Modernize your commercial loan servicing platform

Transform your business to keep pace with customer expectations and needs

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Introduction

Customers across the commercial lending landscape demand more sophisticated and tailored services from lenders. Satisfying these expectations is nearly a business requirement given the corollary experience customers have online with their retail banks. However, determining how to implement the right solution is somewhat problematic. How can a firm simultaneously trim costs and pursue growth while trying to scale business on a legacy platform for which suppliers are phasing out their support?

The question about modernization is no longer "if," but "when." Many financial services institutions have recognized the inevitability of this trend and are allocating a significant portion of their operating budgets for transformation on technology-related initiatives such as core platform modernizations. In fact, according to a 2022 KPMG commercial lending survey, more than half of the 106 commercial lenders surveyed expect to spend 6–10 percent of their total operating budget on technology transformations, and another 33 percent anticipate spending more than 10 percent.[1] However, despite the significant allocation of resources for these programs, commercial lenders struggle to articulate clear value-based outcomes against a backdrop of an expensive and time-consuming endeavor, which often gives executives good reason to pause.

As leaders contemplate their platform modernization efforts, approaching these programs in a broader transformation context allows them to identify and capture quantifiable returns on investment, typically 15–25 percent based on our experience with other clients. They can achieve these goals by revamping the target operating model, enhancing overall customer experience, and investing in commercial lending platform modernization efforts while simultaneously establishing a foundation for future profitable growth.

[1] "Commercial lending transformation: more than technology," KPMG, 2022

Make lemonade from lemons

Given the difficulty of articulating value-based outcomes, commercial lending executives are faced with a tough dilemma—they're caught between taking risks that fail to pay dividends for their shareholders and being tentative about modernizing their core platforms even though it can completely transform their business and set it up for long-term success if done correctly.

As an experienced commercial lending transformation collaborator, KPMG LLP (KPMG) firmly believes significant transformational value can be extracted via commercial loan servicing platform modernizations. Based on our experience helping other commercial banks navigate and deliver similar complex programs, we've identified three primary benefit categories to fully exploit through platform and operating model transformation:

01 Modern technical architecture and advanced data/analytics

02 Increased operational efficiency and scalability

03 Enhanced user and customer experiences

All three benefits are part of a broader digital transformation concept we call "KPMG Connected Enterprise," which aligns front-, middle-, and back-office operations to reflect a more customer-centric approach to commercial lending delivery models.

For banks and lenders to take full advantage of the changes in the industry—and tackle the challenges—they need to operate in new ways, and invest in the underpining technology that enables such evolutionary changes. They must become more user-friendly. They need to be more connected, both internally, with partners, and with customers. The KPMG Connected Enterprise model can help banks and lenders build and deploy the capabilities they will likely need in the future to consistently deliver innovative products and services, and secure, seamless user experiences. Data-driven decision making can help leaders adapt to the changes in the competition, customer preferences, and technology that keep coming.

Insight-driven strategies and actions	Innovative products and services	Experience-centricity by design
Seamless interactions and commerce	**2x** Impact*	Responsive operations and supply chain
Aligned and empowered workforce	Digitally-enabled technology architecture	Integrated partner and alliance ecosystem

Dividends to consider: Reduced technical debt/cost of ownership

Although commercial banks have traditionally avoided the bleeding edge of technological advancements, there are specific trends—such as cloud computing and SaaS solutions—that cannot be ignored. As more commercial banks migrate their infrastructure to the cloud, applications that either cannot be migrated or will be difficult to refactor in the cloud become candidates for replacement or retirement to achieve technical debt reduction and architecture simplification goals. Transitioning from a traditional green-screen system to a more modernized and intuitive workflow-based commercial lending platform helps accomplish these goals by reducing annualized operational costs typically by 15–20 percent while enabling several critical business capabilities.

For example, modern platforms are often inherently designed with integration in mind and often come loaded with a library of standard integrations to the various ancillary systems that typically support a given business operation. The average commercial lending technology ecosystem usually consists of 40–50 different applications that must be integrated, but using a library of standard integrations dramatically simplifies the effort and complexity of connecting the various systems involved. It is a crucial feature to consider in terms of enabling or enhancing straight-through processing capabilities that maximize efficiency and improve data quality by reducing manual rekeying.

Modern commerical lending platforms are designed with expanded data models that use both standard and comprehensive user-defined data attributes to deliver a more extensive range of data elements than traditional systems. These elements can be consumed by downstream applications and business intelligence repositories to build rich application functionality and enhance insights that can be derived from reporting and analytics. This robust data set can help realize an estimated 5–10 percent in efficiencies as other business applications use it downstream for multiple purposes, including transaction processing, capacity/demand management, relationship insights, predictive modeling, and operational reporting.

