Chapter 3

The STP fear factor – and how to overcome it

Q2

Chapter 3 highlights ways to solve the high cost of lending with Straight-Through Processing (STP). We'll explain more about it and point out the multiple benefits to customers and FIs. And we highlight how FIs can make the transition to it. You should derive a lot of value from this e-book, but if you come away with just one thing, it should be that STP is an outcome. If you have commonality in technology, if you have the information on your customers, if you have the economic context, then you can have a quick decision about lending. **That's STP.**

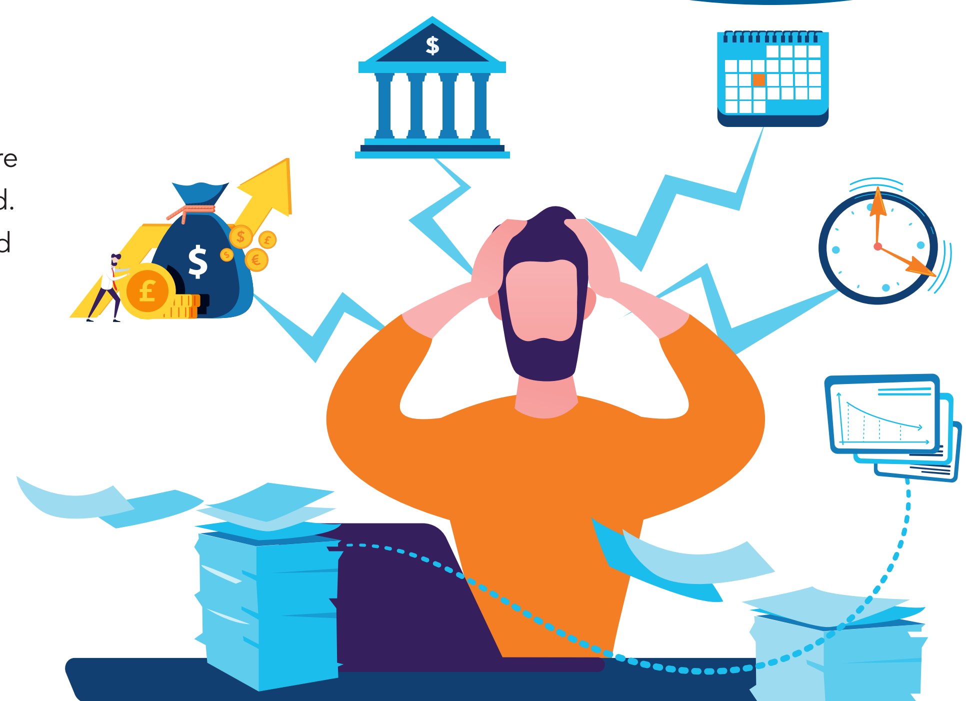
The fear factor – and how to overcome it

This is the third and final chapter in our eBook focused on the high cost of lending. Previous chapters outlined the cost challenge FIs face in delivering small and mid-ticket lending and leasing and uncover how the concept of Straight Through Processing (STP) can resolve many issues related to the challenge. In this chapter, we discuss how a fully transformative digital approach like STP requires a culture shift that transcends an organisation.

The value proposition for STP is clear. But there are speedbumps. And those speedbumps illustrate how a change in philosophy is the only thing that will deliver a change in technology.

The first speedbump is that FIs typically take a deliberate approach to change. They're shackled to cumbersome processes and, to be fair, have a set of ideas that have served them well over time. They're often hesitant to change—and the old adage is true, change is hard. However, change can be accomplished effectively from process and timing standpoints with the right partner and technology.

> **It takes around three years to roll out a new implementation for average-sized banks – that's just a fraction of their landscape. Banks are already undergoing a virtually never-ending process of legacy change. The internal exhaustion is real.**
>
> **– Darpan Saini**
> SVP Product and Engineering - Lending, Q2



Feel the fear – but do it anyway

I'll make fewer loans overall

It's possible but unlikely. You get to build the system that makes the decisions. It isn't harsher just because it's automated.

– COO
Leading Asset Finance Independent

Automation might erode my workforce

Actually, it frees them up to work in more complex areas of the business that require human interaction.

– VP of Operations
Leading community bank

I'll lose the opportunity to build relationships

You'll actually end up improving it—because instead of spending time on small, manual processing tasks, you'll be able to talk to them about their business, and maybe even recommend products and services that are useful to them.

– Head of Customer Engagement
Leading Challenger Bank

Four major myths associated with implementing STP

1. “It erodes the workforce.”

