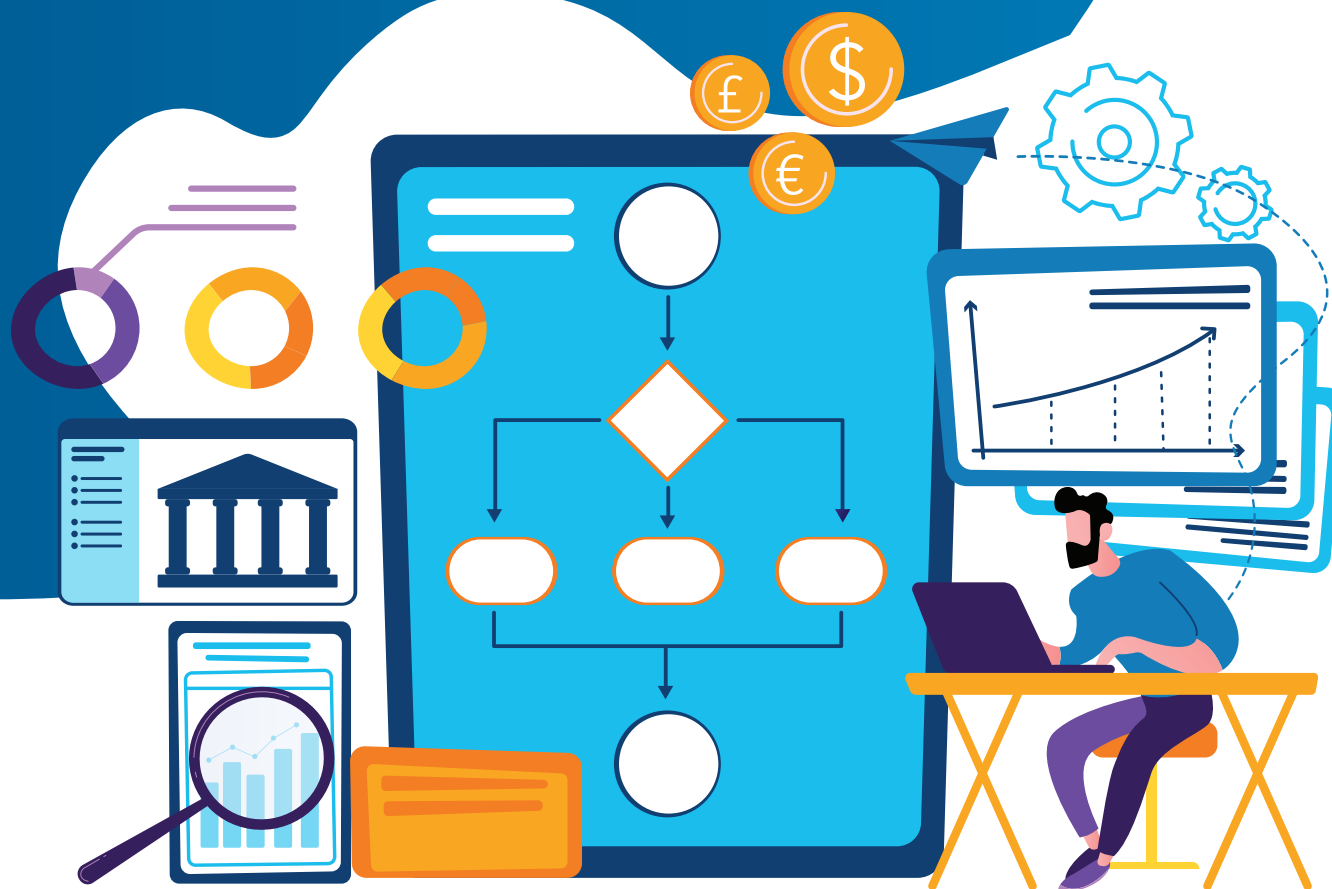Chapter 2

Straight-Through Processing – the value proposition

Q2

In our e-book, "The High Cost of Lending Uncovered", we explain how Straight-Through Processing (STP) works and how it can deliver multiple benefits to FIs and their customers. More importantly, FIs can learn more about making the transition. We hope you derive a lot of value and food for thought from this e-book, but if you come away with just one thing, it should be that STP is really an outcome you can achieve for greater success.

STP: the value proposition

STP brings great value to commercial lending and asset finance. The proposition varies between asset classes, countries, and business contexts too — STP isn't a hermetically sealed system you drop into your bank. It's more flexible than that. But we're getting ahead of ourselves a little.

Let's pick up where we left off in Chapter 1. Banks need a digital small ticket lending infrastructure. How does STP provide that?

We said earlier that STP ticks all the boxes. And there's one main reason it's able to do that, and thankfully, it's straightforward: STP is designed to reduce — and ideally, eliminate – the need for human touch.

With STP, the information about new customers and loan specifications only needs to be registered once. If that customer interacts with the bank again at any point, the system calls up the information from the central database. Siloes, gone. Tonnes of paperwork, gone.

CREDIT REPORT

KYC

> **Human touch is the industry's way of saying that there's an actual person handling deals and making decisions. In small ticket lending, where the amounts of money are pretty minimal (in the wider context of banking), human touch just creates a whole lot of cost and error. On a deal-by-deal basis, human touch is just a drag.**
>
> **– Mukul Mittal**
> Vice President of Industry Solutions, Q2 Lending

And that information is available to everyone in the process of lending. Not just the customer and the lender, but the relationship manager at the bank, credit rating agencies, the bank's lawyers, investors, regulators, and so on.

