valeyo

Digital Lending Playbook

Strategies and insights to drive member acquisition and growth through digital lending.

Introduction.

The COVID pandemic will have lasting impacts on all areas of business and society. There is no shortage of papers or research backing this up. From where we work, to how we work, and how we think about travel, expectations and habits have been forever changed.

Underlying these changes has been the rapid acceleration and adoption of digital technologies. On some level, every person and organization was forced to digitize their lives and processes to accommodate social distancing and lockdown measures. As we come out of the pandemic (again), questions remain around what this new world will look like and how much things will “return to normal.”

One thing is clear: the last few years have fueled consumers’ appetite for fast, personalized digital experiences and from this, there is no turning back.

In this paper, we look at the arrival of digital lending and how your organization can leverage technology to drive growth and member acquisition at your institution.

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When technology works well, the best of what your credit union has to offer is multiplied, and the experiences that you’ve built your brand on are clear in the experiences you deliver to your customers at every touchpoint.

Sara Mazhar,
SVP Chief Technology and Strategy Officer, Valeyo

Is your institution ready to go digital?

Digital lending is not a trend. It's here to stay, and it's changing the rules of the game.

Consumer expectations for digitally enabled experiences, coupled with the impact of COVID19, have accelerated digital maturity in the industry. The industry will continue to accelerate to better meet consumer preferences for digital experiences.

In the last few years alone, consumer use and confidence with digital technologies have increased:

44% of Canadians are now going online to shop or do product research and;

67% of Canadians are doing their banking online. [1]

In fact, branches are no longer the leading drivers of acquisition. **Only 10%** of customers do most of their banking at the branch, down ten per cent over the last seven years[ibid]. That doesn't mean the end of branches or in-person service, but it does mean that financial institutions need to adopt technologies their target customers want to use.

Customers are looking for a differentiated and tailored experience that can only be delivered by organizations that are customer obsessed. If you're ready to play, then you'll need your whole team on board.

To create a seamless, comprehensive, and engaging on-line customer experience that flows naturally through all areas of a customer's journey with your organization, you need to equip your team - especially the lending staff - with seamless, comprehensive, and engaging tools. You must also equip them with accompanying policies and procedures to create and support that experience.

For example, suppose a new customer is acquired through an online advertising campaign. In that case, it's likely they will want to stay digital in their communications with you. This means having the infrastructure set up to meet your target audience where they already are so that they feel you are meeting their needs and communications preferences.

As your institution considers its digital lending strategy and needs, look through our findings and best practices for creating your unique customer experience and journey.

Top 6 customer experience drivers

1. Know me
2. Educate and inspire me
3. Make my life easier
4. Keep me engaged
5. Earn my trust
6. Strengthen connection to purpose/community

Deloitte 2021 Research initiative

1 https://cba.ca/technology-and-banking

2021 Mortgage Consumer Survey Results.

82% of Canadians are active on mobile internet.

43% of mortgage consumers researched solely online for information about mortgage options.

89% Nine out of 10 Canadians (89%) reported using online banking in the last year.

49% Five out of 10 Canadians (49%) say online banking is their most common banking method, making online the most used.

Who's **who** in digital lending?

Delivering a strong digital experience – one that will be consistently successful - requires buy-in and alignment from your entire organization, from marketing to IT, operations to lending staff. It also requires access to the right tools staff need to create and maintain the digital experience.

Credit Risk Officer

Since the credit risk officer sets the lending strategy for the organization, they need to determine processes and policies for digital lending. The key consideration is whether your institution will have the same lending parameters in-branch vs online while keeping the overall risk policies in mind.

Product Development Team

This could be an opportunity to test out a new product or offering for digital channels. The type of prospects that engage online is different from in-branch. Consider what your institution is doing to entice them to become customers and what will keep them loyal and engaged.

Operations Manager

Deliver an exceptional customer experience during the lending journey by aligning testers and end-users on the goals, the platform, and the product. With digital lending, staff won't know the prospects. It will be important for lenders them to understand how the process differs and what's expected from a commentator's perspective, for example. It's about thinking differently from the start and understanding the goals of digital lending and what they're trying to achieve.

Marketing Team

The Marketing Team plays a critical role throughout the full digital lending process, from strategy through implementation. Involve the team early to ensure you're targeting the right members with the right products, have a campaign strategy to drive acquisition through digital channels, and are aligning the lending experience to your brand.

Customer journey:

Digital lending experience vs traditional lending.

