

Prepare for the Future of 'Frictionless' Originations

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MOVING TOWARDS 'FRICTIONLESS' PROCESSES

In today's tech savvy, digitally native era, there are times where customers are forced to deal with processes that have several seemingly unnecessary steps, asked to provide the same information several times, while waiting for what feels like eternity unsure if the application for that loan is going to get funded. Every point of interaction between the customer and the financial institution is an opportunity to reduce "friction" and contributing to customer delight.

A process can be made 'frictionless' either by re-engineering the steps or by adopting technology that enables new processes. There is enough proof to show a simple change in process with the use of technology or re-engineering can radically transform a customer-facing process. Let's take an example from the food industry; US-based customers of Domino's Pizza can now order pizzas in several ways, including sending a text, or tweeting a pizza emoji to Dominos, via a TV app that is compatible with Samsung devices or using a Domino's app which is integrated into Ford's in-car SYNC AppLink. The orders can also be placed and tracked in real-time using a dedicated smart watch app, or by using Dom - a voice-ordering app with intuitive response technologies.

Another example of a 'frictionless' customer experience through process innovation comes from the E-commerce industry; Amazon's 1- Click shopping feature for online buyers, where the various process steps of order management and invoicing are combined into a single convenient user-click, thereby removing the single biggest friction point, the 'check out' process. With the customer's payment and shipping information being already stored on Amazon's servers, it helps create a check-out process that is virtually 'frictionless'.

As customers are beginning to enjoy the comfort and convenience of these 'frictionless' experiences in other industries, banks are feeling the pressure to design a 'frictionless' banking experience, where key pain points and obstacles are eliminated.

Banks are also facing competition from FinTech innovators, who are delivering new lending models and providing top-notch 'frictionless' customer experience. On Deck Capital Inc., a major marketplace lender posted a 54% growth rate over the last year. One thing is clear – either bank's need to respond quickly to changing customer needs or be prepared to lose out to rivals.

In the financial services industry, product and pricing are no longer differentiators, customer experience is, especially, a 'frictionless' customer experience throughout the customer lifecycle. However, banks have translated 'frictionless' customer experience to mean merely providing 'anytime, anywhere, any device access', in other words efforts are focused on 'convenience' and not much else. But 'access' is only one aspect of 'customer friction'. Banks are beginning to realize the need for taking 'friction' out of the entire banking processes.

To offer a truly 'frictionless' and 'differentiated' customer experience, banks will need to focus on improvising their customer-facing processes such as originations. This is often the banks' first point of interaction with a customer. While the window for making a great first impression is short, it is here that banks must demonstrate their understanding of the customers' needs, treat them uniquely and deliver a 'wow' moment. Done correctly, banks stand to profit from up-sell and cross-sell opportunities.

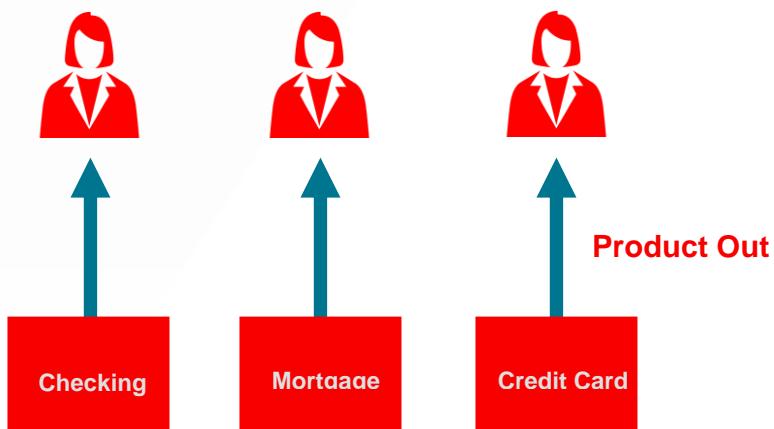
Cumbersome applications and complex account opening processes with multiple hands-offs spanning

across several days often leaves customers frustrated and banks end up losing good business. The situation is comparable to a customer visiting a supermarket, filling up a shopping cart but leaving the store without buying anything because of serpentine billing queues or because the billing process took too long or was over complicated. Research shows that abandonment rates for online banking applications are at 97.5%. Multiple clicks, multiple screens or multiple visits to the branch in person to complete the process, all contribute to the increased abandonment rates.

Originating an account and establishing a new customer is universally considered one of the most expensive processes for banks. Typically, under-pinned by a patchwork quilt of technologies resulting from the use of different systems for different product types and different regulatory requirements for different types of customers, origination procedures cause bottle neck, hamper decision making and adversely affect customer experience.

