

# Harnessing innovation to lead the bionic lending revolution

Finding an identity that thrives in bionic environments of digital prowess, human ingenuity, and strategic purpose

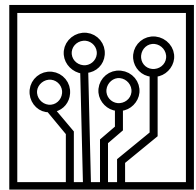


# The environment around lending has experienced aggressive and substantial change and lenders have a significant opportunity

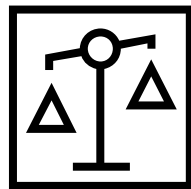
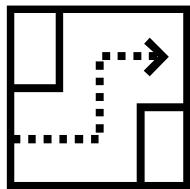


## Change

Lending is changing. Consumer preferences are changing. Technology is moving faster than ever.

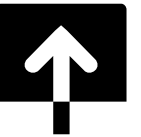


*Some see threats, we see opportunity!*



## Opportunity

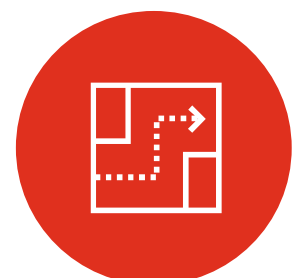
- **Learn** and follow in the **footsteps** of very successful companies that experienced similar disruption in **other industries**
- **Get proactive!** The right framework is essential...



Strategize



Modernize



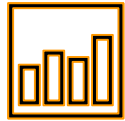
Optimize

With early signs of **fundamental change** on the horizon, transformation requires a new and **revolutionary** way of thinking

# Overview



**Lessons in transformation from other industries** and technologies



Early signs of substantial and aggressive **changes in lending**



A new way to think about transformation: **PwC's Bionic Lending Concept**



Framework to thrive in bionic environments: **Strategize, Modernize, Optimize**

**Why** is this important?

We are beginning to see early signs of aggressive change and disruption across consumer lending asset classes and lenders must adapt to compete

The word cloud features the following terms in various sizes and colors (orange, red, pink, yellow):

- Hyper-focused specialty lending
- Lender-fintech partnerships
- Vertical integration
- Blockchain
- AI
- Networking
- Machine Learning
- Self-driving cars
- New engagement models
- Subscription models
- Innovation
- Strategy
- Customized
- Ecosystems
- Alternative Data
- iBuyers
- Consumer-focused
- Shared Equity
- Member networks
- Realtor disruption
- Industry convergence
- Lifestyle communities
- Smart homes
- Product innovation
- Income Share Agreements
- Advanced analytics

...and our industry is not immune to the power of innovation around us by forces internal and external. There will be winners and losers



A lesson in transformation from the music industry...

### WHAT was the problem?



Customer tastes were evolving

But the industry wasn't



*There had to be a better way.*

### WHAT they understood



We have the technology...we can rebuild the experience

People want to share, collaborate, & own



### Big Tech's **resources**



### Big Tech's **value proposition**

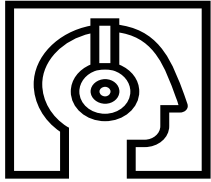
1000 songs in your pocket!

Buy one-at-a-time; be a DJ

Artists can benefit



...and our industry is not immune to the power of innovation around us by forces internal and external. There will be winners and losers



A lesson in transformation from the music industry...

Many early disruptors (think Napster) failed but big tech learned and evolved in order to dominate

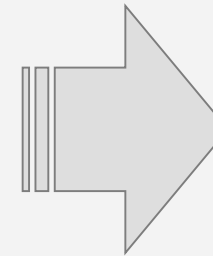


## HOW did big tech take over the music industry?

They did not 'reinvent music' - they focused on their internal strengths & leveraged existing capabilities (phones & music) to deliver a better experience.

## The Result?

What was once isolated, product-driven, and time-consuming...



Has become collaborative, experience-based, and on-demand.





# Future leaders in consumer finance should seek the light of inspiration from across industries

The traditional interaction model has evolved in every facet of consumers' day-to-day lives.

Think how easy it is to to:

- Book a flight
- Hail a ride
- Get one-stop-shopping
- Buy a cup of coffee
- Order a pizza



Air travel



Ridesharing



Shopping



Buying Coffee



Home Management



Ordering Pizza

**Consumers have gravitated to companies that deliver the best experience – regardless of who traditionally provided the service.** We anticipate the same dynamics will dramatically change the consumer finance industry.