The first myth is that the automation STP delivers will end up eroding your workforce. We’ve found that it doesn’t. Instead, it frees up staff to accomplish other work, better care for customers, develop new products, reskill, and more.

2. “We’ll end up lending less.”

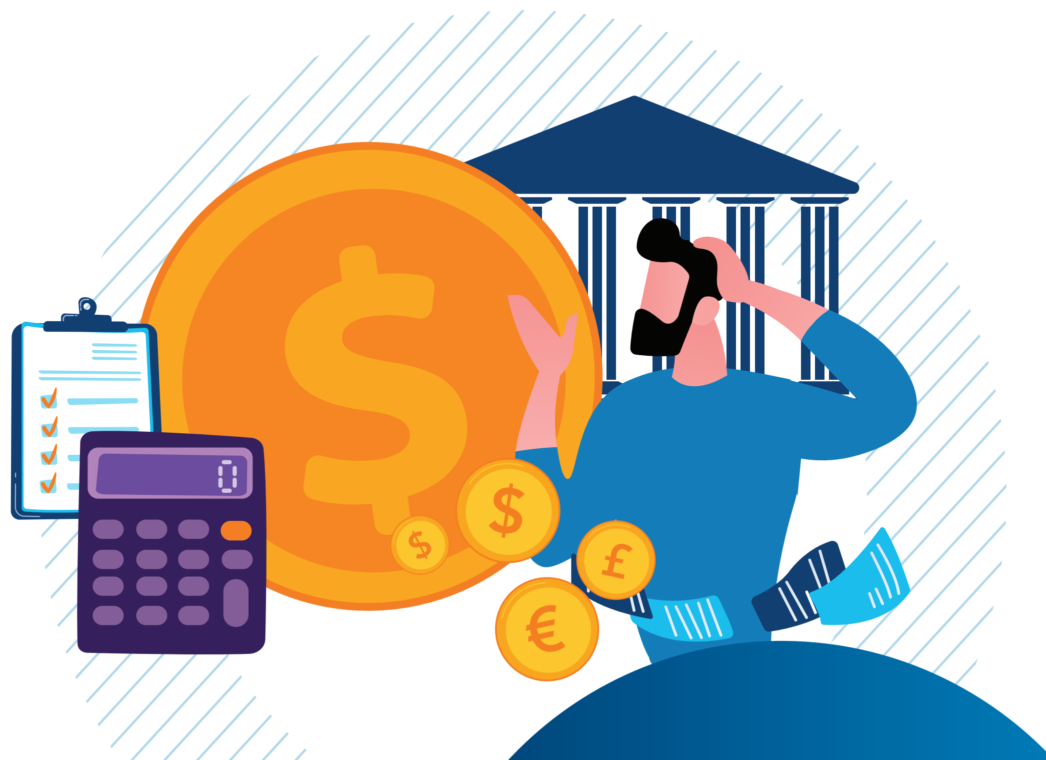
Some fear that they’ll make fewer loans because of the notion that removing the humans removes the nuance. The argument goes that if you take humans out of the picture, the people who are close to (but not quite) eligible for a business loan or plant lease will get kicked out of the queue by the strict controls built into your system. However, as we’ve pointed out, you can develop your own controls. You can finesse your decision-making to the point that certain applicants can enter a queue where they’ll receive closer inspection. Ultimately, you can address this concern with much less stress.

3. “We’ll lose the relationship.”

The third fear is the idea that automating everything will result in lost customer relationships. This is common, and rightly so; FIs should be scared to lose their account holder relationships. But do they really have deep relationships with their small-ticket segment? Wouldn’t FIs much rather build relationships where they could share specific, personalised advice? That’s what STP enables.

4. “The gains from digital aren’t big enough for us to make the switch.”

It’s been said the uptake of digital processes and solutions for FIs is in the area of 40%. In part, this is because it’s not always seen as sufficiently beneficial compared to the standard way of doing things. This isn’t correct. Not only is the online channel far more developed for small ticket lending, participants can lend with a minimum of fuss, a minimum of meetings, far fewer phone calls, and so on. With reduced friction, you don’t just keep a relationship with your customer, you make it better—because you deliver what they want, sooner.



