Agile Technology:
The Key to Consumer Duty Success

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Forward thinking lenders don't see Consumer Duty as another regulatory burden. They are building it into their development of origination and customer management solutions, seizing the opportunity to build a reputation of trust with their customers and to grow their businesses.

INTRODUCTION

“Effective engagement and communication with customers, through all channels they use, is at the heart of Consumer Duty.”

Consumer Duty places the interests of the customer front and centre of lenders’ thinking. Some may say this was always the case, but the Regulator clearly thinks differently, asking firms to address the question:

“Am I treating my customers as I would expect to be treated in their circumstances?”

This has implications throughout the business. From marketing to product and process design, to third-party management, to staff training, to management information and more, the objective remains to ensure that credit assessment is fast but comprehensive. This means taking account of all available information to ensure the right outcome for the customer. It includes not only consideration of credit worthiness and affordability but also providing the right product to suit the customers purposes. By doing this we ensure that the Consumer Duty obligations are pillars of the approval process.

Effective engagement and communication with customers, through all channels, is at the heart of Consumer Duty. Being an “outcome-based” regulation, interpretations of Consumer Duty change as experience develops, which many see as adding to the regulatory burden. The less obvious advantage is that fleet-of-foot businesses can quickly develop new and innovative ways to deliver better outcomes. Flexible systems become competitive enablers.

Origination and decisioning solutions designed to control cost and risk through automation are the mechanism for building great customer relationships at the outset, while also improving customer retention.

In this new environment, the financing of auto loan applications is transformed from a bureaucratic process to positive customer experiences either via direct applications or via partners such as brokers, car retailers, and agents.

KYCN - Know Your Customer's Needs

Know Your Customer is a pillar of managing risk in lending, but Knowing Your Customer's Needs is the cornerstone of Consumer Duty. A complete picture of the customer can be built from many sources of data.

Traditional credit bureaus offer rich data on a customer's credit history and performance. Using bureau data is already a given. But the credit environment is constantly changing. Both new sources of information and new analytical techniques are being developed.

For example, the boom in Buy Now, Pay Later meant credit bureaus have had to rethink how information is kept relevant and up to date. The evolving data landscape needs to be integrated into the view of the customer, without the cost and time to implement hindering the business's ability to adapt.

Open Banking offers deep insights into a customer's ability to afford repayments – it is becoming a highly relevant Consumer Duty data option. However, the benefits come with the potential to increase friction during the customer journey. This friction can be minimised with the right design and technology to streamline Open Banking consent and data access and improve the customer journey by replacing lengthy income/expenditure questions.

Customers also need to trust that their data will be used responsibly and for their benefit. Effective communication backed by good processes helps get the maximum benefit from Open Banking.

Credit bureaus and Open Banking intermediaries derive views of Open Banking data that are valuable, but there will always be lender-specific data preferences. Data providers can create data views tailored to the business at a cost, but much greater power arises from leveraging your own data into your own solution. Combining data across providers is also useful. For example, credit bureaus supply a view of (most of) a customer's credit commitments, while Open Banking shows income and overall outgoings.

How much more powerful is it to be able to understand that an existing loan may be coming to the end of its term, enhancing the affordability calculation, or to understand if a customer makes minimum payments on their credit card by necessity versus not being careful with their money? Ongoing, cost-effective implementation of these analytical insights, or building a better customer view (to spot mutually beneficial lending opportunities or to identify individuals at risk), requires technology choices that won't hamper the business.

Ask them - tell them

The smoothest customer journey is achieved by asking for minimal information – name, address, date of birth and loan details. For some businesses this may be enough but not for most. For example, information on dependents and household income may be needed to improve affordability assessment, or existing customer information may allow the application process to be streamlined. One thing is for certain, that the interaction with the customer needs to be able to evolve to meet both their needs and the business's.

Equally important is a two-way dialogue and not just information capture followed by a decision. To feel in control, the customer needs to understand why information is being requested, to be given options for their loan or repayment schedule, to understand progress, to know whether commission payments are made and even, if they can't be given a loan, to understand why.

Give the customer Options

A traditional decisioning process assesses customer risk and affordability then makes an accept-in-principle decision for the terms requested by the customer. The intervention of an underwriter may include direct contact and some negotiation over the loan and terms, or clarification of details. This is a costly process and slows or prevents systematically offering the right deal for the customer.

Flexible systems can be configured to not just decision on the requested terms but to use the breadth of data available to offer alternative or additional finance product options. Possible examples are;

- Assess whether a loan is affordable over a shorter term resulting in lower overall interest payments in total – the customer may prefer this option
- Offer a longer term if the requested term looks unaffordable
- Add a section to the loan calculator that compares loan repayments for different terms or deposit amounts – highlighting the differences so the customer can see what is best for them
- If your car retailer introducer has sophisticated stock management in place offer an alternative vehicle if the original choice is not affordable or inappropriate
- Build an overall cost of ownership into the affordability calculations to ensure the customer can handle both repayments and expected expenditure on the vehicle – surface this to the customer as a value-add. In some cases the predicted overall cost of ownership may show a reduction in the monthly outlay – for example, the new car is more economic than the previous one, the insurance is lower or the RFL is lower.
- Start the process with affordability instead of the loan amount / vehicle and present vehicle options

These options and more have the potential to put the customer in greater control. Efficiency of implementation and change will be critical in developing and testing product and offer opportunities for both customer and lender during origination and in-life.

