursals that jeopardize customer satisfaction. Legacy processes lead to lower loan approval rates and inefficiencies across the credit cycle. Unsurprisingly, it is leading to a loss of opportunity and revenue for several banking players that are lagging in the digital transformation race.

2. **Prolonged credit approval and monitoring process**

The biggest problem of traditional banking has been time-consuming credit approval and monitoring processes (financial model spreading, risk rating, credit memo preparation, loan servicing, dashboard collation, and portfolio monitoring) which increase cost and lead time. Banks’ dependence on these paper or labour intensive processes prolongs loan approval and frustrates borrowers. Outdated credit risk approval and monitoring models are a chief cause of difficulty in assessing clients’ creditworthiness.

3. **Legacy IT systems**

Most banks are still struggling with old and outdated IT systems. The absence of advanced digital solutions stops them from scaling up their operations in a competitive environment. Legacy systems make integration with new digital applications difficult, thereby slowing down the digitalization process. Another major problem is the absence of interaction among systems, which creates a need for intensive manual effort to generate bank-wide reports. Additionally, legacy systems are more susceptible to data and security breaches.

4. **Changing customer expectations**

Customer expectations and behavior have changed dramatically in recent years, and banks are finding it hard to keep up. Today’s customers are smarter and more informed than ever before, and expect a high degree of personalization and convenience in their banking experience. Changing customer demographics and a higher innate understanding of technology have resulted in increased expectations. The customer wants easy access to digital platforms, real-time assistance for banking services, data security, and much more, all of which are a must for a bank to build trust.

5. **Cost pressure**

While banks were taking appropriate measures to optimize their costs before COVID-19, the pandemic has considerably escalated the need to trim costs. The high cost of labor-intensive paper-based manual processes, staffing, and antiquated legacy IT systems has been a serious disadvantage for traditional banks.

6. Competitive market landscape and emerging fintech players

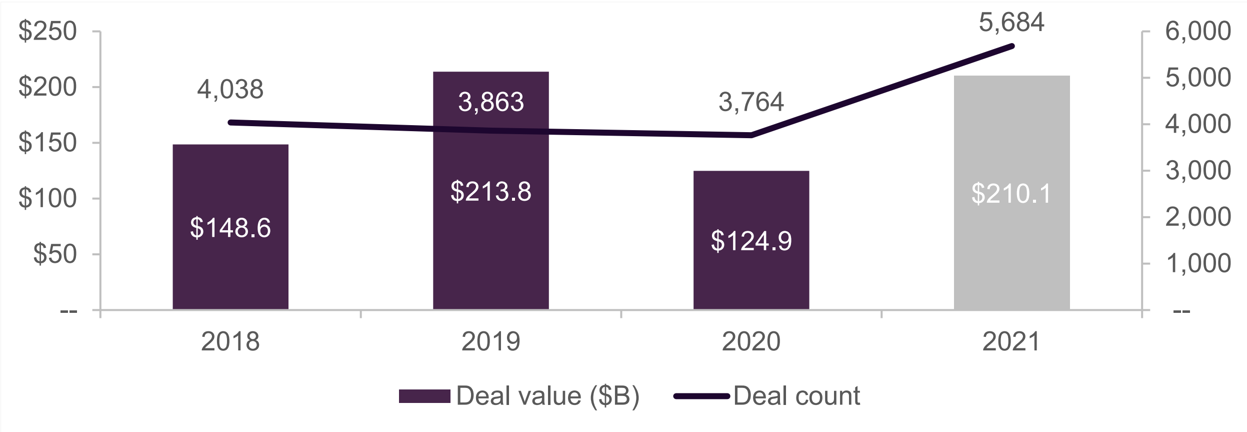
The rise of digital innovators in the lending space, in the form of fintech companies or digital lenders, is posing a threat to traditional banks. Fintech companies have made a huge impact through digitalization and a promise to deliver better client experience and faster credit decisions at a lower cost. These companies are challenging traditional lending institutions by using modern data and technology to provide convenient and enhanced products and services.

The global fintech market has been experiencing phenomenal growth, with strong investments and a record number of deals. As per KPMG, in 2021, fintech companies attracted investments worth USD210.1 billion (USD124.9 billion in 2020) and witnessed 5,684 deals (3,764 in 2020).

- 50% of investments took place in the Americas
- 37% in the EMEA
- 13% in the Asia Pacific

The data represented in Figure 1 shows the total global investment activity (Venture capital, Private Equity, and M&A) in Fintech.

