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How Banks can Use Technology to Step up the Game after the Royal Commission





Effective use of Technology: A Defining Element of Post Royal Commission Strategy

In the post Royal Commission environment, there is greater focus on customer experience and customer centric thinking. Recommendations were made in relation to seven core areas of banking, including consumer lending, broker introduced lending, access to banking services, lending to small and medium enterprises, enforceability of industry codes and processing & administrative errors.

Oracle has produced this short report to provide our perspectives on how the effective use of technology can assist the banks with their strategic responses to the Royal Commission findings. For example, one of the takeaways from the Royal Commission was the observation that Australian banks and insurers engaged in behaviour (either by omission or intentional) that diverged from corporate and broader societal expectations to put customer interest at the centre of origination and servicing processes. The use of technology to automate and enforce process execution that is aligned with strategic objective can significantly improve

the outcomes for all stakeholders – customers, regulators and shareholders. Transparency of decision processes, and all attributes that drive customer engagements, should be a defining element of any post Royal Commission strategy.

The legacy architectures underpinning all banks have allowed many of the issues identified in the Royal Commission to arise, through complexity, siloed systems and operations, multiple sources and multiple repositories of data used in customer facing and regulatory & compliance processes.

In this report, we will focus on two topics of interest to banks – data-driven lending and flexible pricing and billing. There are opportunities in both areas for banks to implement processes that deliver positive outcomes for customers. At the same time, banks can ensure they comply with regulatory expectation and adopt more streamlined, efficient and profitable operating models.

Data-driven Lending Decisions – A “Win-Win” for Customers and Banks

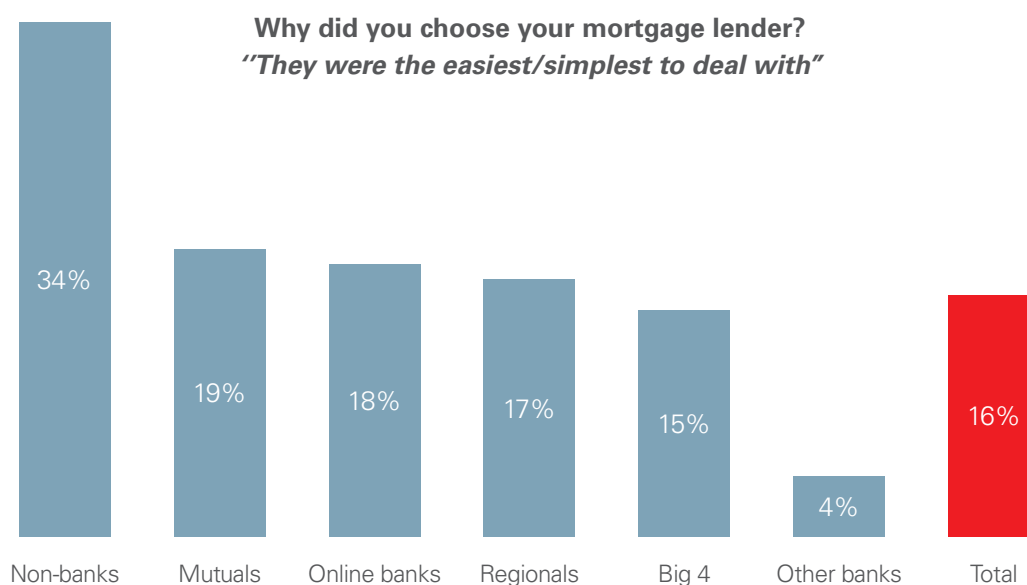
Banks are at a cross-road. While consumers expect faster, more seamless application experiences, the regulatory environment requires banks to do more to verify their customers’ financial position. This is resulting in onerous experiences for consumers – applications that are slow and disjointed, criteria and information requirements that are difficult and more time consuming for customers to fulfil. Banks risk losing customers during the application process because things move too slowly, become too hard or because mistakes are made. Consumers can finish an application experience feeling frustrated with a provider – hardly the best start to a healthy long-term relationship. Brokers too feel the pinch as it is harder for them to get a loan across the line. Open Banking raises the stakes still further as it empowers smaller players to steal share from their larger counterparts if they can design more seamless and lighter touch customer experiences. Larger players must respond or risk displacement.

Analysis of more than **30,000 mortgages** from online broker Lendi found approval times for investment loans had **more than doubled** in the past 18 months, and **increased by more than 50 per cent** for owner occupied loans.

Source: Australian Financial Review, 23rd April 2019



Already, non-banks have stolen a march on incumbents in designing experiences that are simple for their customers. 34% of consumers that have a mortgage with a non-bank say they chose their lender because they are easy and simple to deal with. In contrast, only 15% of consumers who have their mortgage with a big four bank chose their lender for this reason.



Similarly, consumers are more likely to say they chose a non-bank for their mortgage because they had the fastest application process (17%) versus 8% for the big-four.

Application experiences matter too. RFi data indicates that consumers who have dissatisfying application experiences are more likely to be dissatisfied with their home loan than customers who have satisfactory application experiences even years post the application.