Don't be hasty

A common source of mistrust arises from the pressure that some borrowers can feel to sign up for a vehicle and associated loan. Allowing a break in the process, giving the customer time to think about the deal, addresses this and clearly demonstrates Consumer Duty. Capturing how the customer responds to this through the decisioning system also provides future evidence to protect the lender against spurious claims.

For example, the customer can be given the option to pause their application at any time and be provided with a link to restart within a given timescale. Building on the idea of offering alternatives, this could include keeping an application live if it would otherwise have been declined to give the customer the opportunity to find an alternative vehicle if what they want initially is unaffordable.

This pause and restart process needs to be seamless and is best delivered through a system that fully integrates the front-end with decisioning and customer communications to make implementation and change easy.

Providing clear information so that the customer understands their borrowing commitment fails its objective if customers ignore it. Lenders may choose to track whether enough time has been taken to read and understand that information and prompt the customer before allowing them to proceed, evidencing that they have been acting in good faith.

Say "No" Better

Good customer treatment is needed for everyone, not just those applicants to whom an offer of finance is made. The proportion of applications declined varies across businesses and is determined by several factors, but what is the best way to handle declined customers? By providing them with information and opportunity.

No one likes to be declined. It is worse if the customer doesn't understand why. Setting up the decisioning to surface key reasons for a decline decision will go some way to mitigating this. It may even provide information that enables the customer to improve their chances of getting a loan in the future. Doing this at the close of the application process can also save on resource in dealing with complaints and queries.

If the application is borderline look for ways to make an alternative offer, provided it is still in the interests of the customer.

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Be transparent

As we write this, transparency on commission payments is an area of lively debate. The clear requirement that a commission payment must be declared (but not the amount, unless the customer asks) highlights information rarely made explicit to consumers and is likely to create dissatisfaction if they don't understand the value of the process and service. Explaining the commission and capturing that disclosure has taken place is hugely valuable – "evidencing" is key.

Having a digital system capable of quickly implementing and amending commission strategies, tailoring them to different broker or retailer groups, while also delivering the right messages to customers, will be part of keeping the partners on side whilst at the same time meeting Consumer Duty obligations.

The loan interest rate is also a contentious area when it comes to transparency. The FCA previously removed the ability for an introducer to influence the rate charged ensuring the funder was in total control of the rate offered, leading to fixed rates becoming more predominant. A fixed interest rate offers simplicity, with websites and other means of marketing finance being able to promote this fixed interest rate without so many caveats.

However, there are drawbacks. The fixed rate for all customers covers a wide spectrum of credit worthiness. "Adverse selection" becomes an issue where the savvy borrower applies for a loan independent of the car retailer. The lender doesn't get the opportunity to write the business and is left with a poorer quality portfolio than desired for the fixed rate.

To address this, more funders are going down the route of "rate for risk", matching the interest rate to a customer's credit profile, including those serving non-prime sectors. However, this is more difficult when discussing the car purchase and a budget, as until the customer applies for credit, the actual rate is unknown. Using sophisticated technology to deliver the right customer interaction and decisioning process, with flexible application screens and soft searches at credit bureaus, makes this as painless as possible for both the customer and the retailer.

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Both pricing alternatives can tick the box of consistency and transparency. Both need credit decisioning that is quick, comprehensive, surfacing clear communication to customers so that they are more comfortable with the process, and more likely to return to that introducer and/or funder. So, using technology that embraces Consumer Duty is a win-win for all parties.

From a marketing perspective, it is also important that systems have the ability and agility to accommodate initiatives that support an OEM wishing to offer a subsidised customer interest rate via their own captive finance company. It is key that rate changes are able to be made very quickly to react to competitor activity or market conditions. Equally franchise and independent car retailers may wish to subsidise the interest rate for a selection, or all of their stock, again with the minimum of administration work to be quickly brought to market.

The system also then needs to be able to calculate and collect subsidy payments from the OEM or car retailer. These marketing led promotions are transparent and consistent as again they are available to all eligible customers so this helps with Consumer Duty in mind.

THE CUSTOMER PERSPECTIVE

Don’t forget about the customer when the deal is done

Once the application has been completed and loan paid out, don’t forget to capture the good experience that the customer has had with you. This is when the hard work of optimising the customer journey starts to show results. It will also allow you to learn where things still have the potential to be improved, and again capture the responses for future evidence if required.

Proactively ask customers;

- Did they have the time/opportunity to understand what they were offered?
- Were they told that commission would be earned for the introduction to the funder?
- Did they have adequate explanation of the finance products available and matched to their requirements?
- Were they unhappy or unsure about any part of the process?

Such meaningful feedback can be difficult to get but taking a marketing approach to drive customer engagement within an integrated solution will improve response rates.

