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genpact

# Commercial lending digital transformation

## Managed services: The path forward

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# Emerging shifts and opportunities

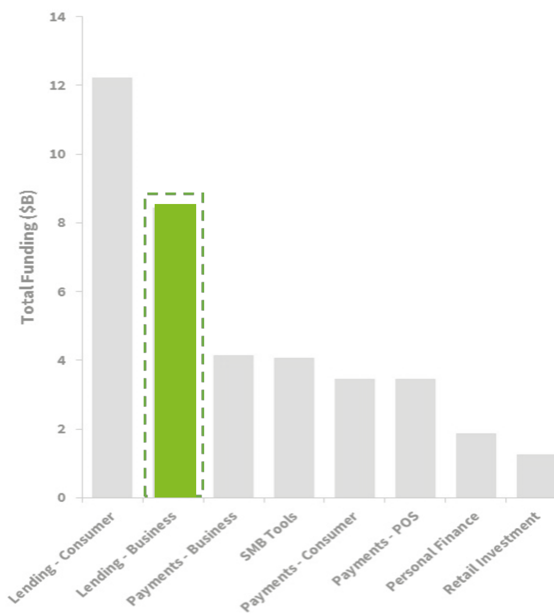
*Despite double-digit growth rates from 2009 to 2015, the commercial lending space has faced slowing growth in recent years, primarily due to a changing competitive landscape that requires banks to adapt or risk falling behind.*

The competitive market in commercial banking has shifted. At the turn of this decade, universal and regional banks dominated the commercial lending space. Today, fintechs and smaller independent players are competing in this space and differentiating themselves from traditional banks with their market offerings, customer experience, and speed of delivery (Figure 1).

Banks need to recognize that evolving customer preferences and increased accessibility to data are changing the competitive landscape in favor of digital savvy lenders.

Banks should consider investing in and further digitizing their commercial lending processes to keep pace with competition. They need to offer value-added services to clients who are constantly expecting more.

**Fig 1. Average funding by fintech category**[1]
**Commercial lending** is the **second largest category,** leading the market with **over $8bn** in total funding.




[1] Venture Scanner, 2017 – Fintech Q1 Update in 15 Visuals

# Commercial lending challenges: The case for change

The slow move to automation and digitization, relative complexity of the commercial lending processes, and rising client expectations have led to several challenges for banks.

**Fig 2. Key commercial lending challenges**


| | |
|---|---|
| | **Manual processes** still exist in the lending lifecycle despite tech rollouts |
| | **Legacy tech** has hindered bank's agility to evolve with next gen solutions |
| | **Legacy underwriting and warning systems** slow ability to respond to changing portfolio performance |
| | **Limited insights through data** hinders ability to deliver unique value to clients |
| | **Fintechs ascent in recent years** requires banks to define a go-ahead strategy |
| | **Clients** are more willing to change now for banks who can better anticipate and meet their needs in an agile fashion |

### Manual processes still exist in the lending lifecycle despite new technology rollouts

Even today, 30% to 40% of lending resources time is spent on non-core, automatable tasks due to disaggregated systems and manual tasks.  The high degree of manual efforts is driven by inefficient processes and inaction around improvement opportunities (including digitization). Banks must address redundancies across credit analysis, underwriting, loan booking, and portfolio management processes.

### Legacy technology has hindered bank's agility to evolve with next gen solutions

Many banks operate complex and outdated legacy IT systems, which increases costs and often inhibits them from using digital technologies to scale for growth. Not being able to harness innovative technology can severely hamper a bank's ability to drive differentiated experiences for its clients.

### Legacy underwriting and warning systems make it tough to capitalize on market trends

Traditional banks that rely on manual, paper-intensive underwriting processes prolong the loan approval process. Outdated credit risk models are also making it difficult to assess creditworthiness of clients. Both facts impede a bank's ability to keep pace with competitive forces in the market as reflected by the rapid growth of fintech loan portfolios.

### Limited insights through data hampers ability to drive front-office performance

Lack of rigorous data analytics to draw insights from loan/payment portfolios can potentially hinder most banks from building a comprehensive understanding of clients. In fact, only 37% of clients believe that banks adequately understand their needs and preferences.  Limited access to data leads to poor loan performance management and makes it difficult to identify areas with sub-par operational efficiency.

**Fintechs' ascent in recent years requires banks to define a go-ahead strategy**

Fintechs are working hard to impact banking through digitization with the promise of better client experience and faster decisions at a lower cost. Commercial lending is no exception to this disruption. By using data and technology, fintechs are challenging the traditional business model of commercial lending with differentiated offerings and services.