Figure 1: Global Investment Activity, 2018 – 2021

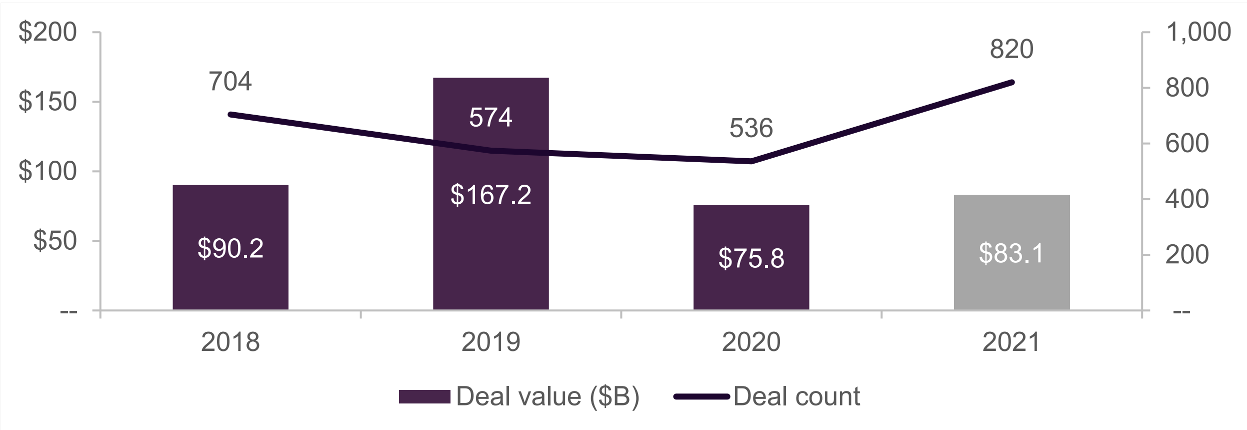


Source: KPMG

In 2021, M&A activity picked up in the global fintech space. The segment saw 820 deals, totaling USD83.8 billion, after a fall to 536 deals, worth USD75.8 billion, a year earlier.

The data represented in Figure 2 shows the total global M&A activity in Fintech.

Figure 2: Global M&A Activity, 2018 – 2021



Source: KPMG

Value Creation through Digital Transformation

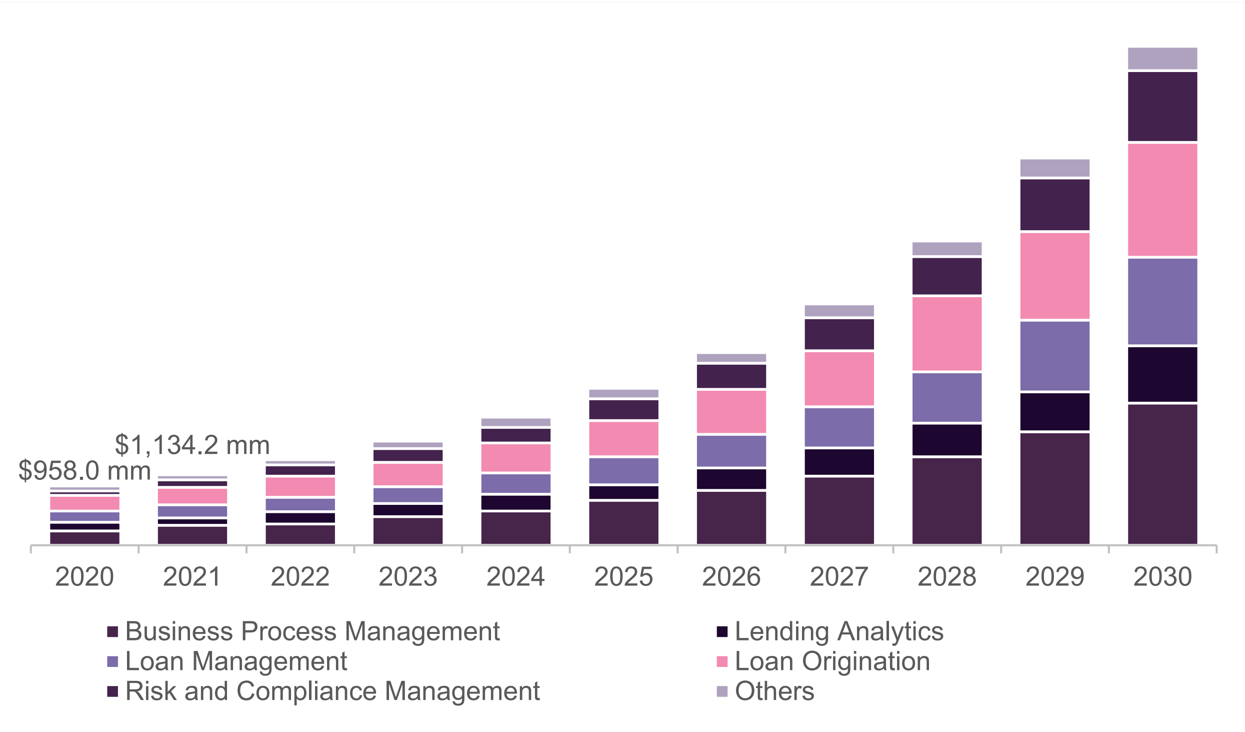
Triggered by the above pain points, many small-, medium-, and large-scale banks have embraced the lending revolution by digitalizing their core credit processes to increase efficiency, specifically in risk-related processes (which account for the largest share of costs).