How you lend in-branch doesn't necessarily translate to how you lend online. In fact, expectations for digital experiences are greater and must be equal to or better than what's delivered in-branch in both speed and quality.

Customers who connect with you online have different needs and expectations for an online experience. So having the right technology along with unique processes, policies, and products, will create a truly differentiated experience.

In fact, research shows almost three quarters of customers have used multiple channels to start and complete a transaction. This presents a great opportunity to deliver a consistent experience across all touch points with your business.

76% of customers expect consistent interactions across department.

54% say it generally feels like sales, services and marketing teams don't share information.

74% of customers have used multiple channels to start and complete a transaction.

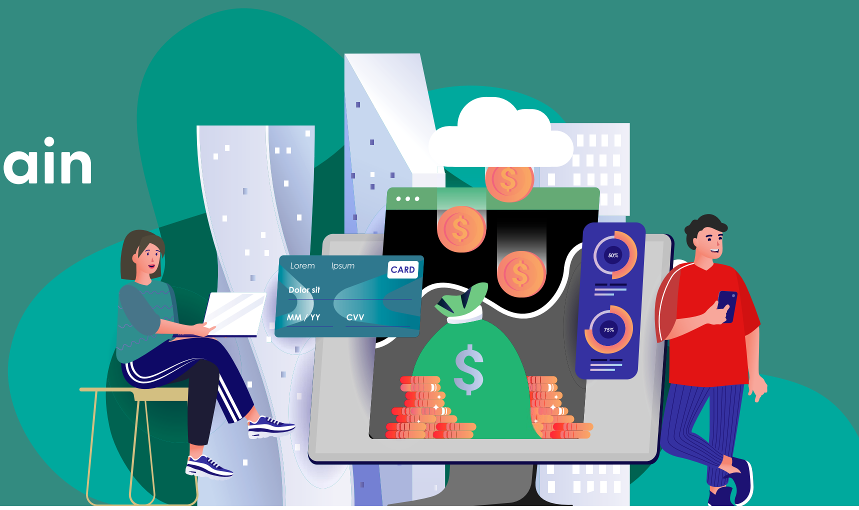
2 Digital lending playbook/What Are Customer Expectations, and How Have They Changed

> **Members are going to move, so the challenge is how do we service them in that new area and keep the relationship going? Being able to connect with them through digital channels is why we are focused on digital lending as a core part of our acquisition and retention strategy.**

Valeyo Ori pilot credit union

How digital solves for pain points and experience.

Let's look at two fictional prospects: Sandy and Mark. Each are looking for a $5,000 loan for an upcoming vacation. Sandy has decided to search for loan options online, while Mark decides to visit his local branch.



Traditional experience

total time 7-10 days

- Customer walks into the branch
- Meet with the lender face to face
- Goes home to gather documents
- Emails or returns to branch to complete loan documents
- Waits 4 days to hear from lender
- Goes back to branch or signs documents online
- **Receives funding to account**

Digital experience

total time 1 day

- Customer finds institution online
- Completes application process & pre-approval
- Virtual or in-person collaboration (if needed)
- Signs documents electronically
- **Funds are received**

The in-branch process may be well-established, but the path to completion is often longer and more time-consuming. For a new customer like Sandy, the time involved from application to disbursement of funds could be a determining factor in their long-term engagement with your institution.

While the overall process is faster and more seamless, digital lending does present a new unknown for the branch. The lender may never meet that new member face-to-face. So how and what your institution does to build a relationship with those members should be built into your acquisition process.

In some cases, you may not be able to influence a deeper relationship. The member who starts their journey with you online may want to build more long-term relationships across different products or services, or they may not want to build relationships at all. But the value they place on your institution for the services you deliver online is no less valuable in their journey with you.

According to the Smarter Loans 2021 Fintech lending survey, loan seekers were more likely to receive their funds the same day they applied than in any previous year. Fifty-three per cent of applicants received funds within 24 hours, suggesting that same-day-funding is becoming a standard in the industry.

Success story.

Delight customers. Build relationships.

One of Valeyo's credit union partners launched digital lending with Valeyo Ori in 2019 with the goal to acquire new members across digital channels. The acquisition campaign was focused on personal loan products, but the value they received was so much greater. One new member was so impressed with the online loan process that they transferred all their accounts from their existing institution to the institution. A true testament to the power of the customer experience.

Going digital: Developing new processes, policies, and products.

Aside from the overall experience, digital lending requires different considerations for risk policies, products, and processes.

