5 reasons data integration is critical to your lending success

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Community and regional banks and credit unions are sitting at a crossroads as we move further through the 2020s. The economy is emerging from an unprecedented economic shutdown, and the resulting recession, caused by the spread of COVID-19. 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. In fact, nearly 86% of businesses that applied for a loan with a credit union or community bank in 2020 said they were satisfied, according to the Fed's Small Business Credit Survey. Satisfaction rates were 68% for larger banks and 60% for finance companies, while just 43% were satisfied with online lenders.[1] However, these institutions will have to find ways to work smarter and gain efficiencies – no longer to thrive, but to simply survive. 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 prioritize data integration efforts this year.

1. defend your turf.

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

Most banks and credit unions have all the data they need, but its managed in silos – they need to manage the data across platforms and use analytics to build insights.

This siloed approach to customer data leaves you vulnerable to external forces of competition. Smarter systems allow you to manage data across platforms and use analytics to build insights more effectively by performing better market reconnaissance, offering more flexible pricing strategies, and making better decisions regarding risks.

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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. Mega banks and online lenders 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 personal 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, 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.

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The U.S. market for financial services is changing rapidly, especially in the area of customer preferences. Demographics are driving online and mobile applications and borrowers are demanding greater efficiency. Digital apps like Amazon, Uber, and Venmo have had 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.

3. keep up with regulators.

Financial institutions are 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 exist between your lending staff, your credit support staff, compliance, operations, and other teams.

5. deliver more efficient 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 mentioned above. 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.

While most financial services firms have brands that 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 and credit unions 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 – you 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.

create limitless possibilities

Learn more about our integrated lending technology.

For more information about Jack Henry, visit jackhenry.com.

sources

1. Fox, Michelle. *We Made It Through: Small Business Owners Are Optimistic, but Still Face Challenges Almost Two Years Into the Pandemic*, CNBC, February 1, 2022.