RFi data indicates that close to **60%** of home loan customers who were unhappy with their application experience **also remain unhappy with their home loan.**

So What is the Solution?

Banks need to ensure that they are assessing applications based on complete, correct and accurate data rather than more generic alternatives. The outcome is win-win for banks and their customers as enhanced data collection and analytics capabilities can lead to:



Faster applications / shorter time to “yes”



Less customer friction / lower risk of application abandonment



Shorter loan processing times, and resultant lower processing costs



Improved data quality due to a lower reliance on manual data collection



Less risk of human error



Reduced credit risks



Defence against new entrants



Still addressing regulatory requirements

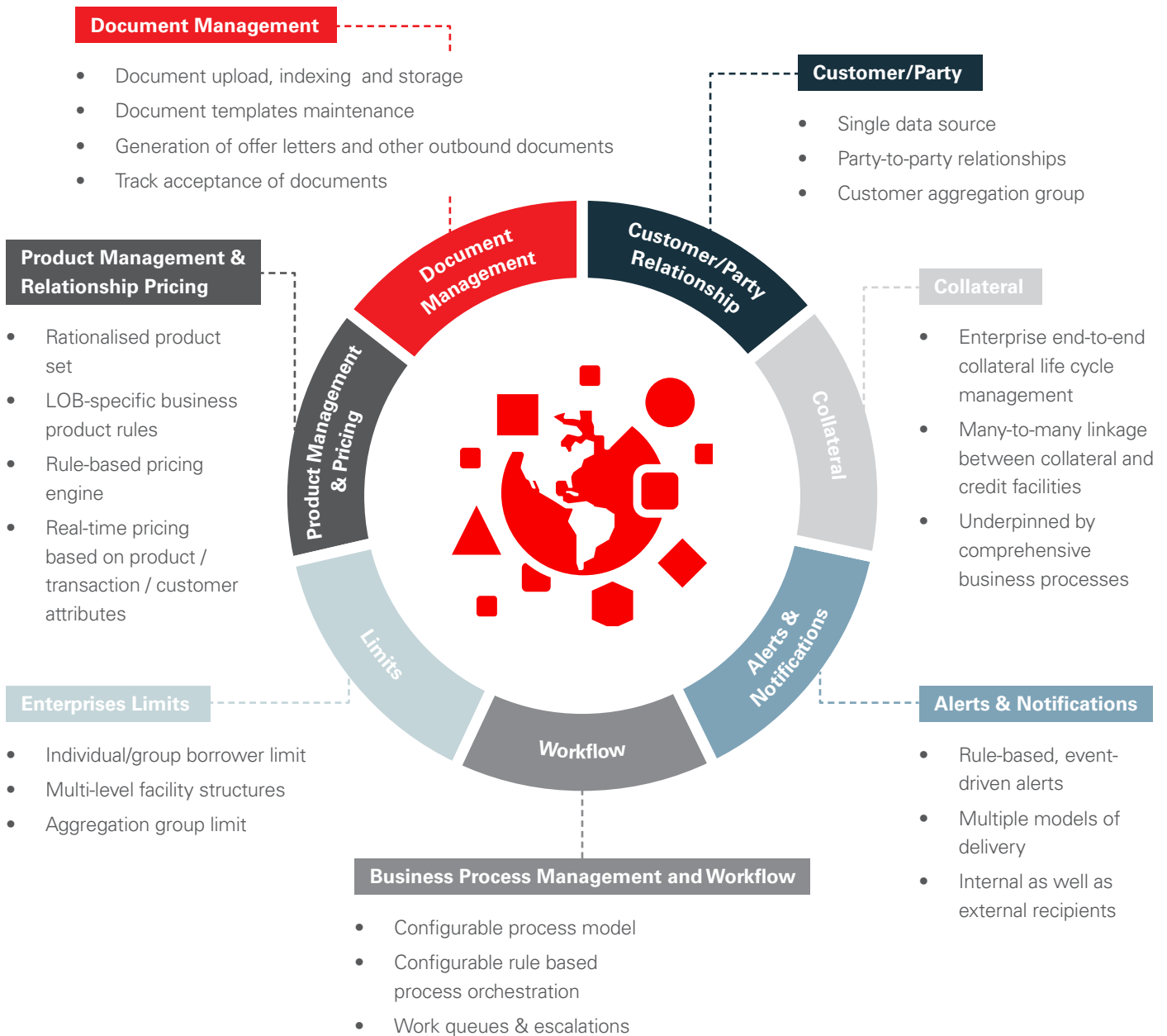
When combined with Artificial Intelligence (AI) and Machine Learning (ML), effective data collection and analytics capabilities can be used to provide frictionless application experiences. Critically, this outcome can be achieved while still addressing the spirit of the regulation. Open Banking further increases the possibilities by enhancing data accessibility and offering institutions the opportunity to achieve better customer outcomes.



How Can Oracle Help?