If the expectation is for online lending to be simple and straightforward, then the policies and processes must match.

Process and policies

Take, for example, assessing an applicant's creditworthiness. In-branch, the lender might pull two credit bureau checks and import liabilities from both. This process is automated within the digital experience, and only the lower of the two are imported. It is not a truly digital process without this level of automation and your institution may need to adjust its internal policies to reflect this as an acceptable practice.

Another example is your institution's risk appetite. In-branch, lenders can approve a loan based on risk rating and sometimes historical knowledge of the applicants. In digital lending, applicants are approved or declined based on hard data.

So, when your credit union sets its auto decision parameters, it may consider modifying risk rating according to the channel and type of loan product offered in order to approve more new member loans. Once it launches, have confidence the system is doing its job to adjudicate against your requirements and risk appetite.

New product offerings

Digital lending may bring in more applications, but informal research also shows it may bring in more unqualified applicants. To engage prospects online and acquire new customers, your credit union may want to offer a special product, like a simplified loan product, for instance, which has lower risk and higher potential for approvals.

3 expectations for lending online:

1. The application will be available 24/7.

2. The approval or/and funding will be instantaneous.

3. The entire process can be completed online with little or no desire to walk into a branch or sign papers in person.

Member acquisition: If you build it, will they come?

"If you build it, they will come." The motto works for a dreamy Hollywood baseball movie, but much less so in the current reality of digital lending.

Simply putting your institution "out there" - whether migrating operations to a generic online presence or randomly throwing piecemeal digital solutions against the wall - isn't going to bring in new customers. You need to know where you're going and you need a strategy, which takes time, focus, and resources.

Building a digital acquisition and engagement strategy involves going back to the beginning and asking yourself some foundational questions: Who is your target market? Where do they live online? How are you expecting them to find you?

Clearly laying out your intentions this way allows you to focus on where your strategy should be pointed, but it also opens the way to ask maybe the most important question of all, one that will determine your future success: where do you want to connect with customers in the future?

The rapid evolution of fintech means that investing in digital will continue to open up a spectrum of new opportunities for customers to find you. They will discover you not only on your own digital channels but through intermediary organizations that can provide indirect lending channels and new volume and customers to your institution. Your strategy needs to be flexible to adapt to these future opportunities.

Having a strong understanding of your intentions and your prospects, supported by research and the wealth of customer data you likely have at your disposal, can help you find your target customers and create strategies to draw them to your digital lending application.

Social and lending trends.

76%

When it comes to securing a loan through an online provider, 76% of Canadian felt confident that they had enough information to make an informed decision. [3]

2/3

Two-thirds of respondents tried more than one provider (when applying for a loan). [4]

3 Smarter Loans 2022 survey: smarter.loans/Fintech-Lending-Canada-Study-2022.pdf
4 Trends in student debt of postsecondary graduates in Canada: Results from the National Graduates Survey, 2018

Member acquisition campaigns:
Delivering consistent brand experiences across all channels.

Traditionally, lending and credit application conversations happened in-branch and face-to-face with a financial services advisor. But as more of the core experience is moving online, that engagement needs to happen not just round-the-clock and seamlessly, but also offer an overall customer experience that is equal to or better than a branch visit.

If not already there, a majority of your customers are currently pivoting to digital banking solutions, and so migrating your operations online requires not just a simple makeover but a full rethink of the customer experience at the enterprise level.

Whether by your own hand or third-party vendors, it is important to have a comprehensive, appealing, and consistent brand operating in the market that can meet each and every one of your customer's digital expectations. Because your digital offerings will likely be the start of a customer's experience, you need to think holistically about your brand across all the touch-points.

For example, an intuitive and engaging combination of technology and application design makes for a powerful digital experience. From a tech standpoint, this means implementing the tools that can move a customer from discovery to approval with speed and convenience – how you create unique offers, automate approvals and ensure a seamless application experience are all important to today's customers. Aesthetically, integrating common visual grammar across all touchpoints - from the interface to the language used - make them instantly recognizable as yours.

You may only have one chance to connect with new customers - **make it a memorable one.**

Digital lending part of the overall sales strategy.

Digital lending is one channel in your overall sales strategy. It shouldn't be the only part. Think about how all touchpoints work together to create a consistent experience with your brand – across all channels.

66% of customers expect companies to understand their unique needs and expectations, yet 66% say they're generally treated like numbers. [5]

69% of customers believe companies should offer new ways to get existing products and services in the wake of the pandemic, and 54% believe they should offer entirely new products and services. [5]

5 SalesForce: What Are Customer Expectations, and How Have They Changed?

Testing, testing. The soft launch.