This whitepaper attempts to highlight how banks can reduce customer friction, simplify the origination process and enhance customer experience by building a best-in class origination process. It also explains why banks must consider originations as a prime candidate for beginning a broader digital transformation journey.

WHY IS THERE A HIGH LEVEL OF FRICTION IN TODAY'S ORIGINATION PROCESSES?



Most traditional banks are organized around 'product' lines such as checking accounts, loans, credit cards and so on, with the view that the road to success lies in pushing out more products. With time, as banks were forced to adapt to new market and business demands, they adopted the approach of creating new applications to automate and modernize specific product/departmental requirements. This siloed focus on process improvements served its purpose but also resulted in heavily compartmentalized, complex business and IT environments. Adopting a new business strategy, launching new brand or new products in new channels requires these banks to configure multiple systems across the IT footprint. Even making a small change is cumbersome.

Today these complex, hard wired, legacy systems, which were designed to only support business process by lines of business, are affecting the smooth operation of an end-to-end origination process. For example: opening a credit card account for an existing customer requires the interaction of the

various departments associated with the customer's existing product portfolio, resulting in multiple 'friction points' during the origination process.

For most banks, the origination process is a complex assembly of home-grown and vendor components characterized by sub-optimal realization of benefits and high cost of ownership. In the past, banks have invested heavily in the automating and re-engineering the origination processes (e.g. Workflow, Image, and Business Process Management) and integrating these processes into the existing IT landscape. However, this is not the only solution.

Product-centric origination has the following 'friction points' where customers are most likely to abandon the process and switch to a competitor:

- **Offered irrelevant products or services:** When a potential customer is searching for a particular product or service, the bank is unable to quickly analyze their needs and present the best and most relevant offers
- **Information captured multiple times, in multiple places:** While capturing data, the customer is asked to provide excessive information. More often than not, customers are asked to provide information which has already been captured by the bank in a previous instance of the customer's interaction with the bank
- **Delay in getting a pre-approval:** The pre-approval step consumes time and effort
- **Excessive or unreasonable document requests:** Excessive documents sought which may unnecessarily prolong the time for collateral evaluation
- **Inability to transition between channels:** Customers are unable to transition from one channel (for example: internet banking) to another channel (For example: branch banking) during application processing and account opening. Customers having a completely different experiences utilizing one channel over another
- **Not offered relationship pricing:** Customers are not offered preferential rates based on existing relationships
- **Submission of multiple applications for multiple products:** Customers are unable to buy multiple products as part of a single application submission
- **Multiple in-person visits to the branch:** Customers are required to visit a banking center multiple times for submission of documents
- **No visibility into real-time status of application:** Customers do not know the status of their applications during processing

FRICITION-FILLED ORIGINATION PROCESSES: A REAL-WORLD SCENARIO

Let us run through a real-world scenario to better understand the 'customer-friction-points' in a product-centric origination process.

Jennifer, a busy working mom has banked for 20 years with 'Bank Archaic', a traditional bank with a product-centric origination process in place. Jennifer is thinking of renovating her home. Without exploring options and blindly trusting her current bank, she goes to a banking center of 'Bank Archaic' to apply for a Home Equity Line Of Credit. She is asked to fill in a lengthy HELOC application form. Jennifer is not too happy that the bank doesn't recognize her as an existing customer and cannot retrieve the relevant information from its database. She also expects the bank to give her a special rate of interest in recognition of her long-standing relationship with the bank. The bank takes several days to process her HELOC application and, after much delay, asks her to provide additional information to complete the application process.

In order to hasten the process, Jennifer decides to use the bank's online banking site to upload the additional documents. To her surprise she finds it is not a viable option. The HELOC application that was initiated in one channel (bank branch) was not recognized in another channel (online banking).

She has no choice but to re-visit the banking center in-person to submit the documents.

A few days after submitting the documents, Jennifer wants to know the status of her application. Since it is beyond the working hours of the banking center she phones the call center to check if the application is delayed at any stage of processing. The call centre agent, unable to see the real-time status of the application, cannot give Jennifer a satisfactory answer. The next day she visits the banking center to check the exact status of her HELOC application. To her surprise, the Loan Officer informs that the bank cannot grant the full requested amount but can give her only a portion of it.

Jennifer is now an irate customer; she demands to know why she was not told to this on the day she came in to apply for the loan.

