WHITE PAPER

Asset Finance:

Top tips for succeeding in the new digital landscape

Foreword

For asset finance organisations passionate about customer experience, it is imperative they undergo a digital transformation and use technology to drive superior customer experiences. But digital transformation is no small feat: It requires all-encompassing change that must be supported across the organisation. Digital transformation should be recognised as a continuous journey focused on long-term flexibility and growth, not a finite, tactical project. To succeed, you must build your organisation's digital transformation strategy on a foundation of systems, processes, and investments and then remain committed to ongoing innovation and reinvention as required.

Cloud Lending (now Q2) commissioned Asset Finance International to evaluate the role of digital technologies in driving digital transformation. To explore this topic, we developed a qualitative survey of global asset finance professionals who have influence over digital transformation strategy in their organisations.

Our study identified key actions that you and your organisation can take to ensure a positive outcome and optimise return on investment from your digital transformation initiatives. I hope you find it interesting and useful reading.

Ben Sher

Ben Sher
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— Conrad Ford, CEO
Funding Options

Introduction

Asset finance is not immune from either the great opportunity, or the threat, of digitisation. As customers' expectations shift to predominantly online interactions, the asset finance industry must evolve in response. Customers expect integrated solutions and speed, and they are willing to pay more for both rather than wait around for a product or service. End-to-end solutions are increasingly desirable. Customers are also using products and services in a different way. The ownership economy is faltering, while innovative systems of consumption take its place: pay per mile, pay per use, and so on.

But it is not just the customer that can benefit from the wave of digitisation in asset finance. The manufacturer and lender can benefit, too. While it is well known that we are not all that far away from a world of self-driving cars, how many companies are thinking about how far the industry is from self-diagnosing, self-fixing cars, or even car or equipment leases that are self-financing and self-renewing. Both tangible and intangible assets are becoming increasingly information rich. And so are customer credit cycles.

Effort required

Despite pockets of innovation, the asset finance industry has traditionally been slower to engage with technology. VP of Industry Solutions at Q2 Lending Mukul Mittal says, "Disruption should be expected as more innovation enters this market. It will take a lot of effort to change because there are many companies that have been successful using the old model for 20–30 years". Mittal adds that there are significant opportunities for those companies that act fast, identify the right strategic direction, and offer a compelling "digital" proposition to win customers' hearts and minds.

Those companies that adopt technology that focuses on driving value for the customer and enhancing their total financing experience will find there is plenty of room to differentiate their brand and to grow. Those who stick to the old models will, in time, struggle. This paper suggests four areas on which asset finance companies can focus to succeed in the emerging asset finance digital landscape:

1 Transform customer experience

Automate processes for speed and compliance, and free your organisation up to have more contact where it matters most.

2 Operational excellence

Harness technology to enhance straight-through processing and reduce cost-to-serve.

3 Design a great digital strategy

Design a great digital strategy, including partnering on product development and leveraging the benefits to scale your business.

4 Develop deep insights

Put asset and credit cycle data to work to deliver more value for your customers.

Transform your customers’ experience

Automating manual processes is the biggest opportunity to enhance the customer’s asset finance journey. Automation also benefits the lender: It is mandated and compliant, with an instant audit trail. The customer gets simplicity, seamlessness, and speed; the lender and lessor get ease of compliance and record-keeping. However, automated processes are there to make simple things simpler, not to remove the requirement for personal involvement. While digital is the enabler, deep and sometimes more frequent contact with the customer is still the goal.

A frictionless interaction

E-contracting, for example, helps to make the lending process as efficient as possible. Instead of a finance provider handing customers long documents in-situ and waiting for them to go through and sign, customers can use e-contracting and signing platforms integrated into providers’ own websites. It can be done wherever the deal is happening, anywhere from the shop floor to the customer’s own living room. The right technology can identify the customer, and even check that they have read the whole document, increasing the rates of completion and acceptance. No paper documents are sent, increasing the speed and security of transactions.

OneSpan, for one, is a company that partners with other technology companies to deliver solutions like digital signatures, real-time security, identity verification, and risk analytics all on one cloud platform. In addition, their banking and financial services solutions arm promises a seamless experience for the end customer, increased customer trust and better rates of customer retention, as well as lower rates of fraud and one compliant process for all contracting parties.

Such technology has significant benefits where there are high volumes of micro-to-small ticket customer transactions. Customers do not want to have to go into their bank or provide paper copies of identification documents or interact with a helpdesk via phone. Instead, they want a frictionless, highly secure, end-to-end experience where the point of contact from the finance provider is about the best possible deal, rather than problems with their onboarding.

Open banking brings opportunity

Open banking is another key area of disruption for asset finance companies. The traditional view of open banking is that it helps financial providers to get a more detailed picture of customers’ accounts, but those companies leading the market are aware that open banking can offer a great deal more opportunity.

