Optimize Every Step of Small Business Lending

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American Banker spoke with Nancy Michael from Moody's Analytics about how lenders can improve productivity and decrease cost using the right technology and analytic tools.

Ms. Michael, Senior Director of Product Strategy at Moody's Analytics, is responsible for conceiving and building innovative solutions for credit assessment of small businesses. Drawing on her previous experience co-founding a small business and consulting to banks across the US, she has built products and strategies to help financial companies better serve the needs of their customers.

Q. Where do you see the biggest opportunities to improve the small business lending process?

A. We see opportunities for improvement across every stage of the process, starting even before a small business has decided to apply with a lender. The prospect has to figure out how to apply and then gather and submit the relevant information. That process is not always easy, but there are now tools that can help. For example, we launched a customer portal that enables small businesses to provide application and financial information to banks online, which is much simpler than printing, faxing, or scanning. Applying online also makes it easier for banks to get the firm's information into their systems and automate analysis and hand-offs so they can respond to their customers faster. The truth is you can look at almost any part of the lending process and find opportunities for significant improvements. The best place to start depends on the particular lender and their process.

Q. Do lenders have to start with whole new systems?

A. Lenders don't need to scrap their existing systems and processes to create significant improvements. While it is really important to think about how the process works end-to-end, you can tackle each component one at a time. It's great if you can find a provider that can offer multiple modules that all eventually tie together, but it is not essential. Technology has advanced so that modularization and integration have become much easier via APIs (application programming interfaces), which means you can bite off one piece at a time if you want.

Q. How have FinTech companies changed the industry?

A. FinTech companies have dramatically accelerated innovation on the customer-facing part of the small business loan process. They have completely changed expectations by managing the customer experience in a much more focused way, with great interfaces, minimum requirements for information from the borrower, and ultra-easy processes.

The online lenders and marketplaces have also created more competition - small businesses have more options and can make decisions based on their needs, budget, relationships, and how much time and effort they're willing to invest.

Advancements have also been made in customer verification and fraud detection technology, although many of those solutions are still emerging. There is also a lot of buzz right now around machine learning, artificial intelligence, and use of alternative data sources to assess credit risk, but these innovations are not yet at a stage where they can match the effectiveness of financial analysis.

Q. How far along are lenders in adopting some of these approaches?

A. It's still early for some of these solutions. The most advanced lenders have made a lot of progress by streamlining applications and workflows that get to automated decisioning. These lenders are starting to increase the amount they are comfortable lending in an automated way. Most banks are still trying to decide which solutions work best for them. A common misstep is working with less established FinTech companies that aren't adept at implementing a new solution. They may show you slick technology, but they don't understand a lender's processes and are not capable of implementing their tech effectively. Banks need to choose their partners wisely and ensure that their providers have the experience to execute.

Q. Are there any best practices to help lenders adapt to the changes in technology?

A. One of the learnings we have heard from our clients is how important it is to evaluate tools in the context of their whole process to make sure the components work together. That's not the same as trying to address the whole process at once or insisting on a single, comprehensive solution. What it does mean is thinking about solutions in a modular way and taking advantage of the flexibility offered by APIs and turnkey integrations to avoid creating the type of intensely complicated and deeply entrenched systems a lot of banks have today. That way, when a better solution is developed, you can take advantage of the new solution without having to dismantle your whole system.

Q. Where can organizations get the data to drive the analytics that have become so important today?

A. Banks are sitting on a lot of data within their own organizations. The trick is actually being able to analyze it for meaningful results. The problem is not that there isn't enough data, it's that there is too much, both internally and externally. Lenders need tools and dashboards to boil it down to the particular segments and metrics they want to track for each of their stakeholder audiences - executives, lenders, and risk managers. For example, we have developed a Business Insights tool for our loan origination systems that provides essential pipeline, performance, and risk data and visualizations. It's instant, mobile-ready, and integrated so lenders can get the information they need when they need it.

Q. Can smaller banks with limited budgets and technical resources use these types of technology and analytics?

A. Absolutely. The cost of ownership and the technical resources required to get these types of tools in place has decreased dramatically, in large part because of the availability of cloud-based services. You don't need to manage hardware, implementation, support, and maintenance yourself any more to be able to tap into very powerful solutions. Every bank has the potential to use technology and analytics to make their lending business stronger.

About Moody's Analytics

Moody's Analytics, a unit of Moody's Corporation, helps capital markets and credit risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By offering leading-edge software and advisory services, as well as the proprietary credit research produced by Moody's Investors Service, Moody's Analytics integrates and customizes its offerings to address specific business challenges.

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