The successful transformation could imply quicker credit decisions, enhanced customer satisfaction, revenue growth, and cost savings. Therefore, it should not come as a surprise that the global digital lending platform market, valued at USD 5.84 billion in 2021, is expected to expand at a CAGR of 25.9% from 2022–30.

Most banks initiated their digital transformation with the retail banking segment, where the efficiency gain potential is significant. Retail bankers can easily adopt digital applications from well-established online app developers; for example, they can procure existing mobile applications to enable tailored personal loans instantaneously at the point of sale. More recently, banks have also begun capturing efficiency gains in the SME and commercial banking segments by digitalizing key steps of the credit journey.

The data represented in Figure 3 below displays the U.S. Digital lending platform market size growth from 2020-30. The market is expected to reach ~USD 8 billion by 2030.

Figure 3: U.S. Digital Lending Market, 2020- 2030s



Source: Grand View Research

Banks have been adopting digital lending for the following benefits.

1. **Enhanced customer satisfaction and revenue opportunities**

Slow credit decisions can lead to a loss of prospective customers to fast-paced competitors or fintech firms. Digital transformation can lead to quicker lending decisions that strengthen customer conversion opportunities and enhance customer satisfaction levels.

2. **Effective system and data integration**

Digital transformation allows banks to transition from diverse legacy systems – often a mix of sub-systems knotted together but not sharing data well – to a centralized system, which can yield benefits such as:

a). Reduced size and complexity of overall technology stack, making maintenance easier and cost-effective

b). Standardized data across an organization

c). Improved data accuracy

d). Elimination of the need for time-consuming ETL [Extract, Transform, Load] processes

3. **Cost-effectiveness by reducing manual operations**

There are multiple opportunities for automation across the credit lifecycle. For example, low ticket size credit renewals and financial spreading can be automated by up to ~70%, so that valuable manpower can be focused on complex or riskier deals. Moreover, a reduction in manual intervention can help avoid judgement-related errors, particularly while populating risk models.

4. **Boosting reporting and analysis capabilities**

Machine learning and AI not only give the power to consolidate data but make it available in real-time, greatly changing how banks approach and analyze large sets of information. By infusing AI in credit decision-making, banks can monitor and react quickly to changing trends or identify early warning signs. Multiple AI algorithms operating at the backend can help generate automated credit memos and portfolio monitoring dashboards, as well as test covenants and recommend potential actions.

5. **Regulatory compliance**

Switching to a digital financial management system can make it easier for banks to comply with existing regulations. Data can be standardized and automatically pushed into the financial management system from other applications, reducing the chances of human error. Well-integrated systems empower internal and external auditors to run smooth audits. A modern, cloud-based system regularly receives compliance updates, taking away the need to track changing regulations manually.

Market Trends

- As per PwC report, about 88% of global financial institutions expect to lose business to fintech companies in the next 5 years; 77% of them plan to increase investment in innovation to retain customers.
- A greater number of fintech unicorns will come up in emerging markets, due to increased focus on fintech in Asia, LatAm, and Africa.
- More traditional banking organizations are entering into partnerships and collaborations, as they are realizing the value of fintech in banking services.
- Neobanks are disrupting traditional banking by offering a wide range of features and user-friendly banking.
- Increased spending on AI and machine learning is helping companies to reduce costs.
- Products and services offered by non-regulated entities are inviting greater regulatory scrutiny.
- Banks are increasing the use of blockchain technology to address challenges related to currency exchange, cross-border transactions, invoice and billing, financial record keeping and credit scores

We believe the pandemic will expedite the digital transformation journey for many banks. 2022 will certainly be a year of new investments and partnerships, as most banks are expected to reform their credit processes to thrive in a post-pandemic world.