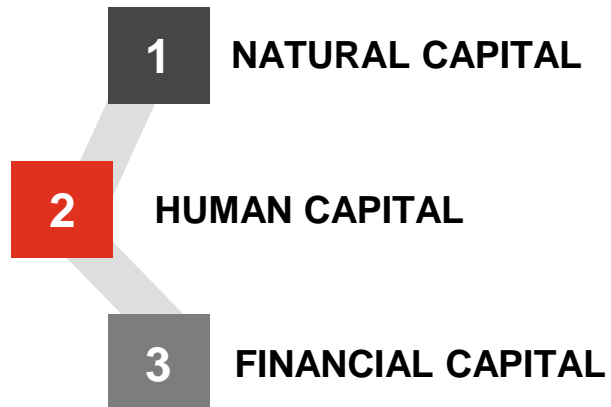
What does it mean to be  
**bionic**?

At the highest level, bionic refers to the optimal mix of humans and machines working together to achieve rapid, exponential success

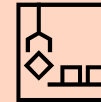
### The bionic enterprise

There are probably 100 companies around the world that are known for rapid, exponential success (e.g., Amazon, Apple, Google). We think of them as **bionic enterprises**:

Success has long been driven by management of **three long-standing forms of capital**:



### The 4th industrial revolution



The secret to success in today's new industrial revolution lies in **three new forms of capital**:

BEHAVIOR CAPITAL

4

COGNITIVE CAPITAL

5

NETWORK CAPITAL

6



How can a lender become  
a **bionic lending**  
enterprise?

Find an identity that thrives in bionic environments using this framework and approach:



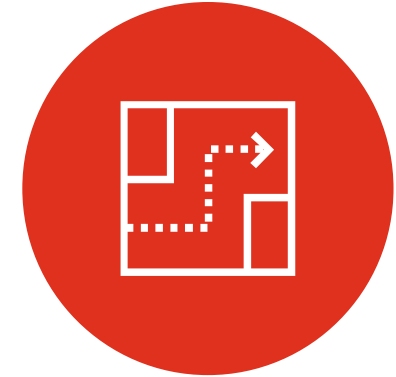
## **STRATEGIZE**

Define your enterprise-wide vision



## **MODERNIZE**

Embrace modern tactics and technology to support your vision



## **OPTIMIZE**

Adopt an intelligent automation approach to support scalable, sustainable change



# STRATEGIZE

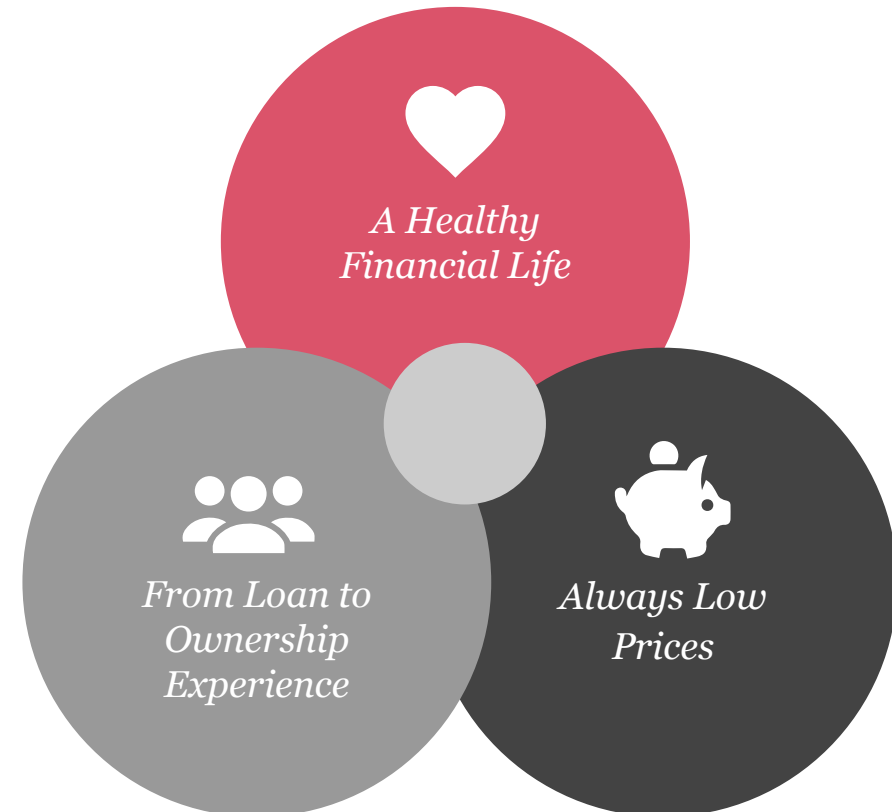
Change your mindset -  
focus on **users** and  
**ecosystems**, not  
products