Without access to consistent, real-time, and reliable data, no solution will deliver meaningful or sustainable value regardless of how new or innovative its technology may be. Additionally, modern platforms are also designed for real-time processing instead of batch-based legacy platforms. This is a benefit that helps close potential timing gaps in data accuracy and allows for longer uptime and availability, enabling commercial loan servicing operations to run for longer periods and/or across multiple geographies and time zones.

Integrate workflow automation for productivity and scalability

In addition to supporting multiple geographies, there are several other considerations that commercial lenders need to be mindful of to remain competitive and maximize shareholder value. These considerations include hybrid workforce models, mergers and acquisitions, and technology ownership costs.

Many financial services workforces have not fully returned to the office following COVID-19 lockdowns. Instead, it appears that a hybrid workforce model is more likely to persevere than not, at least for the foreseeable future—approximately 81 percent of the banks we surveyed reported workforces comprised of onsite and remote employees. If this scenario persists, success will require enhanced collaboration and mobility, as well as intuitive workflow and process management capabilities aligned to operating models that emphasize efficiency, automation, and enhanced controls.

Given the current interest rate environment, commercial banks are focused on maximizing efficiencies as opposed to organic growth. However, they may also encounter opportunities to grow via mergers/acquisitions. If such opportunities do present themselves, one of the critical criteria by which a commercial lender may assess its target is how quickly the two organizations can integrate, with technology and operational infrastructure ready to scale to support larger business/transaction volumes.

Furthermore, as interest rates continue to rise, commercial banks are shifting their focus from growth to cost reduction in operations and technology. Specifically, opportunities to consolidate operational units and/or technology platforms will be particularly interesting. Using one loan servicing platform for all types of commercial lending products, including bilateral and syndicated deals, can increase efficiency by getting rid of duplicate interfaces and reducing maintenance costs.

Fortunately, modern commercial servicing platforms are built with mobility and efficiency in mind. Only minimal infrastructure investments are required to scale operations given their typical cloud-based architecture. These newer, more modern platforms also often come with a plethora of built-in functionality, such as rules-based workflows, task queuing and tracking, dashboards, and SLA trackers that are designed to maximize efficiency. The intuitive nature of modern systems eliminates reliance on memorizing transaction codes and "sticky notes" to get the job done. Furthermore, current systems are no longer running batch cycles. Real-time processing enables constant work with instantaneous access to up-to-date data, which helps improve both the customer and user experience. Based on our experience, these capabilities typically result in an estimated 15–25 percent reduction in annualized business operating expenditure and a 20 percent error rate reduction.

Better customer and user experiences lead to growth

Half the banks in our recent survey expressed concern about a considerable credit skills gap among their workforce and noted that it takes more time for new team members to get up to speed quickly. While solving for gaps in credit skills is an important consideration, an improved user experience for the workforce can help to bridge this lack of knowledge. The workstation-based architecture on which many legacy platforms are designed is not intuitive and requires considerable memorization and navigation through various reference materials to process any given type of transaction.

Furthermore, this type of architecture is relatively unfamiliar to a workforce demographic that grew up on GUI-based platforms requiring at least some semblance of intuitive workflow/rules-based navigation with roles-based user permissions and hierarchies. Therefore, migrating to a more modern platform introduces a degree of familiarity to the current workforce and reduces the potential skill gap and ramp-up time.

In addition to user experience, customer experience is also an important aspect to consider—more than 43 percent of the commercial banks we surveyed cited improved customer experience as one of their top three drivers of transformation. Today's commercial banking customers desire to be served when, where, and how they want. They want to be known and understood, and expect access to their data to be easy and transparent. As a result, most commercial banks are exploring ways to build or expand their self-service and analytics capabilities due to the significant influence of consumer expectations.

Fortunately, modern commercial lending platforms address both needs. The inherent GUI and workflow-based structure of modern commercial lending platforms takes the guesswork out of the equation and solves usability and proficiency issues, increasing how quickly users become skilled by up to 75 percent based on our estimates. Modern commercial loan servicing platforms allow for seamless integration with front-end portals or mobile applications, enabling customers to process common transactions that would have previously required assistance from a relationship manager or servicing agent. Tasks such as making payments, updating addresses, or balance inquiries that once necessitated phone calls to the bank can now be easily integrated into the servicing platform.