ABOUT EVALUESERVE

Evalueserve combines insights emerging from data and research with the efficiency of digital tools and platforms to design impactful solutions. A global team of 4,000+ experts collaborates with clients across 15+ industries.

Evalueserve's Corporate and Investment Banking practice works with bulge bracket banks, commercial banks and boutique advisory firms. Our key practice areas include Sector and Product support, Lending & Credit support, Business Information / Library Services, Presentation Support services and Business Reporting. Our proprietary technology platform helps streamline and automate workflows, re-use work products through knowledge management and automate repetitive tasks. For more information, please visit: https://www.evalueserve.com/industry/financial-services

Connect with us on LinkedIn

About Lending Services

The corporate and commercial banking industries are undergoing seismic changes due to increased competition, reduced net-interest margins, fintech's growing market share, the need to adopt new technology, and ever-increasing regulatory requirements. It is imperative that banks re-evaluate their operating models to keep pace with the changing environment.

With over 10 years of domain experience, Evalueserve is a leader in the transformation of banking operations. Clients across the entire value chain were able to find solutions to the above challenges with our help through our focus on digitalization, process re-engineering, insightful customer analytics, operational flexibility, and customized solutions.

We support major banks globally and have delivered significant cost and time savings via our proprietary Credit Review Automation Suite, including our automated spreading tool, Spreadsmart, which makes the credit approval cycle more efficient.

About Spreadsmart

Spreadsmart is a web-based platform that effectively replaces the conventional process of manual data extraction and entry. It can automatically extract data from financial statements and enter it into customizable templates. This automation of spreading addresses the operational challenges of underwriters and research analysts at banks. Spreadsmart's patented mapping technology offers up to 70% higher efficiency than manual extraction and near-100% output accuracy. It supports multiple languages and formats, including PDF, JPEG, PNG, TIFF, low-resolution scans, and Microsoft Excel.

Spreadsmart, Financial Spreading Automation Platform, is designed to deliver measurable benefits to Financial Spreading teams

Spreadsmart

- Automates process of spreading activities from financial statements to a customized template by using Mind + Machine approach
- Intelligent OCR Engine
- Flexible to read multiple - PDF, JPEG, PNG, TIFF, excel and scanned copy in multiple languages
- Smart workflow system
- Agile application architecture

Fast . Accurate. Seamless

Challenges	Spreadsmart Quantifiable Benefits	
Inefficient Data Extraction System and Processes	**70% faster** data extraction	• Leverages its proprietary algorithms and best-in-class OCR technology to extract data at a faster speed
Prone to Errors	Consistently delivers **99.6% accurate data**	• Significantly reduces the risk of human errors • Powerful OCR technology handles scanned and low-resolution documents
Cost of Maintaining Quality and Consistency across Teams	**Reduces the cost** of Data Quality Monitoring	• Allows cost optimization by significantly reducing the time required for QC and eliminating the need for an additional quality assurance team
High Turn-around Times and Variability in Workload	Achieves **High Efficiency gains**	• Enables efficient management of peak season variability through faster turnaround, which reduces the need for additional resources, resulting in direct cost savings

Details: Automated Financial Spreading Platform | Spreadsmart (evalueserve.com)

Case Study: Spreadsmart

Spreadsmart*: Evalueserve's Financial Spreading Automation Platform

Delivering measurable benefits to Financial Spreading team of a global Financial Institution

Objective

Client wanted to increase overall efficiency of 150+ FTE team of analysts doing manual financial spreading

Spreadsmart

Spreadsmart implementation has significantly improved the timeliness and quality of spreading with significant cost reduction

150+ Licenses for Global Teams
full-scale deployment across all credit teams

70% Time Savings
as against manual spreading time, resulted in improved TAT

Integrated with CreditLens
integration of Spreadsmart with Bank's existing credit platform

99.6% Accuracy
Mind + Machine approach of Spreadsmart with inbuilt validations made for very high data extraction accuracy

3 Continents supported
Asia (Incl. India and China) Europe
Latin America

Spreads in multiple languages
English, Chinese traditional, Chinese Simplified, Spanish

** Spreadsmart was nominated for the Best Smart Banking Tech Solution in FinTech Futures 2021 Banking Tech Awards*

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