In order to be a bionic lender, you must take a step back and define an enterprise-wide strategy and vision

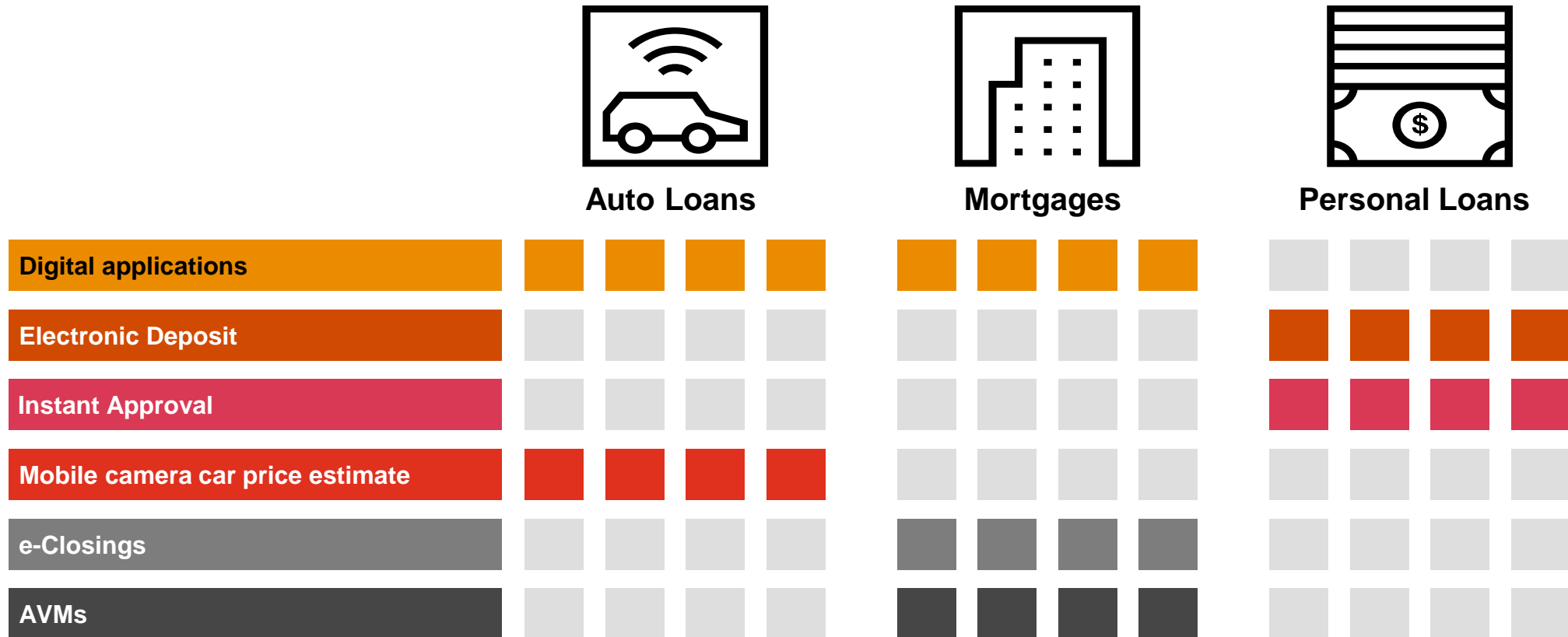
## 🎯 Your Vision

- Define what being best means
- Understand that you cannot be the best for every customer segment
- Choose a lending ecosystem
- Define your desired competitive advantages
- Develop a cohesive, enterprise-wide strategy and vision that will **thrive in bionic environments**