Why did this happen? Let us look at this problem from the bank's perspective:

- Bank Archaic's origination process was structured around 'products': The Loan Officer was unable to view Jennifer's complete relationship with the bank as the data associated with those relationships were held in separate systems. This led to processing delays resulting in increased time to say 'Yes/No'
- Bank Archaic's channels were not independent of product offerings: The problem was with the bank's channel integration strategy. While the bank's checking account was enabled for all the delivery channels, the online banking channels did not support the HELOC product
- Bank Archaic does not have a relationship pricing model: Jennifer should have received some credit for having been a loyal customer and her payment history should have resulted in positive impact on the price she was offered
- Bank Archaic did not centralize its common business functions: Documents, past history and process status are common functions which should ideally have been available enterprise wide

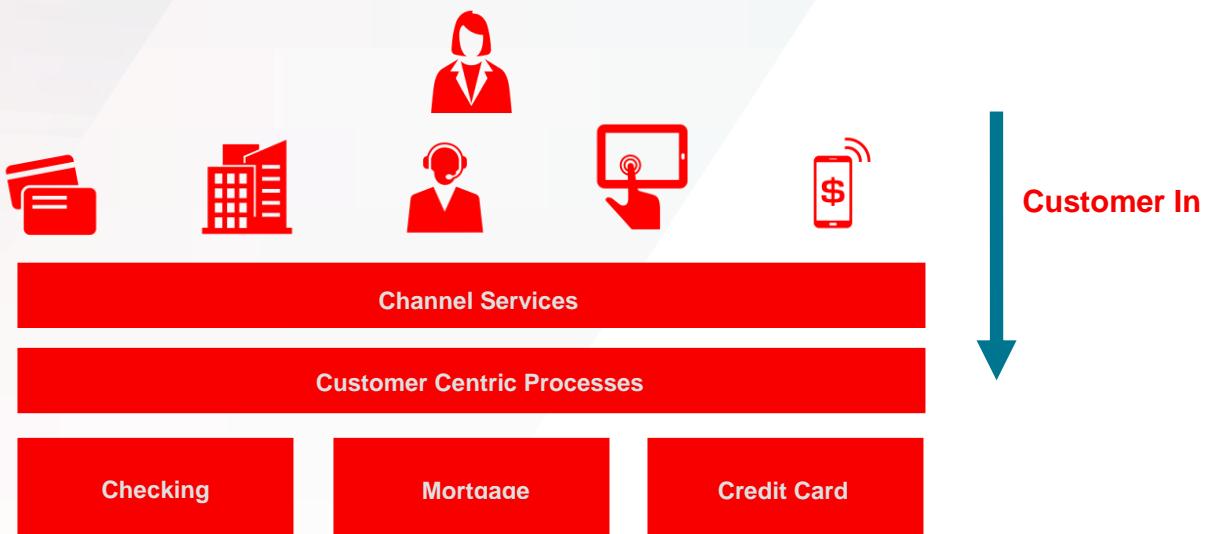
"The biggest change for consumers is actually knowing where things are at. Through the use of their phones and internet banking, they're getting constant updates as to where things are at. The documents will land in their inbox at home; they'll be able to open the documents, accept them online and come back to us"

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'FRICTIONLESS' ORIGINATIONS IN THE AGE OF DIGITAL BANKING

In today's digital age of banking, customers are not easy to please. They expect an experience that is simply 'frictionless' throughout their banking journey. Customers also demand quick responses and faster turnaround times. As the saying goes, 'You only get one chance to make a first impression' – Banks have a short window to make a strong first impression - a matter of seconds or less. Origination and On-boarding is the first customer touch point; by offering the right product and simplifying the origination process, banks have the opportunity to demonstrate a comprehensive understanding of the customer's unique individual needs, exceed their expectations and deliver a 'wow' moment. The key to a great overall customer experience often comes down to a 'frictionless' origination. It is also an ideal moment for banks to cross-sell and up-sell products.

When it comes to consumer loans, customers expect to receive a final approval in no more than a few 'minutes'. If the bank is unable to meet their demands, customers are likely to switch to other service providers. So while Millennials re-define customer experience with their 'digi-tech' expectations, banks are compelled to re-examine the technology they operate with and their origination processes.



A good 'frictionless' customer-centric origination process is the need of the hour, one that determines the failure or success of the banks products and services. Positioning the 'customer' at the heart of the IT architecture is critical, as is leveraging the details of the customer's relationship into business rules enabling differentiation of customer, sales, and service interactions. This shift towards customer centricity requires an enterprise solution for origination, pricing, product management, default management, limits & collateral management and so on as well as the use of customer insights for prospecting and understanding customer needs.

