Five Reasons Data Integration Is Critical to Your Commercial Lending Success

jack henry lending

Community based financial institutions are sitting at a crossroads as we move further into the 2020's. The US economy is emerging from an unprecedented economic shutdown, and the resulting recession, caused by the spread of the coronavirus. The impact of the pandemic on small businesses in most industry sectors has been significant. For some it has brought enormous hardship while for others it has brought new opportunities.

In many ways, you could say that the time is right for the resurgence of the small town, community-based lending institution. After all, these organizations represent the majority of small business lending in this country. They also boast the best reputation for overall customer service and relationship management. They proved this once again in 2020 with their response to the Paycheck Protection Program. However, these institutions will have to find ways to work smarter and gain efficiencies – no longer to thrive, but to simply survive beyond 2020. Data integration will be a significant component of their strategies. The process of data management impacts every area of commercial banking from operations to risk management, compliance, business development, profitability management, and more.

Here are five reasons why your organization should start deploying data integration this year.

DID YOU KNOW

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1. Defend your turf.

To defend your turf against significant competition, from big banks to online lenders, community-based lending institutions must know the local market and customer base better than ever. The disparate systems that exist in most institutions today do a poor job of informing lenders when a client, be it a consumer or a small business, is likely to need financial services.

"Many banks have been criticized for not having a single view of their customers, for not being able to track or manage their risk, and for not being able to deliver new services as quickly as their clients demand. To argue that banks don't understand what they need to do is wrong. But banks' ability to change has been hampered by the inflexibility and complexity of their operational structures and their inability to integrate data and gain a real insight from this. Banks have all the data they need but they have managed their data in silos – they need to manage the data across platforms and use analytics to build insights." Source: The Telegraph, Rob Morris, July 2017

This siloed approach to customer data leaves you vulnerable to external forces of competition. Smarter systems help you to compete more effectively by allowing you to perform better market reconnaissance, offer more flexible pricing strategies, and make better decisions regarding risks.

2. Maintain your customer service edge.

While surveys consistently give community-based institutions high marks on customer service, you would be making a serious mistake to assume you'll be able to maintain that edge without significant effort on your part. In recent years, satisfaction scores for online lenders have increased by more than 20% (Source: Federal Reserve Small Business Credit Survey). These competitors are constantly improving their game. Simply put, you'll need data integration to create a smarter organization and have the ammunition to compete.

Some lenders fear that automation of key lending functions will drive down customer service. However, if done properly, it will have the opposite effect. Automation will create more opportunities to enhance the client experience by saving time in other areas. Just think about the typical steps between commercial loan application and closing. Automated workflow communication alone can cut hours or even days from that process. But to achieve this end, your loan origination system needs to talk to your core, your CRM, and your underwriting tools for financial spreading and analysis. These in turn need to talk to your documents engine and relay information back to loan operations and compliance functions. Data integration is the key to achieving these objectives.

The 1990 best seller, The Machine That Changed the World, studies the rise of the Japanese auto industry in the mid- to late-1970s. It tells the cautionary tale of the U.S. auto giants' fall from the top as the Japanese industry rose from inferior. products and services to a position of market dominance in fewer than ten years. This trend has happened in other industries and it can happen in financial services as well.

The U.S. market for financial services is changing rapidly, especially in the area of customer preferences. The demographics within the U.S. market are beginning to drive more online and mobile applications. Customers aredemanding greater efficiency. Technological advances throughout the last 20 years are having a profound impact on what consumers expect from their borrowing experience. This is true of lending transactions for both consumers and small businesses. Online lenders are not going away, and big banks will continue to migrate toward more online and mobile solutions to cut costs. To thrive in this world, you will need a 360-degree view of your client base. Silos will hold you back.

Automated Workflow

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3. Keep up with the regulators.

Financial institutions are now in the process of developing CECL compliance strategies, and data integration is at the core of this initiative. To this point, commercial lending information has resided in disparate data bases ranging from your core system to your CRM, your commercial loan system, collateral management systems, underwriting and spreadsheet systems and even Excel workbooks. An effective CECL strategy should do more than just offer compliance. By merging data from these disparate sources, it should help you better manage portfolio risk and stress test your own portfolios based on potential economic and industrial factors.

4. Lay the groundwork for growth.

The number one requirement for achieving efficient economic growth is scalability. Data integration strategies provide you with the opportunity to enhance efficiencies in both processes and in personnel resources so you can grow your portfolio. Within lending functions, this is especially true of the application and onboarding process. Data integration can speed underwriting and literally shave days off of your approval and funding timelines. It can also be used to feed pipelines and workflows that exists between your lending staff, your credit support staff, compliance, operations, and other teams.

5. Deliver more efficient commercial lending and credit functions.

Better information makes for better lending officers. That can also be said for all areas of banking. It is true in business development, underwriting, portfolio risk management, loan pricing, and any other mission-critical component of the lending process. Lender efficiency is really a byproduct of the other four benefits we have mentioned in this paper. It all starts with better loan candidates coming into the system thanks to a clearer understanding of the candidates. It then grows with better data about the full relationship those applicants have with your organization. It continues through the process of underwriting, documentation, closing and loan portfolio management. Every aspect of a credit officer's job can be positively affected by better data integration.

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"While most financial services firms have brands that implicitly promise to provide agility and stability, and to focus on the interests of their clients, in practice the opposite is often true. In order to redress these deficiencies, banks need to focus on making better use of their data to improve operating efficiency, to be more effective in managing and pricing risk and to get closer to their clients. The data required to do this exists – banks just need to be able to use it, and this requires better integration, transparency and analysis."

Data integration is poised to become the norm at lending institutions of all sizes. As technology advances break down the barriers to seamless communication, lenders and borrowers alike stand to reap the rewards.

To learn more about Jack Henry Lending, visit **jackhenry.com/lending** or email us at **askus@jackhenry.com**.

SOURCES:

1. Source: The Telegraph, Rob Morris, July 2017
2. Source: The Telegraph, Rob Morris, July 2017