The Digital Dilemma

by Charles B. Wendel

There can be no doubt that providing a digital platform for consumers and small businesses has become a top priority for many banks and credit unions. Increasingly, customers expect their financial institutions (FIs) to provide digital access, allowing them greater convenience and the ability to make a loan application on a 24/7 basis rather than relying on branch or phone access. Lenders can benefit from the reduced costs for processing and underwriting resulting from partnering with a cloud-based third-party software provider. Improved processes should also result in higher sales as bankers have more time (with improved marketing direction) to spend on customer development and sales rather than paperwork. Sounds great.

However, many lenders, both in the consumer and, in particular, the small business area, risk missing much of the upside from a digital transformation, if they do not also transform other aspects of their business. Simply moving present business approaches to a new platform will not result in significantly improved economics or improved customer service. Some FIs and their technology providers are already realizing this is a problem as the expected sales lift remains elusive for many.

This situation and the difficulty of implementing change is hardly unique to the digital world. Rather, it is part of a long-time pattern of bankers resisting new approaches and bank management failing to follow through. Years ago we worked on a project in which our client had invested heavily in one of the best sales management platforms. This initiative was aimed in part at capturing all client information company wide and institutionalizing the client rather than allowing each banker to control his own fiefdom. It will come as no surprise that many bankers resisted that change, wanting to keep client information close to their vests, largely as a job preservation tool. They continued to control the information and the client, viewing it as theirs and not their employer's. Management allowed that to happen, and the $1mm + invested in this system was wasted.

Digital capabilities will only reduce costs if bankers use them consistently. Yet, we already see bank management allowing its staff to opt in to digital applications rather than making their use mandatory. One company providing digital platforms has seen its client activity range from 100% at one lender to a small minority of applications at another. Some bankers simply prefer the old way of doing things, and yet again, management fails to demonstrate the will to enforce change that is in the best interest of the institution and the client.

Smaller institutions seem particularly prone to resisting the effective use of technology that can help to maintain their relevance to Millennials and an increasing number of other customers. Too often we hear bankers say, "We don't want to become like Bank of America," as a way of avoiding change. In fact most banks should become like Bank of America and other big institutions in how they lever technology to enhance customer relationships. "Becoming like BofA" is meant as a slur, implying that a bank will lose its community focus and the individuality that distinguishes it. This is a false argument thrown up by bankers trying to put the technology genie back into the bottle. That ain't going to happen and that deluded hope ultimately will threaten a bank's very existence. In fact resistance to technology and productivity opportunities will erode small bank opportunities with many customers.

If they are to succeed in working with FIs to build volumes, alternative finance companies (AFCs) and platform providers are finding that they need to provide training and turnkey approaches. Their situation demonstrates another example of the old cliché you can take a horse to water but not make him drink. AFCs hoping to generate significant loan volume and revenues from bank turndowns have been frustrated by low activity. Even those moving to a fuller integration with a bank or other partner may find that they fail to take advantage of the streamlined processes and enhanced risk management AFCs provide. Bankers still need to sell, and little sign exists that, at most banks, sales productivity is increasing. Instead, too many bankers continue to hide behind compliance reporting and other desk-bound tasks. Many look at increased sakes expectations with dread rather than eager anticipation.

In fact, banks do not need to deal with a digital dilemma. Instead they need to face up to a larger management failure that has existed for decades. Basically, banks know what they need to do to build sales; most lack the will or DNA to do so. AFCs and platform providers must determine the role they can play in driving a new approach within their clients. Can they lever the digital technology they offer to instill a more proactive sales culture within an FI, or should they assume more direct responsibility in order to minimize the degree to which they depend on a slow-moving partner for their bottom line?