Screen-scraping technology, says Conrad Ford, CEO of Funding Options, has been around in some form for over 10 years—but simply digging through customer’s transaction data is old news and lenders can instead take advantage of a wider range of data. Ford stresses that customers are desperate for more from their banks and "companies should focus less on the risk of default—the real battleground is customer experience".

While transaction data is incredibly useful, other data is equally important in decision making. TransUnion is a company that offers an end-to-end open banking service that assesses customers' income and expenditure, the affordability of the proposed purchase, and customers' creditworthiness. Their process makes the lending decision more accurate and reduces the likelihood of default.

Banks can do even more than this—and customers are keen for integrated propositions that meet a wider range of their needs. Particularly on large-ticket items, lenders should understand they are engaged in a much wider, more complex process in which they can marry solutions to address different stages of this process.

Open banking is still developing, and many asset finance companies will feel that it is not quite 'there' yet. Nevertheless, they should put in the effort to understand how open banking works so that they can gain more trust in it and consider how it will eventually fit into their overall digital strategy.

Automate to enhance—not eliminate—the personal touch

Open banking is only one area where asset finance companies can find new ways to target different aspects of the customer journey. Pre-authorisation is a fast-growing technique that allows lenders to get finance in place for the customer—at least in principle—while they are performing their purchase research. Traditionally, it had been hard to connect the customer's time spent hunting for a deal for a product or service online, with their offline actual purchase. But pre-authorisation is tackling that by connecting the two, lowering friction points across the entire process.

Finance providers are also looking at customer self-serve to enhance their proposition. Particularly in micro-to-small ticket leasing, customer self-serve is a real opportunity to speed up—and streamline—the customer journey. Those in the industry agree that for transactions between US$2500 to US$25,000, a fully automated model is possible, since technology is now being perfected that allows the entire customer engagement journey to occur digitally. Companies like Synthetix, for instance, provide a self-service cloud for customers to handle service, sales, and support digitally. Ian Smith, CEO of 1pm plc Finance, describes it as customers having a "single experience of dealing with the group that is transparent, quick and sophisticated".

And at the end of the asset finance cycle, providers are looking at enhancements to end-of-term and renewal technology. Finance companies are now investing in technology that allows them to manage the customer at the end of the lease, thus helping to meet their goal of improving customer loyalty and decreasing the duration between purchase of a product and the purchase of its replacement.

But asset finance companies need to be aware that automation is not a panacea. Ylva Oertengren, COO of Simply Finance, says that attention should be on automating the simple things: "The focus is on ease and security—the customer wants to know what point of the journey they're on and technology can facilitate that". At the same time, she notes that "automation should exist to enhance, not replace, the personal touch". Enabling customers to self-serve or automating lease renewal should go hand in hand with a 'high touch' strategy.

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Operational excellence

Indeed, the key to harnessing the power of automation lies in respect for its limits. Certainly, emerging technology is allowing a range of typically time-consuming parts of an asset finance transaction to become much quicker, effective, affordable, and accurate than ever before. Equally crucial to understand is that automation is not everything.

Credit decisions in minutes

In the past, customers needed finance before they could take hold of an asset and that meant working with the lender or broker to get it. This could be a week-long, or longer, process. Today, because of automation, credit decisions will be made in mere minutes.

This type of straight-through processing of previously complex and lengthy decision making is particularly important for some sectors of the market. Time-poor SMEs know that shopping around for bank finance may end up cheaper for them, but the time lag could be catastrophic to their businesses.

Conrad Ford of Funding Options describes a situation in which businesses could be funded in "fewer than ten minutes"—something that will play well for small, fast-growth businesses. Simply Finance's Ylva Oertengren describes quick credit decisioning as having another emerging benefit, too. She says that automation of large parts of the credit decisioning process allows smaller businesses to access funds. Experts, however, say that total automation isn't the end-goal. "It's not adequate to automate decisioning entirely", says Ylva Oertengren. "We want machine learning to supplement our use of other data, such as open banking, to see the value we're lending against, rather than make the decision for us". Particularly in the context of SMEs, the personal touch is still important, according to 1pm's Ian Smith: "There is a big opportunity to balance extreme automation with customer service—particularly because the small business lending channel is still underdeveloped".

Robotic Process Automation (RPA)

The technologies coming online now enable far more than just more informed and speedier credit decisions. RPA allows for the automation of repetitive tasks across the board and "will have the biggest impact on leasing companies' business model in the short-to-medium term", as Steve Taplin of Finaptix remarks.

As organisations get more comfortable with cloud technology, and handle the GDPR concerns associated with cloud services, there are exciting opportunities to automate document handling, personalise customer journeys, quickly identify fraud, and optimise customer contact—all at a relatively low cost.