Modern loan servicing platforms also tend to have a much richer set of baseline data, which often allows for real-time feeds to analytical decisioning platforms that are combined with other data sources to provide a much more precise picture about a given customer's broader relationship with the bank. These platforms also help banks anticipate customers' needs, enabling the bank to offer the right product or service at the right time and for the right reasons, thereby increasing the overall conversion rate by an estimated 5–10 percent based on our estimates.

Conclusion

There is little doubt that technology will continue to enable new capabilities and ways of working for commercial banking. As legacy platforms continue to age, their ability to meet the needs of today's market demands will inevitably diminish, and while the upfront costs to replace these aging platforms are significant (typically $30–$40 million), seizing the long-term benefits makes the transformation journey worthwhile. Commercial loan servicers have a considerable opportunity to improve efficiency and expense-to-income ratios and enhance both net interest and non-interest income (see Exhibit 1 and 2).

Exhibit 1. Commercial LOB expense ratios

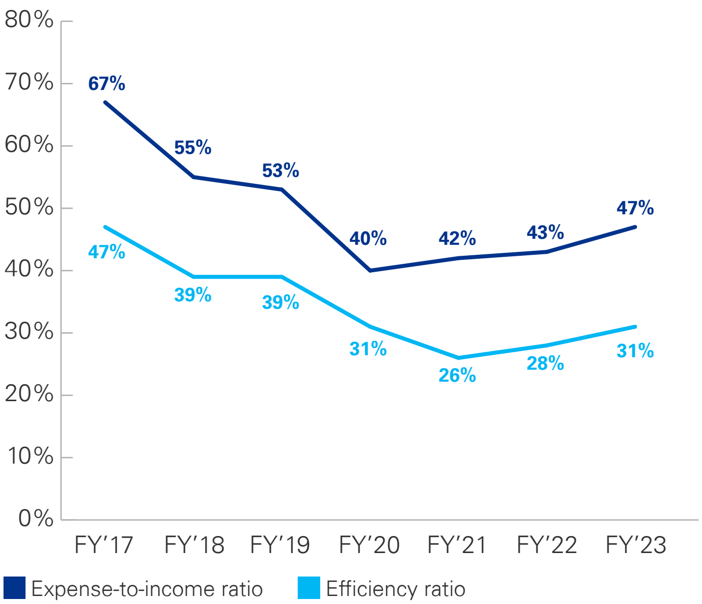
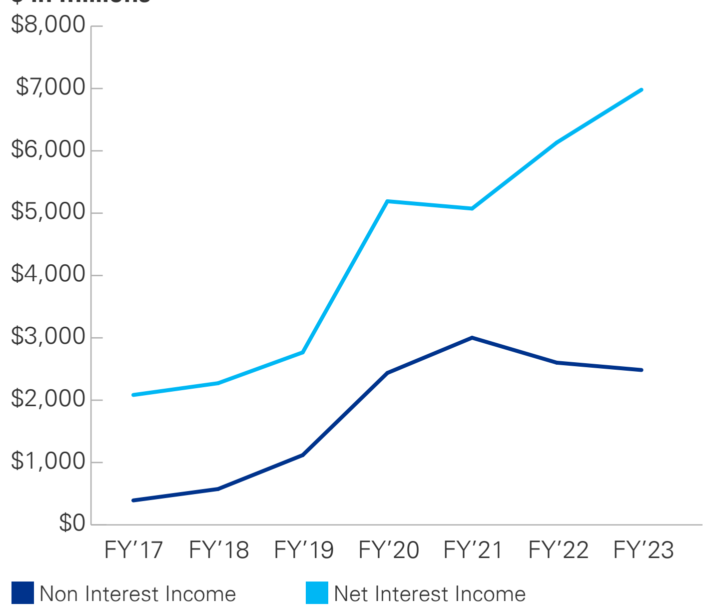


Exhibit 2. Commercial LOB revenue growth



Source: Automated Financial Systems

The time to act is now for commercial lenders that have not yet migrated their servicing business to a more modernized platform. Here are the three steps they should immediately take:

01 Assess the alignment of your current platform's capabilities against your strategic objectives to identify and quantify gaps