**Lenders are examining key ecosystems that we believe are key engines for marketplace growth**



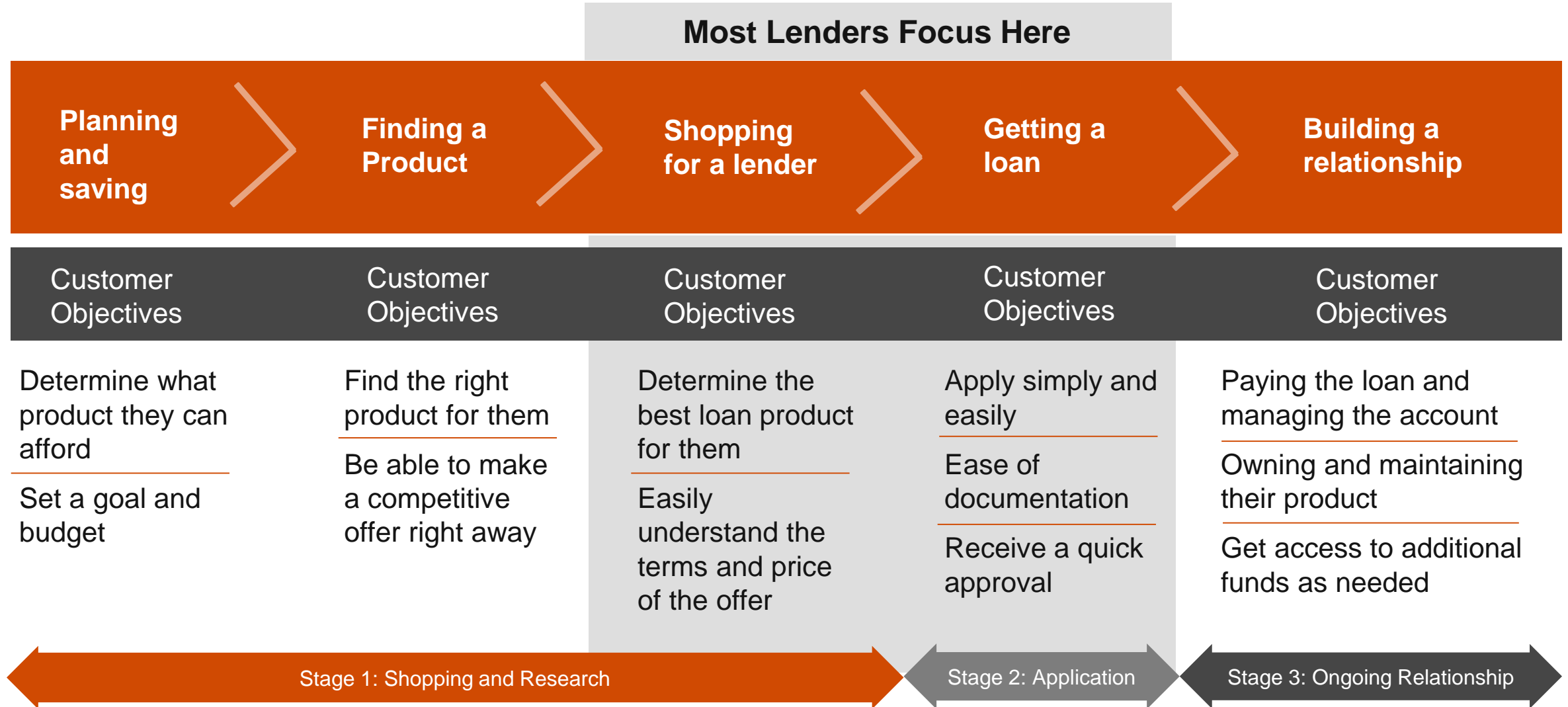
Historically, both bank and non-bank lenders have followed a product-based strategy... and invested in innovation to accommodate this approach



Most investments have been aimed at one or two products at a time



In the bionic revolution, however, the focus is now on using innovation to deliver an intuitive, end-to-end user ecosystem and experience that keeps the customer in your orbit

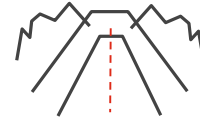




“You've got to start with the customer experience and work back toward the technology - not the other way around.”