All great products were developed through testing. From the first airplane to that cup of coffee you're drinking, testing concepts, flavours, and hypotheses is critical to product development.

Having a soft launch as part of your digital lending strategy is a must. It gives you a controlled audience of families, friends, or even prospects who have a vested interest in your institution and who are willing to test out the system before it goes live/before you go live. Internally, you'll want to dedicate a few lenders as testers as well, so you can build out the right flow and processes, from intake through approval.

Soft launch building blocks

Build a strategy: Who do you want to engage, why, and what (if any) is the incentive for them to participate?

Build the list early: It takes time to reach out and get consent or buy-in.

Build time for user feedback: You may want to get live feedback from a user while they're going through the experience or schedule time after the experience. Did the campaign resonate with them? Was the process from ad to landing page simple? Did they have any issues while going through the application process? At what point did lenders review applications, and did it speed up or slow down the process?

Feedback is critical to improving the lending process or experience. The soft launch phase should last at least three months. Give yourself time to hold focus groups and get feedback from your test market. The output may result in changes to your processes or policies. Valeyo can help tweak UX to make it work for your credit union.

The launch cycle.

month 1.
Soft launch with families and friends.

pre-launch.
Research audience, create personas, products, and policies.

month 2.
Get personal feedback and optimize.

month 3.
Continue testing and adjust for go-live.

full launch.
Go-time.

Go-live "The Launch".

Once your campaign is live, how long will it take to see results? The answer is unique for each institution and depends on many factors, from campaign strategy to target audience to product.

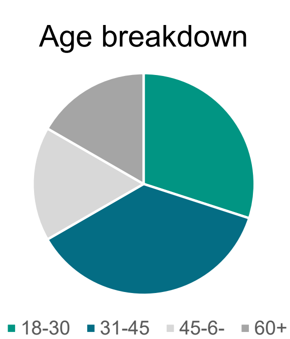
One thing that holds true for any campaign is that: **strategy + time + optimization = success.**

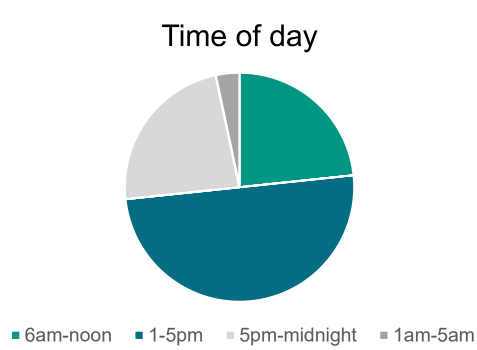
Valeyo provides a data rich usage report that looks at user actions such as product usage, bottlenecks, apps received, etc. The report gives your credit union a different way of looking at the lending process and can help you evaluate who's applying, and the reasons for successful or non-successful applications.

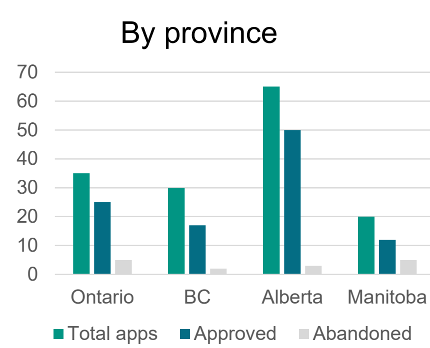
Not all abandoned or declined applications are considered losses. While applicants are sometimes declined for very valid reasons, Valeyo Ori stores all abandoned and incomplete applications. A lending manager can review declined applications to see which were not approved (and why), take a second look, and follow up with that applicant if needed.

View of Valeyo data & analytics report

Our insights report provides key data points such as product usage, age of users, apps submitted, and abandonment rates.







Conclusion.

Digital lending is not a trend. It's here to stay and it's changing the rules of the game. Having the right technology to support your digital lending strategy is a great start, but it is only one piece of the program. To be successful, the initiative must be embraced by the organization as a whole: from strategy, to implementation and servicing – everyone has a role to play in supporting acquisition and growth for your organization.

Valeyo is a leading provider of lending technology, insurance programs, and services to financial institutions nationwide.

Our digital-first lending platform, Valeyo Ori, is one of the first in Canada to support a fully digital end-to-end experience for consumers and lenders. Learn more at Valeyo.com or contact us at **support@valeyo.com**.