02 Evaluate options to close any capability gaps found via your capability assessment

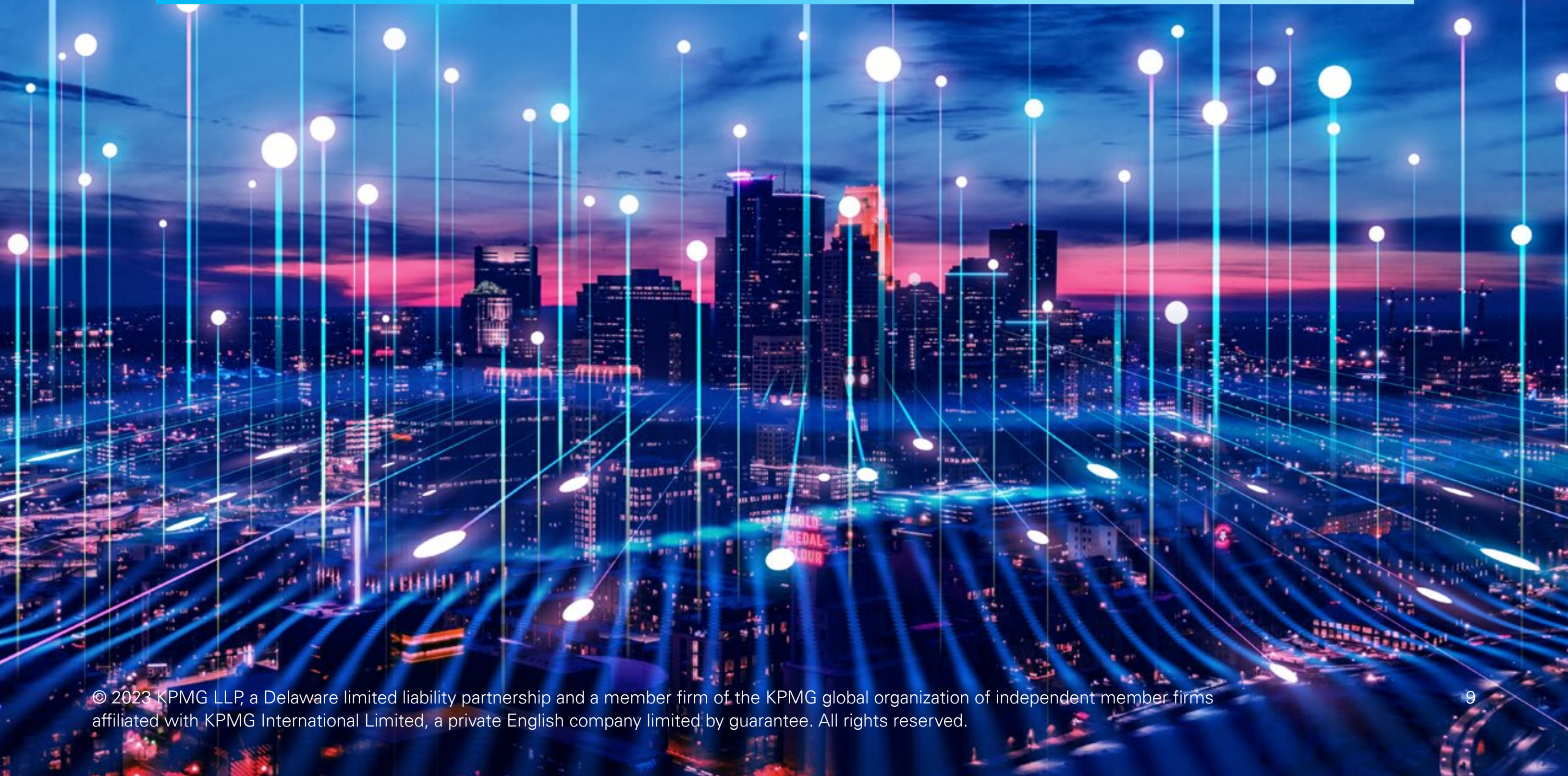
03 Develop a clear business case that links your strategic objectives to the capabilities that the target-state solution will enable

How KPMG can help

Our full-service commercial lending practice has the depth and experience to help you successfully deliver your target state transformation from start to finish:

- Review your current capabilities and provide perspective on capability maturity relative to the rest of the market, including which capabilities to focus on first
- Assess the risks and benefits of building on what exists today versus building or buying a new solution, and provide guidance on how to narrow down the options and move forward
- Evaluate cost versus benefit from a more holistic perspective, which goes beyond the implementation of a new technology and also considers target operating model implications and other strategic enablers (i.e., self-service, digitization, straight-through processing, and end-user ramp-up time)

We look forward to having a more detailed discussion with you about how you can get started and how we can help.



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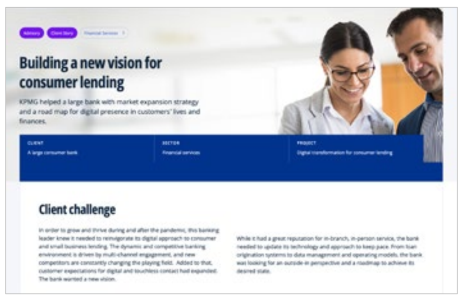

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DASD-2023-13968