Virtuous circle – look & learn

Consumer Duty obligations will not be achieved with a one-off change. Guidance which is outcomes-based and not prescriptive means there is no single right answer. Success depends on the right outcomes, so the business has to be prepared to adapt as these are monitored. Initially, new processes or strategies must be tested and adapted to meet objectives. Over time, even if the initial changes for Consumer Duty have the desired impact, outcomes will shift for many reasons including product changes, market conditions and consumer behaviour. Also, the regulatory view on acceptable outcomes can change in response to consumer feedback.

A business will demonstrate that it recognises these issues and is prepared for them by having comprehensive Management Information, visible at the highest levels in the organisation where accountability to the Regulator lies. The MI will cover the diversity of the lending operation from pay out speed and take up rates, to loan performance, customer feedback and other aspects in between.

Whilst it is the norm to source data for the MI from multiple sources, this can mirror the challenges of working with different systems and components being used to build the overall solution, not least, having to update MI feeds and reports as core system changes are made. Extracting and surfacing information from a fully integrated solution makes ongoing maintenance a simpler proposition.

When it comes to using the intelligence from the MI to improve strategy and process, that same integrated solution will deliver speed of change that shows the business is able to react quickly to consumer issues.

Bang for buck

Underwriters reviewing loan applications or dealing with customers are a significant cost to the business. Manual intervention also means a longer time to pay out, reduction in take up rate and lack of scalability. In the context of Consumer Duty, it leads to a poorer consumer experience because of delay, inconsistent communication with the customer and less consistent decisions.

How should the case management resource be allocated to be proportionate to the needs of the business and how can it improve the customer journey? In a nutshell, by automating the journey as much as possible and using people only where they add value. As a positive by-product this offers the benefits of skills development for agents or underwriters.

However, digitalising an existing process as-is without redesign is unlikely to achieve this. Even with abundant MI to define new strategy and rules there will always be scope for improvement and response to ongoing change.

Migrating process from manual to automated decisioning is part of the virtuous circle, using MI to understand where value is added and identifying segments of applicants or rules that can be removed from the manual environment. That migration is simplified if the control of manual and automated processes, together with the data, is held within a single integrated system rather than multiple systems that aren't designed to work together.

Incremental improvement

Even with the best teams managing product and risk, any process design will have room for improvement. Overlay Consumer Duty, where outcomes-based regulation leaves scope for interpretation, and the need for change will be ever present. Not all changes have to be large scale though. Taking a leaf from elite athletes, small incremental changes can lead to superior performance. The changes can be driven by analysis or by new ideas tested through champion challenger, all with the objective of improving customer outcomes and the customer journey. This analysis and review of current practices is part of what the FCA will be looking at in terms of Consumer Duty and shows that a firm is fully engaged and bought into the process of improving customer outcomes.

Practically, the technology used can be a constraint on how efficiently incremental change can be managed. With traditional solutions the time and cost involved can either delay implementation, as changes are forced to be batched up or, in the worst case, prevent the changes going into production at all. Either way the business suffers by facing hurdles to change and innovation.

A key benchmark for delivering constant improvement is therefore the speed at which change can be delivered. The more fragmented the origination solution, the more difficult it is to achieve the speed to lead.

Conclusion

Outcomes driven Consumer Duty obligations are creating a further driver of constant change for lenders. Managing this whilst trying to grow through innovation, while not scaling costs requires a modern decisioning and customer management platform designed to meet these challenges.

The platform must be

- Agile – supporting rapid change both at the level of major strategic initiatives and at the tactical level for granular improvement
- Composable – flexibly integrating all decisioning, processing and flows of data by design
- Empowering – allowing client staff to fully control the solution without reliance on external support

To explore how agile technology can help you meet your ongoing Consumer Duty obligations please contact

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ABOUT ZOOT

For over 32 years, Zoot has been a global provider of advanced origination, acquisition, and decision management solutions.

Our customer-centric tools and services enable Zoot's clients to add value and differentiation, while providing nimble, scalable solutions for specific business objectives. A leader in the fintech industry, Zoot's cloud based secure processing environment delivers millisecond real time decisions accessing hundreds of cutting-edge data sources to help reduce risk and increase conversions. Our international client base includes major financial institutions, retailers and payment providers.

Zoot are the first and only provider in the industry to empower banks and specialist lenders with full control over the end-to-end origination platform. Zoot's new-generation lending solution gives clients full control of all data, decisioning, workflow and loan offer management in an integrated package, enabling unrivalled time to market and cost savings. Every component of our lending solution is customisable by our customers through a low-code interface to rapidly address specific needs.

ABOUT PETER COTTLE

With over 45 years' experience in automotive finance Peter is a well-respected industry expert. He has held commercial leadership roles in Lombard and Bank of Scotland with responsibility for a number of OEM and retailer relationships, included Managing Director of Jaguar Cars Finance and PSA Finance. Peter is a former Chairman of the FLA Motor Division, serving on their board for 6 years. He is an active participant in industry initiatives to which he brings deep product, sales, compliance, and risk insights. He is currently a Consulting Director with Finativ.