If you think about what's happened in 2020, there's been a titanic shift. Everyone expects a digital solution. So, among FIs there's now going to be a divide between the digital have and have-nots. And the have-nots won't just do badly, they'll disappear. Banks are now going to see digital as more valuable, rather than a challenge to the value of their relationships. Furthermore, digital banks are absolutely going to be the beneficiaries of bad experiences at other banks—and after COVID-19 there will be no shortage of bad experiences with many lenders. It's not the end of a way of life, it's an extension—a highly personalised and on-demand one. It just requires a few changes to the way banks do business.

– Taylor Adkins
VP Products - Lending, Q2

Fear of the competition

The typical fears FIs express about STP (as described earlier in the chapter) are so often unfounded. But there is a bigger, more immediate, and pervasive fear that FIs shouldn't ignore: the fear of the competition. Competitors will eat your business—and small ticket lending is a competitive environment. Challenger banks are innovative, technology-led, and employ highly capable teams. They can launch new systems in a few days. And they're not the only ones to fear; Google, Amazon, Apple, Facebook, and others are beginning to investigate this space. And if there's a profit to be had, their presence won't be small.

You can, of course, go digital without implementing STP, mixing digital processes with human intervention. But STP delivers the relational 'stickiness' that drives value. The STP approach immediately increases the margin on small ticket lending and provides overarching context for multi-product FIs.

Culture is the greatest barrier to change

Since it encompasses the entire lending lifecycle, STP is a fully transformative process. Companies considering undergoing a completely transformative process can experience unease. To overcome this, lenders and lessors can get comfortable with the process first, eliminate teething problems, and gain their employees' trust, without every part of the business having to undergo change.

> One of the biggest cultural challenges for financial institutions will be their internal sense that 'procedure is king'. There's a lot of people involved in the lending process who'd say that if their standard of procedure says 'x' then they need to do 'y'. For example, if every application requires a credit manager to sign it off, then there's no way we can automate that. True. If you're operating in the old system, that is. Banks need to remember that small ticket lending is small beer. If you're giving someone £50,000, do you need to refuse automation? Or do you need to change your policy and build the kind of automation that meets your risk appetite?
>
> **– Mukul Mittal**
> VP Industry Solutions - Leasing, Q2

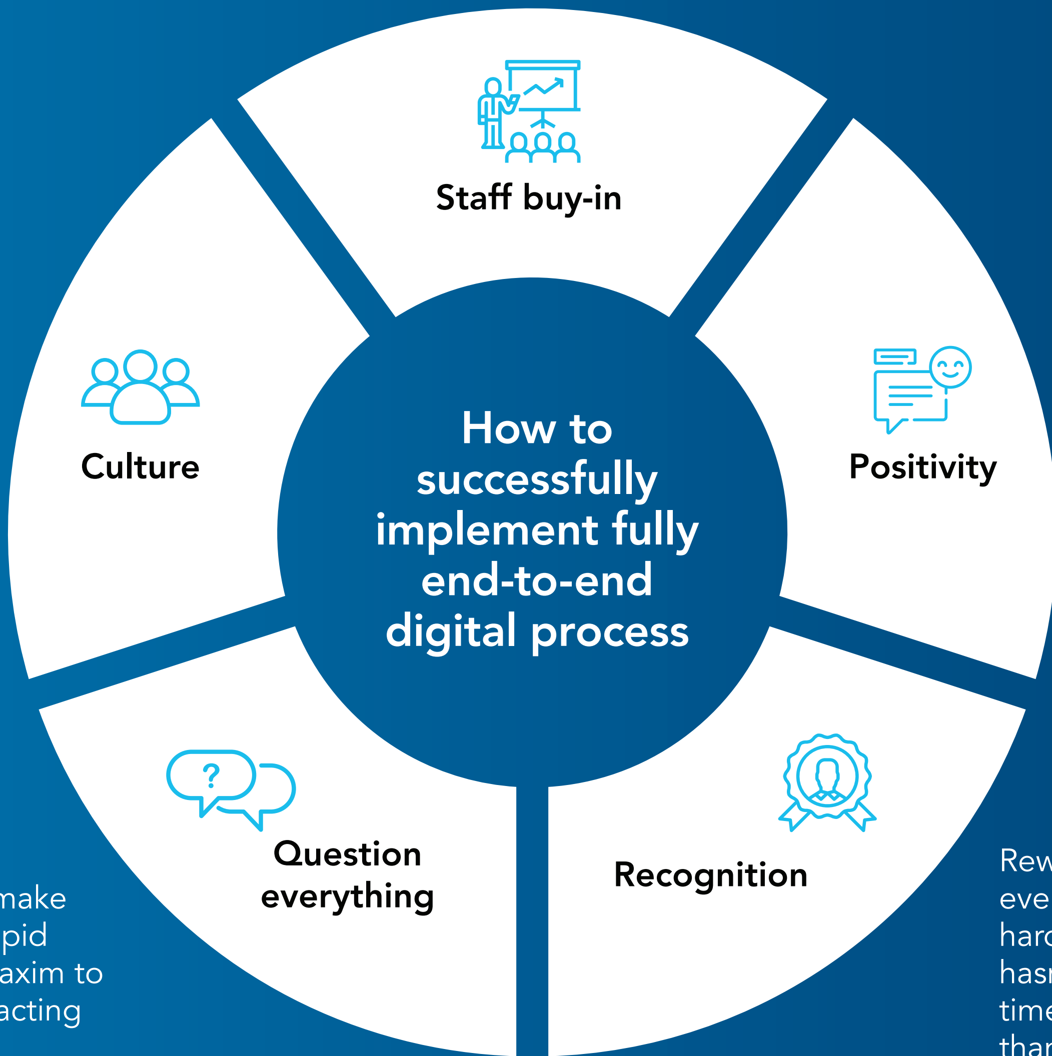
With STP, you can create a system that provides control and manages risk to the degree with which you're comfortable. And technically speaking, the digital 'scrape' that STP undertakes provides more information than you'd get using your old system. Your customer information will be far more detailed and reliable.