It's all relatively customisable too. As mentioned, it's not hermetically sealed. The workflow arrangements, the approval pyramids, how the sequence is managed—everything that's defined by your internal business logic rules—can be custom-built, reorganised, and updated.

STP allows you to:

- **Build custom lending sequences**

- **Organise and update sequences**

- **Set risk tolerance**

- **Funnel 'marginal' customers to a different part of the system for more scrutiny, rather than lose them completely**

All your levels of tolerance can be set in a way that suits the institution. Just because it's automated doesn't mean it's super-strict. If it were strict, there would be a depreciating level of return: it would cost you more in complexity because you make fewer loans. STP helps banks to strike the balance they can bear. And these deals are designed not to be touched by humans. This is functional efficiency.

– Mukul Mittal
Vice President of Industry Solutions, Q2 Lending

> "Some of the banks we talk to are afraid that STP will make things more impersonal, but the truth is that it gives them the information and the time to be insightful, personable, and generally the kind of banker only the high-rollers get to have. Speed and convenience will be the new brand loyalty. The banks that have the technology to meet the expectations of the digital demographic (now the largest income-producing demographic in the world) will go big.

– Darpan Saini
SVP Product and Engineering, Q2 Lending

STP is also great for risk management. In the wake of Basel IV, banks must provide a huge amount of information on their loans. They must pull it all together and analyse it, make estimates, and build policies. Having STP in place means that you have coherent data. You haven't entered one customer three times into your system. You're not analysing data from loads of different sources. You have a data lake, you pull from it, you present your information, and you can cut it any which way the regulator wants with confidence.

STP reduces errors, speeds up the decision, reduces time to fund for small businesses and consumers, and has an impressive impact on customer satisfaction. It's a pretty common gripe among small to mid-sized loan customers that they receive a sub-standard quality of service. STP automates all the generally draining and time-consuming origination and servicing steps in the current system that require human touch and free up that employee to 'touch' the loan in a way that benefits the customer.

STP reduces errors, speeds up the decision, and reduces time to funds for small businesses and consumers. It has an impressive impact on customer satisfaction.

Cross-selling and more

Besides doing a better job of servicing that one small loan, the relationship manager has information about their customer to offer other products and solutions that are more targeted, and much more likely to elicit response.

And having this valuable information about customers, the bank can develop entirely new products based on what their customers actually need, rather than what they think they need. Opportunities will quickly open to build more relationships, leading to cross-selling, customer retention, enhanced customer lifetime value – and ultimately, increased revenue. STP augments your ability to do good deals. That's hard to argue against.

STP does a couple of other things, too. The data it generates allows for more detailed reporting. It creates an incredible information trail for auditors, particularly on risk, and allows for improved accounting, since it speeds up and tracks the exchange of money between lender and customer.

One of the most impressive capabilities is STP's ability to facilitate API connectivity. It has the infrastructure to integrate with third-party solutions seamlessly. Over the last several years, FIs have made many acquisitions. The depth of integration that can be required is just enormous. Fortunately, STP connects with all that legacy infrastructure in the places where it makes sense. Q2, for example, allows multiple integrations per implementation, and this list is continuously growing. And never mind the legacy infrastructure, it will connect with most of what FIs acquire in the future, meaning that they can continue to upgrade to deliver a broader suite of online products for their customers.

The Coronavirus Challenge:

As the "stay-in-place" requirements of COVID-19 began to shutter businesses everywhere, the U.S. Government acted to provide swift financial support for struggling companies. The resulting SBA CARES Act called on FIs to funnel government-backed loans to the companies that applied for them – and to do all the background work first on eligibility, as well as the standard know-your-customer and anti-money laundering checks.

This was an enormous task, to be completed at unprecedented speed. Tens of millions of businesses quickly applied. Some banks threw people and paper at the problem, upscaling their staff, and requiring applicants to complete paper or PDF forms. Other banks are using technology to scale and automate the loan process.

Many businesses have suffered as they haven't received their loans quickly, and many more didn't even hear back from their bank. Much of this comes down to the exact processes we described: the slow movement of information through legacy systems. The winners have been those banks with a digital interface and automated processes.

How Q2 supported a leading global FI with SBA Care Package automation

We were approached by a leading global FI to help them quickly build a solution to support their clients. It was clear to Q2 that an STP approach would pave the way to success.

A scalable solution wasn't in place, and our client didn't have a two-way digital channel for self-service.

Six to 12 months for a significant implementation is a typical timeframe. This time, it took only 10 days. Q2 rapidly delivered and deployed a scalable, commercial-grade solution, with an entirely digital back-office workflow and review and approval process.

STP came through in shining colours, proving its ability to handle complex, large data projects.

In a short space of time, the collaboration between Q2 and our client achieved great things. The results speak for themselves:

The application process is fast
The eligibility application process takes borrowers less than five minutes to complete. We were able to automate the eligible and permissible amounts, and for the complex cases, we created a notification system that alerted teams to take a closer look.

API integrations are built in
We built the system with four other major integrations, including DocuSign.

A superior experience
The digital interface for loan applicants was intuitive and elegant.

5days
13,000
loan applications processed

20-30
applications per minute

$**2-3**B
loans deployed

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

For more information, go to Q2.com