In this model, channel and product are no longer developed in isolation. Instead they are integrated through a common infrastructure, connecting seamlessly with the bank's back-end applications. This allows for a consistent and 'frictionless' customer experience during origination regardless of the product or channel used. The bank can originate both 'related' products (i.e. checking account as a base for loan repayments in the case of auto loan origination) and a 'defined bundle of products' as a package (i.e. 'car-owner's package' including an auto loan with checking account, fuel rewards credit card and vehicle insurance) using the same origination platform. This helps rationalizing application data capture and approval requirements while eliminating 'friction-points' in a multi-product origination.

A truly customer-centric origination solution has features that enable a 'frictionless' origination process. Some of these features are listed below:

- **Single platform for multi product origination:** Offers the ability to originate multiple products and bundled product offerings as part of a 'single submission' ensuring complete reuse of customer information and removing application complexity
- **Seamless multi channel experience:** Provides the ability to expose the origination process to all proprietary channels enabling customers to seamlessly transition from one channel to another, thus delivering a 'channel agnostic' customer experience
- **Centralized pricing:** Allows banks to price the relationship rather than the product
- **3rd party integration:** Enables integration with 3rd party vendors for credit scoring and collateral valuation

- **Enterprise wide data integration:** Provides a 360° view of the customer relationship
- **Process optimization:** Maximizes automation with tailored workflows, automated document production, automated account opening
- **Electronic document management:** Eliminates paper from the origination process, with all documents produced, dispatched and stored electronically

DELIVERING 'FRICTIONLESS' ORIGINATIONS: A REAL-WORLD CONTEXT

Let us now look at the same business scenario with a customer-centric origination process that offers a 'frictionless' experience. Let us now look at the same business scenario with a customer-centric origination process that offers a 'frictionless' experience.

Jennifer has been on the lookout for a Home Equity Line Of Credit (HELOC) to finance the remodeling of her house. She visits a few home improvement and remodeling websites. 'Bank Digital' is quick to track her online activities and social conversations. Identifying her borrowing needs the bank proactively gives her a variety of HELOC options. This situation and context-awareness that the bank displayed leaves a 'favorable' impression on Jennifer.

Jennifer decides to apply for a HELOC using the online application facility. Much of her information is pre-populated with the information they have on them already. Upon submission, she receives a pre-approval within seconds. This is possible because first, the enterprise-data associated with Jennifer's banking portfolio is available for real-time decision making and second, the banks origination system is integrated with 3rd party vendors, enabling an instant credit report check. The bank requires her to provide additional documents to complete the application process. She takes a picture of the required document and uploads the image right away using her mobile phone. The bank has a channel integration strategy, the HELOC application process that Jennifer started at the online banking channel is carried over to mobile banking channel seamlessly.

Jennifer is anxious to know the status of her application and she uses the chat feature for a brief conversation with a HELOC specialist at the bank. She is told that the documents submitted are in order and she would receive an offer letter within the next few minutes.

Jennifer receives a 'HELOC package', which includes a 'cash reward credit card' with a first year annual fee rebate in addition to the HELOC, which came with an interest rate discount under the banks 'preferred customer discount' program. Thanks to the multi-product origination capability, the bank was able to offer bundled product packages. Jennifer is overwhelmed that the bank has acknowledged her long-standing relationship and is more than satisfied with the hassle-free experience of buying two products at the same time with minimal documentation.

She receives the closing documents on her tablet, reviews the same and uses the e-signature for closing the contract task. Within a few minutes, the bank wires the funds to her checking account.

The end result - the customer went through a 'frictionless' experience at each stage and the bank was able to set a new benchmark of a 'frictionless' experience.

TRANSFORMING ORIGINATIONS WITH ORACLE

Oracle believes that externalizing the account origination process from the core processing platforms is one of the best ways to begin a modernization agenda. Banks can consider deploying Oracle Banking Enterprise Originations, both as an independent standalone project or as a starting point for a broader progressive modernization program.

Oracle Banking Enterprise Originations was designed from the ground up to address many of the challenges banks face during the customer on-boarding and origination process. The vision was to provide a true 'frictionless' customer experience with a process-centric view of the origination process and was engineered using global best practices discovered by Oracle over the past two decades while implementing banking solutions.