- Steve Jobs

Leaders follow a user-centric design approach to innovation where the desired end-to-end experience drives technology decisions



This is how leaders design their technology.

Strategy

Capability



What **experience** should we create?



What do customers **value** from it?



What **business capabilities** deliver on that strategy?



What **enabling technologies** are best suited?

First experience, then solution – but your new mindset must not stop there. The impact of innovative change is pervasive and requires a holistic approach to enable the unique experiences and accelerated business performance intended

Innovation can have significant impacts along the following dimensions of an organization



### **Disruption**

Transforming business through innovative models that don't exist in the market today.



### **Engagement**

Enabling digital interactions between you and your customers in a more engaging, seamless way.



### **Efficiency**

Digitizing processes to improve employee productivity, supplier interaction, and customer satisfaction.



### **Trust**

Ensuring secure information in a digital age to inspire trust by your customers.

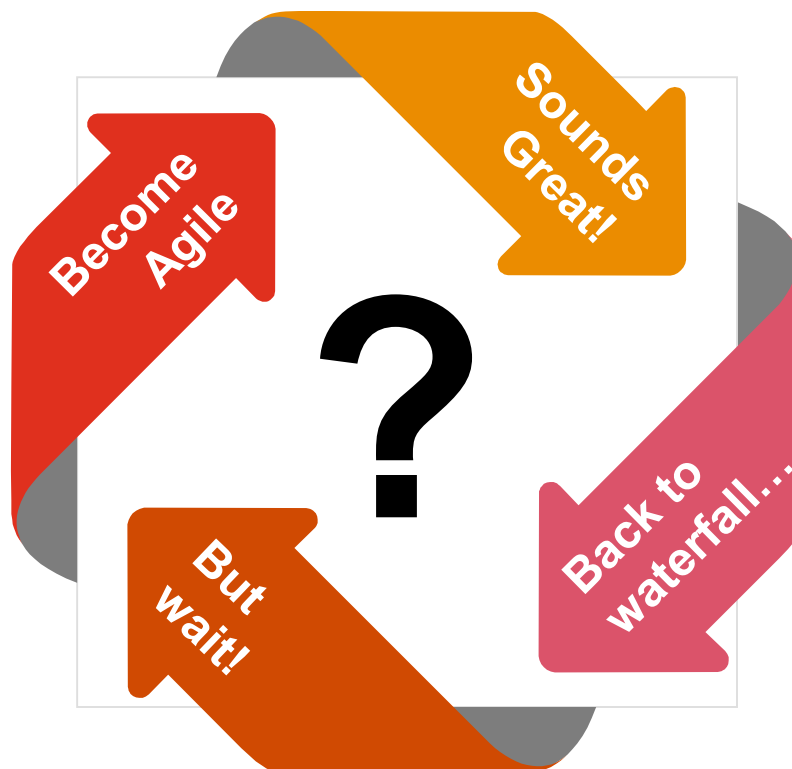


# MODERNIZE

Embrace modern innovation  
**tactics** that focus on delivery

# Becoming bionic means breaking out of your current cycle and employing a strategy that focuses on delivery

Let's set up agile teams and give them autonomy to move the needle for us!



We need to know what we're building and when it's finished ahead of time

How do we budget projects?  
And our CEO wants to know  
when we launch!

Creating a culture that focuses on the true ROI from innovation activities is key to your transformation objectives...