The most difficult part of the process lies in understanding that STP isn't something you can tack onto your existing processes to create deal flow. That approach doesn't provide the lift required to increase speed and increase margins. Business processes must be entirely re-engineered. That is the nature of software-as-a-service (SaaS). But if FIs embrace a vision and are flexible, STP will provide everything they need.

All of this must be led from the top—the CEO, CTO, management—the entire lot. Change management requires heavy lifting, and that's most effectively accomplished when it's championed from the top. Leaving change in the hands of the operators can result in replicating the systems they already know. STP must be implemented on a strategic as well as functional level. As always, the human element of the change is the biggest variable in the success of the process.

The message is key. Get your staff excited and invest in training. Remember to always start with leadership—they're best placed to sell the change.

Leverage successful aspects of your current culture to drive the change you want. Don't try and change the culture by changing the technology first.



Change is a discipline, not an end in itself, especially with STP. Since it can always be updated you can always expect to be making changes. Staying positive about change helps it becomes the status quo.

Don't be afraid to talk about risks that could make the project fail. 'No stupid questions' is a good maxim to live by when you're enacting fundamental change…

Reward your team's efforts, even if they have have worked hard on a change project that hasn't quite worked the first-time round or is taking longer than you'd hoped.

> **Straight-through processing is a means of automating the decision and delivery process for small ticket lending and leasing. On a very basic level it means small businesses and consumers get their money faster.**
>
> **– Snehal Fulzele**
> SVP and General Manager - Lending, Q2

Conclusion

The financial sector has been slow to change, especially when it comes to rolling out digital solutions. But the drive to take small ticket borrowing online—to reduce cost, increase deals, and improve customer experience—means that even the most traditional of FIs will need to get on board.

STP delivers further opportunities for lenders. Not only will it help break down siloes throughout institutions by forcing commonality in IT structure, it will open a pool of extremely valuable data. Lenders can use their collective imagination. The data gives them essential context on their customers. Lenders can make meaningful recommendations to customers, sharing useful products and solutions that meet their particular needs.

And lenders can report to investors and regulators with a great deal more confidence, detail, relevance, and speed. STP brings so many benefits.

STP is not without challenges, but it is completely transformative. Without it, FIs will see their market share steadily erode by smaller fintech and challenger banks. In the worst-case scenario, it will be gobbled up by technology natives like Google, Amazon, Facebook, and Apple. The time to choose a strategy is shrinking—events in 2020 have made this obvious. Small businesses and consumers need funding. Will you deliver?

About Q2

Q2 is a financial experience company dedicated to providing digital banking and lending solutions to banks, credit unions, alternative finance, and fintech companies in the U.S. and internationally. With comprehensive end-to-end solution sets, Q2 enables its partners to provide cohesive, secure, data-driven experiences to every account holder – from consumer to small business and corporate. Headquartered in Austin, Texas, Q2 has offices throughout the world and is publicly traded on the NYSE under the stock symbol QTWO. To learn more, please visit Q2.com.

Interested in find out more about the tackling high cost lending and how you can solve it? Speak to an expert today.

For more information, go to Q2.com