Oracle is working with its clients to transform their origination processes via:

- Streamlined application capture – data is captured and validated, and forms are pre-populated. Credit assessment, decisioning and document production are automated.
- Autonomous data technology helping clients achieve faster insights with greater efficiencies and performance.
- End-to-end solutions with in-built transparency via notifications and status updates at every critical step.
- An advanced decision engine. Benefits include faster time to “yes”, reduced referral rate and automated valuation verification.
- A single platform for multi-product origination, seamless multi-channel experiences, centralised pricing, standalone deployment and seamless third-party integration.
- Enterprise class business and technology components, internally and externally.



Flexible Pricing and Billing – Right Product, Right Customer, Right Price

Fees in banking are an ongoing pain point for consumers, particularly where they are charged incorrectly or without proper notification. Negative fee experiences result in customers switching banks and feed general distrust of financial institutions. This is particularly pertinent in the post Royal Commission environment.

Today consumers are often presented with fee structures that lack transparency. They find themselves incurring fees that are higher than they expect, charged when they do not expect, or for activities that they believe should be free or for products or services they do not use or are ineligible for. There have been various cases of banks charging fees they should not have been which have resulted in remediation and significant brand damage for the banks concerned. Fee remediation exercises are a massive and costly undertaking for the banks, as errors need to be identified and investigated, quantified and corrected. Banks need to make allowances for remediation costs, and hence the impact of incorrectly charged fees can dog banks for some time post their identification and resolution.

Instances where customers have been charged fees they were not expecting arise because of poor processes. These include:

- Customers being charged fees for services that are not delivered
- Accounts that are not set up correctly at the onboarding stage
- Fee structures that are complicated and difficult for staff to explain
- Fee waivers that are communicated to customers but not correctly applied to accounts
- Billing systems that are inflexible and misaligned with the fee structures being communicated to customers
- Poor communication that fails to advise customers of when and how fees will be incurred, or what those fees will be

The impact of instances where fees are charged incorrectly is often magnified by the circumstances involved e.g. fees being levied on account belonging to customers who are deceased, and by the time taken to identify and resolve the issue. Banks often find themselves reimbursing customers for fees that have been charged many years previously.

In an environment where banks are focused on being more transparent and regaining customer trust enhancing their fee management processes is critical.

RFi data indicates that more than **40%** of consumers who have changed their main transaction account provider did so because **they were unhappy with the fees levied on the account.**

What would encourage you to trust your bank more than you do today?

1. Offer me greater rewards for my loyalty
2. Actively address the findings of the Royal Commission
3. **Be more transparent on fees and charges**

Source: RFi data

So What is the Solution?

The principal objective of every bank is to sell the right product, to the right customer, at the right price. Fee charging errors are entirely adverse to this objective. The solution to institutions' fee management challenges lies in the implementation of flexible billing systems. These systems help banks minimise the incidence of fee charging errors by removing manual processes. Integrating these systems with Analytics and CRM also ensures banks can identify and rectify errors quickly and with confidence. Banks see significant operational cost savings, provide improved customer experience and receive fewer complaints.



How Can Oracle Help?

Oracle's revenue management and billing solution enables institutions to implement flexible pricing and billing strategies that are built around customer behaviour. Integrating it with Oracle's CRM and Analytics systems ensures that it correctly reflects customer master data, such as life changing events, while Oracle's autonomous data technology helps achieve faster insights with greater efficiencies and performance.

Oracle's solutions enable you to:

Unify operations with a complete pricing and billing platform:

- Consolidate end-to-end digital processes spanning the revenue management lifecycle.
- Simultaneously manage pricing and billing across products, customer types, branches, lines of business and geographies via a single platform.
- Set prices based on criteria such as channel, segment, product, promotion, exception.
- Have the flexibility to accommodate price bundling, grandfathering, back book updates, rebates, credit and corrections.
- Integrate with other applications including CRM, accounting systems and others.



Simplify operations with streamlined and automated processes:

- Capture and consolidate customer data to create pricing models, run simulations, construct pricing proposals.
- Provide relationship managers with access to customer, product and revenue KPIs so they can analyse and refine pricing in real time.
- Implement rules to clearly define who to charge, and for what, thereby minimising errors.
- Manage multi-level approvals and exception handling workflows.
- Single, integrated pricing and billing cloud application suite for global businesses.



Amplify experiences with insight driven and customer centric pricing and billing:

- Obtain a complete 360° view of the customer to recognise total customer relationship value.
- Tactically adjust pricing and respond to changes in customer engagement at an individual level. Implement customer specific billing.
- Strengthen customer relationships by offering bundled pricing and discounts.
- Respond to milestones and changes in customer behaviour by making real time pricing decisions.
- Connect key digital business processes from revenue generation, capture, collection and analysis.



ABOUT ORACLE

Oracle has been creating innovative technology for the financial services industry for more than two decades and has worked with more than 550 customers in 135 countries. Today the world's top 20 banks leverage Oracle products. More than 2,000 IT organisations partner with Oracle to develop, implement and support Oracle's solutions.

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