### Embed KPIs in design

- Include both **quantitative** and **human-centered**



### Choose wisely

- Build a portfolio of projects with varying scores on the **impact vs. risk vs. effort scale**



### Fail fast

- Be 'unemotional' about innovation projects and **take a 'portfolio approach'**

**Shifting organizational culture is critical**

...and requires a new mindset of planning budgets, deadlines, and managing project scope



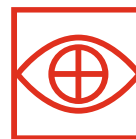
### Waterfall PM - Stick to the Plan

- Agile does not work in its pure form in a corporate structure



### Pure (Startup) Agile - Execute on a vision

- Startups are built to **execute on a vision** and **deliver** in a **sprint by sprint** fashion



### Corporate Agile - Quickly seize an opportunity

- Corporate agile needs to **combine** the sprint-by-sprint **agility** with **planning**

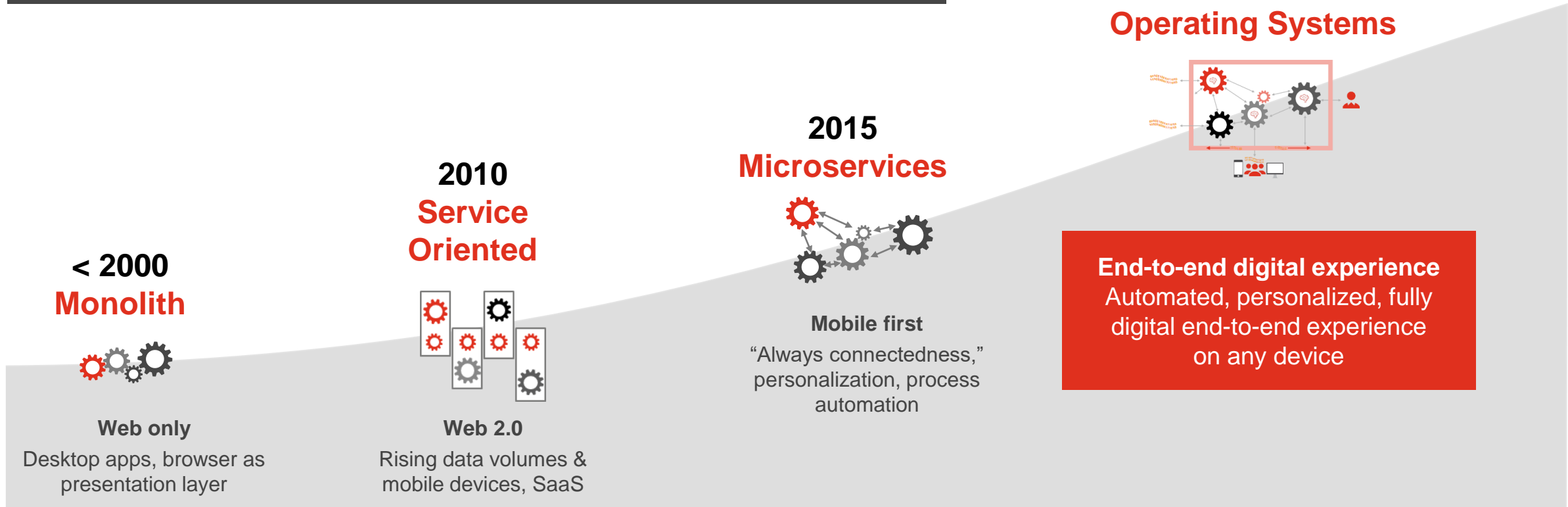
**Adopting a hybrid mindset is required**

Then, embrace the modern  
**technology** to support your  
vision - it's already here



Recent years have seen major technological developments that enable digital lending use cases to drive efficiency and customer empowerment

Being bionic will require investments in the underlying technology components of your system architecture to become data-oriented



One such home lending use case positions lenders as mission control using innovative solutions at critical points in the process to keep the customer in your orbit

A Home Lending Example

Agents & Influencers



Build Relationships

- B2B tools for agents
- B2B2C tools for consumers

Assist real estate agents and other influencers with tools and data to improve operations and trust with consumer

- ✓ More referrals & purchase leads
- ✓ Higher purchase lead conversion

Consumers



Build Trust Early

- Rent-to-Homeownership tools
- Understand finances & plan future

Assist consumers in early phases of the journey—credit improvement, savings, find homes, investment economics