**Clients are more willing than ever to change banks for innovative experiences**

Commercial clients are increasingly expecting a similar level of service as retail customers; Clients are often willing to switch if their expectations are better met elsewhere. Banks need to keep pace and originate, decision, and close loans faster while offering a frictionless client experience.

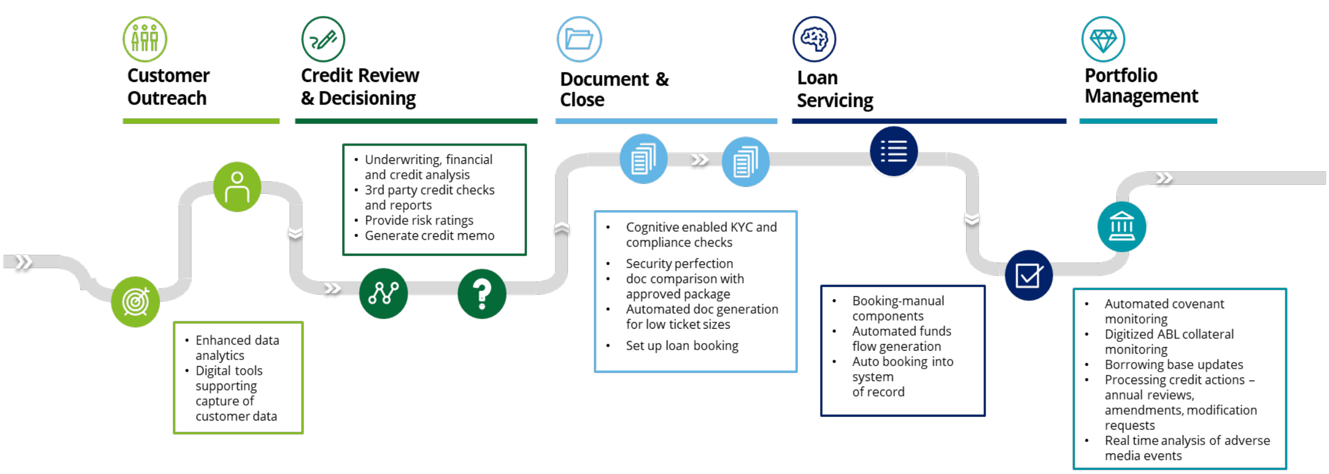
# Digitally Enabled Accelerated Lending

Deloitte and Genpact have teamed to bring digitally enabled accelerated lending (DEAL) to market.  DEAL is a managed service offering for wholesale and commercial lending that can help banks accelerate their transformation, overcome potential execution barriers, and stay ahead of future market shifts.

DEAL offers operating capabilities to support the day-to-day execution of the lending process. It overlays activities onto the bank's existing lending process from client outreach to loan servicing and portfolio management. These capabilities under DEAL are augmented with digital and analytical tools that improve operational efficiency.

DEAL manages key operational activities of the loan origination and servicing process, allowing bank executives to focus on client experience, decisioning, and other market-making activities.

**Fig 3. Sample view of DEAL services against the lending value chain**



# When to consider DEAL

Wholesale and commercial banking has experienced minimal change in its approach to lending, so there is a strong opportunity to reimagine how work is done and how value is delivered to clients. DEAL can be the right answer for those tackling increasing market pressure or managing transformation roadblocks.

**Managing emerging challenges and capturing opportunities:**
With increasing market pressures that are inhibiting long-term growth and profits, banks are looking for more streamlined investment options with lower costs and quicker pathways to digitization. DEAL can help banks grow and protect their wholesale and commercial lending business by providing a service that is the digital enablement of the loan process, supported by operating capabilities.

**Addressing large-scale transformation barriers:**
Many banks have begun their transformation journey. Along the way, several barriers to execution have emerged:

- Prolonged timelines and the pressure to deliver results often forces transformation engagements to their “minimum expression”
- The complexity of execution results in smaller scale improvements rather than radical and often much needed transformation
- Previous transformation efforts often cause fatigue, limiting appetite to take on additional scope
- Difficulty securing funding can often dampen the enthusiasm to execute

DEAL, a managed service, can help push through obstacles, advance the transformation agenda, lower investment needs, and allow for quicker realization of benefits that can fund related projects. Banks must effectively address the emerging challenges and opportunities related to technology, starting with improving the client and employee experience.

# Contact us

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