Even for smaller companies, there are opportunities for automation, so long as it serves the greater purpose of building and growing relationships. "Every underwriting job is personal", says 1pm's Ian Smith. "Machine learning like pattern recognition and RPA means that we can spend more time with clients—and that isn't just 'talking a good service game'. It helps us to understand the essential parts of their story".

Asset finance companies can automate the small and stay in close contact over the large or complex parts of the financing process. But what about something that does not fall into that category? That "something" can be the divide between complex tasks requiring human experience and flexibility, and the mundane repetitive tasks that can be automated. Companies that recognize this divide and address it through technology will have an advantage over the competition.

All these developments are very exciting, but automation must not come at the cost of customer experience. New, powerful processes like machine learning and RPA should be leveraged to allow asset finance companies to spend more time understanding clients' needs—which has the added benefit of increasing transparency and reducing risk.

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A great digital strategy

The best way of ensuring the balance between automation and the personal touch is designing a great digital strategy. The number of digital partners available to asset finance companies, and their range of capabilities, requires clear thinking. Getting the right digital partners in place can provide a "joined-up" experience for customers and allow the organisation to make the most of the diverse advantages that other players in the market possess.

Funding Options' Conrad Ford thinks that asset finance companies are well practised at discerning good partnerships since "they have always been hugely important to the industry". He also points out: "Dealers and manufacturers are a good half of the industry, but they are quite traditional in how they partner, so the moment someone gets in and disrupts that, it will take off".

The best partnerships now are hybrids of the new and old. Consumer lending technology company Divido, for one, is taking the market in point-of-sale finance because they instantly provide finance for regular retail purchases. Their sensitivity analysis and underwriting can happen in real time, and the customer journey is absolutely changed. Affirming this approach, Q2 Lending's Mukul Mittal says, "Digital partnerships should be about creating both seamlessness and transparency".

Mittal adds, "You should be able to walk into a store to try and procure something, and while you're doing that, retailers, brokers, and lenders should all be working behind the scenes to provide you with transparent finance at the point of sale". This is not only great for the customer, but for the retailer as well. They can close the deal while the customer is on the shop floor. Finally, with digital partnerships, dealers have the financial muscle power to handle the financing options.

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— Mukul Mittal, VP, Industry Solutions
Q2 Lending

Thoughtful API connectivity will help create a digital strategy

Ecosystems of technology carry risks, too. API connectivity is not as simple as grabbing a new solution and dropping it into your business processes with ease.

Creating an overarching strategy that integrates digital partners into your operations is essential for the long-term success of the partnerships and the business. Some businesses pre-plan their technology partners—this can work very well. Equally important is making sure that the customer understands and trusts the different elements in the digital partnering process. And asset finance companies should also integrate continuity planning into the process. "Pairing up isn't always as smooth as it may be. It can be difficult to connect different technologies. For example, integrating a cloud solution to an on-premise solution behind a VPN is not a trivial exercise", says Q2 Lending's Mukul Mittal. At the same time, failing to do so will mean your business can get left behind.

The benefits of digital partnerships are impossible to ignore. Ylva Oertengren of Simply Finance describes the wider possibilities such partnerships can bring: "The partnerships you make allow you to develop one another. If they grow, we grow, and vice-versa". Nonetheless, Oertengren, says, "As in any partnership, you need to continuously make sure that your roadmaps align so that there is mutual benefit".

Smoothly functioning ecosystems of technology can improve the speed and transparency of the customer journey and reduce risk, and asset finance companies cannot ignore investing in API technology. At the same time, Finaptix's Steve Taplin points out that just bundling together software providers in the hope of an end-to-end solution "carries an element of risk". Simply Finance's Ylva Oertengren says that the key to developing a great digital ecosystem lies in the strategic approach in which "partners aren't just providers; they should share their thoughts and theories with you, and you should help connect one another across the industry".

Is the cloud safe?

One of the key barriers to implementing a great digital strategy is fear of the cloud. Many of the new solutions available to asset finance companies run on software that resides in the cloud, and these companies wonder how users can be sure that their data is safe.

Put simply, cloud providers take great steps to ensure data security. Often, it is not possible for individual companies to dedicate the required levels of resource and investment to maintain an equivalent level of security. Cloud providers, on the other hand, maintain backup systems with automatic switch-over to minimise downtime, monitor their offerings 24/7 to ensure they run properly and are guarded against external attacks, and make sure that data is encrypted for security.

Companies that try to maintain their own infrastructure often have either a negligible presence available for their extended organisation—including brokers, vendors, and customers—or they will spend a lot of money to achieve what the cloud provides standardly and at far less cost comparatively.