Oracle Banking Enterprise Originations enables migration from account-centric services to customer-centric services, thereby helping banks to streamline and improve their account opening processes for both 'liability accounts' as well as 'lending accounts'. The solution supports varied products such as deposit accounts, loans and third party products like insurance and makes it possible for customers to apply for different products of the bank in a single submission. It operates across channels, providing a common origination platform for both users across assisted and self-service channels. This allows a customer to use different access points, so they may begin the process in one channel, yet use alternate channels to complete the process.

Uniquely, the Oracle Banking Enterprise Originations solution allows for true relationship pricing at the point of sale. Rather than relying on a static price definition, it utilizes all known customer data to recommend a price. For example, a simple checking account may have a monthly subscription fee, but waiving this fee for a customer that has a broader relationship with the bank makes good business sense. The solution uses a sophisticated rules engine to determine the final price recommendation, allowing the bank to price the relationship rather than the product.

Oracle Banking Enterprise Originations is fully integrated with leading industry vendors to perform important sub-processes such as customer identification, KYC checks, credit scoring and collateral valuation, enabling banks to not only take appropriate and faster credit decisions and accord approvals for lending applications in real time but also ensures meeting ever-increasing regulatory requirements. It leverages Oracle technology for workflow processing, document management, security, business intelligence and incorporates modern, digital processes to ensure compliant documents are generated and delivered to the customer, acknowledged on a timely basis, and allow for electronic signatures. The solution is built using standard enterprise components and is available on-premise, on the cloud, or through a hybrid model.

TAPPING INTO THE BENEFITS OF 'FRICTIONLESS' CUSTOMER-CENTRIC ORIGINATIONS

Oracle Banking Enterprise Originations makes a positive difference by providing a 'frictionless' experience across the customer journey continuum and enables banks to gain the following benefits:

Increased revenue: Maximize customer lifetime value by creating customer loyalty and brand equity, building long-lasting customer relationships, offering a delightful customer experience and utilizing up-sell /cross-sell opportunities.

- The facility to originate multiple products enables frontline staff to sell more and faster leading to an increase in the number of products per customer
- The ability to offer incentives such as relationship pricing and product bundle discount reduces customer defections
- Reduced cost: Gain cost reductions by improving operational efficiency.
- Reducing the number of process steps carried out by front and back office staff results in reduced error rates
- Optimizing data capture and evaluation processes enhances overall efficiency of the bank

Better customer experience: Offer seamless, customer experience at every touch point across the entire customer journey.

- Eliminating multichannel transaction barrier drastically improves customer satisfaction level
- Real –time transaction processing allows for faster response time and real-time communication

Adopting Oracle Banking Enterprise Origination, banks world over have realized the benefits of 'frictionless' customer-centric origination:

- Opening a deposit account for an existing customer is now possible in 2 minutes at a leading Australian Bank
- A Global top bank is able to deliver a 'conditional approval' in 5 minutes for a home loan which had been multi-day process
- The number of 'clicks' required to initiate a loan application has fallen from 250 to 50, an 80% reduction
- A financial services organization with a global presence has been able to reduce the 'time to yes' for simple mortgages from more than 120 hours to minutes
- Reductions in customer information capture from 8 touch points to a single touch

CONCLUSION

The correlation between process and profitability is gaining credibility in the industry. Successful bank's no longer aim to achieve profitability based on volumes alone but focus efforts on improving their 'customer-facing' processes such as origination to ensure they are 'frictionless' and give the customer a hassle free experience.

Banks today are still playing catch-up game of providing a true 'frictionless' experience. Modernizing the origination process enables banks to create a 'frictionless', consistent, multi-channel, fluid and personal customer experiences that are available in other consumer-facing industries. It also yields the benefits of removing redundancy, simplifying and streamlining the process steps resulting in improved efficiency and agility. A digital origination process can be the first step to laying a digital foundation and positioning the institution to compete effectively and capture a long-term growth trajectory.

The focal point of this paper is the firm belief that beneath every challenge lies an opportunity. With increased competition from new digital entrants, complex customer expectations and a sluggish economy banks have to sail through stormy seas. Now is the time to adopt future-ready technologies, create customer focused innovations and respond with differentiated services and products. Banks with the ability to respond to technological and social progress and who focus on the larger and bolder task of building a digital venture will lead the charge in the new era of banking.

It's time for banks to carefully plan their process transformation projects, beginning with origination. This process innovation can help banks adapt and respond to the changing customer needs and support their rationalization and simplification agendas; improving both productivity and efficiency, while driving down cost.

Banks that are leading the digital charge have already begun their transformation journeys with a customer centric approach and are working top-down towards the product. They see great value in modernizing processes such as origination and being more customer-aware and insights driven rather than modernizing single product centric systems like deposits.

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