- ✓ Trusted relation, brand awareness
- ✓ High-quality data

Home Ownership & Improvement

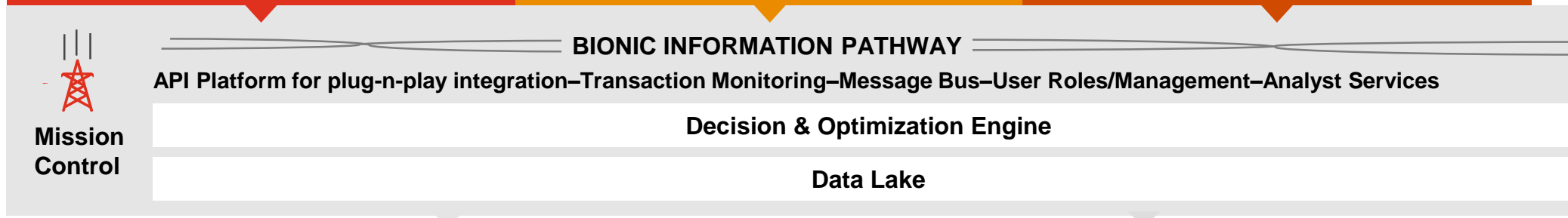


Stay Relevant

- Financial overview & advice
- One-click financing

Partner with home ownership platforms to reach consumers after purchase, manage and improve properties

- ✓ Lasting relation & brand awareness
- ✓ High quality leads for Refi & personal loan