As with much new technology, understanding is key. Once leaders understand the benefits of cloud technology, such as encryption and a dedicated expert cyber team, they will become more likely to implement it as part of their digital strategy. And once decision-makers understand that cloud services allow for limitless scaling—and therefore, enormous savings on purchasing unwarranted data infrastructure—the balance will tip.

Develop deep data insights

One of the most exciting areas of development in asset finance is the increasing ability to harness more information from both assets and the credit cycle. However, this is not always straightforward and there are many debates about collecting this data, Q2 Lending's Mukul Mittal stresses.

Asset data

In the past, lessees of hard assets rarely filled out a warranty card. The manufacturer had no idea where the asset really was, and the finance company held some data—but that wasn't shared with the manufacturer. Assets could move from place to place and person to person, but none of this powerful data was collected. Today, harnessing all this data is possible.

"It's very powerful data", Mittal says. "We can reach out to customers to see what upgrade opportunities there are and sell more to our existing base". Those asset finance companies that are doing well are feeding that data back to their brokers, dealers, or manufacturers. And with hard—tangible—assets in decline, there is an even greater opportunity to harness data from a higher turnover of soft assets. "The movement from ownership to usership will have a huge impact on underwriting", Funding Option's Conrad Ford points out. Simply Finance's Ylva Oertengren also points out that aggregated asset data is not readily available, and the data net can be cast even wider. "Understanding the asset use enables us to tailor the finance to the income stream it may generate. We can fund an asset that is used on a seasonal basis and align the payment streams to the borrower's income pattern. That, in turn, impacts our lending decision". For Oertengren, the important thing about the approach to data is that it is customer-centric, and asset data is supplementary.

Credit cycle data

Artificial intelligence (AI) is helping asset finance companies be as customer centric as possible. Some are using it to help categorise more effectively. Q2 Lending's Mukul Mittal described this as leading to a huge reduction in risk.

Mittal says, "With this technology, you can check which customers are likely to default as opposed to which customers are just forgetful; it allows for sophistication in your collection strategy. Do you need to send just a simple, friendly reminder, or do you need to chase more structurally?"

Harnessing data from the credit cycle means that companies can tailor their responses to evolving situations and a good partnership with a sophisticated data aggregator can help asset finance companies pick and choose what to know about their customers. As with all personal data on individuals and their purchases, this data is both powerful and sensitive. It is hugely important that asset finance companies delving into this kind of information have the right structures in place to identify fraud, mitigate risk, and keep customers' data safe.

Regardless of how powerful it is, data is only useful in as much as it helps companies to understand their customers' stories. Making decisions is important, but knowing what data is relevant, knowing how to use it, and knowing how to keep it safe takes the priority.

The key finding: Technology will rule but not without people

For the past 20 years, asset finance companies' core business has not changed radically—and they have done well regardless. But the new technology provided by open technology, automation, AI, RPA, and the cloud is ripping up the rule book. Asset finance companies must navigate this new environment by partnering with technology providers that they may not even understand well. But they must partner.

Technology is now providing asset finance solutions that are simpler, seamless, and quicker than ever, to everyone's benefit. In addition, companies should focus on the time savings resulting from this disruptive technology: It certainly is the case that they can now do higher volumes of business. More importantly, they can provide their customers with a better, more personalised service—after all, more time means more touchpoints.

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Technology is one thing; talent is entirely another

It is clear that technology makes the human part of work more important than ever. In fact, it is the talent you attract, embrace, and develop that will determine your success. "The right technology will help asset finance organisations improve, but they will also continue to need human creativity, collaboration, and critical reflection," says Mukul Mittal of Q2 Lending. Asset finance organisations must develop their people's ability to work and grow together. Hiring or training only one type of person will mean far less pleasurable and rewarding experiences for customers. The challenge for asset finance companies is twofold: Looking outwards to new partners and technologies and looking inwards as they create their digital strategies. As Simply Finance's Ylva Oertengren asserts, "Without the right talent we are not going to get anywhere. Diversity is a crucial element of any business. Strength lies in differences, not similarities—and innovation can only happen when the best people, with contrasting ideas, are in place."

Technology alone will not bring success. The digital partners that asset finance companies choose must be selected carefully through a well-thought-out company-wide digital strategy—one that pays close attention to today's diverse workforce and their needs and wants. As this paper shows, data and technology can only take a business so far. **The most important priority is, and always has been, unrelenting focus on improving the whole customer journey.**

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Asset Finance International, commissioned by Cloud Lending (now Q2), evaluated the role of digital technologies in driving digital transformation. Findings are incorporated in this paper.

About Q2

Q2, a financial experience company headquartered in Austin, Texas, builds stronger communities by strengthening the financial institutions that serve them. We empower banks, credit unions, and other financial services providers to be an ever-present companion on their account holders' financial journeys—helping them unlock new opportunities, increase efficiency, and grow their businesses. Learn more at www.Q2.com.

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