Mission Control

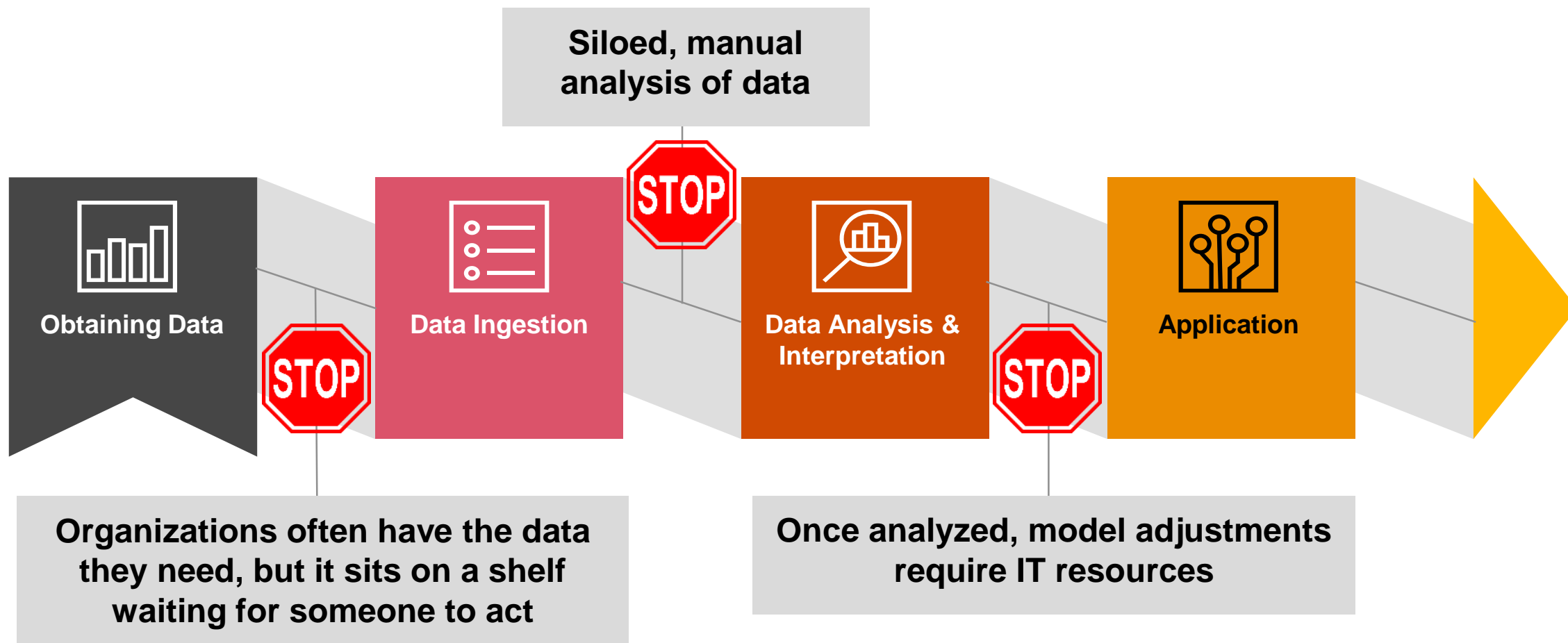


Power End-to-End Consumer Experience across platforms



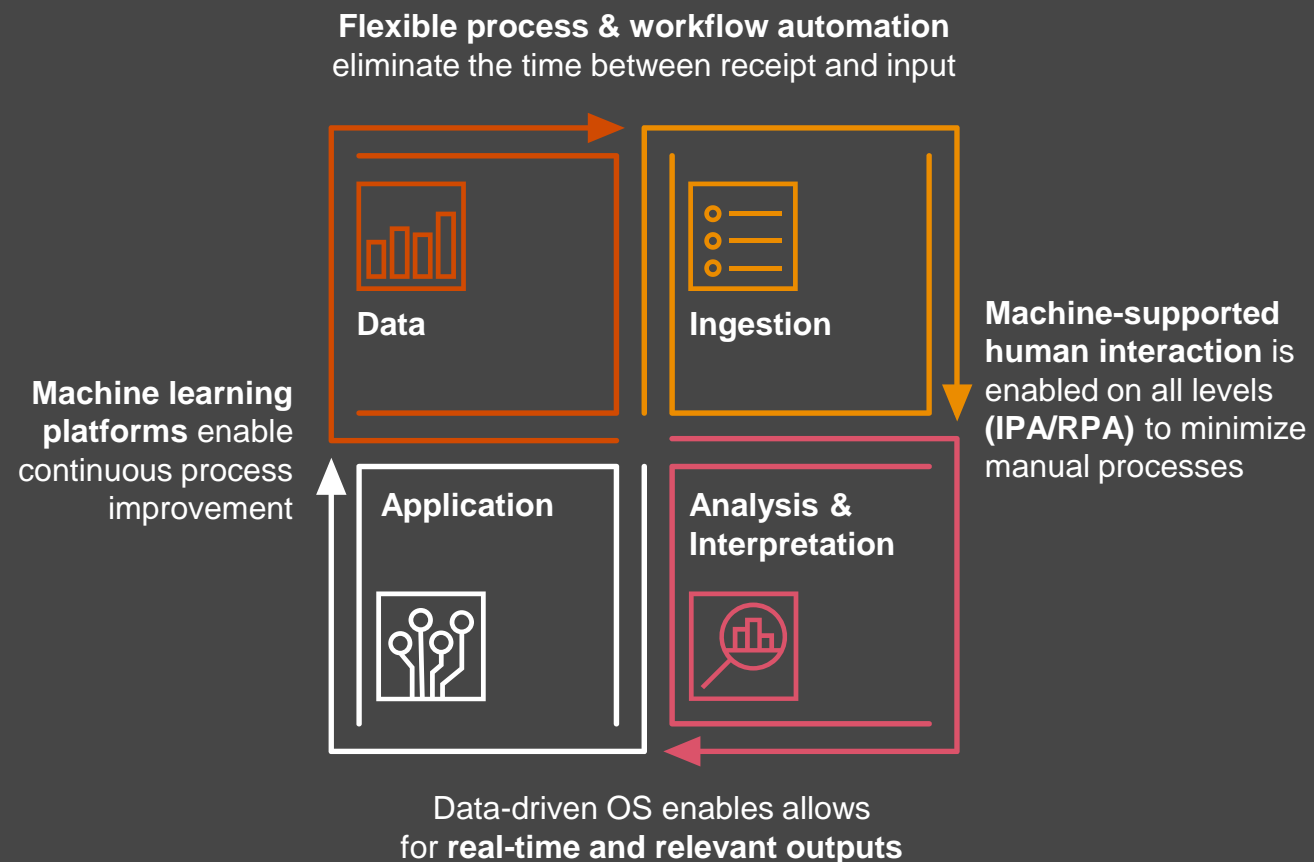
Optimize Processes (e.g. Hotlists, LO next best action, underwriting)

To enable the mission control concept, start by cutting through the traditional, bifurcated method of ingesting, analyzing, and applying data



Instead, create a **bionic information pathway** that will serve as the innovative engine where data ingestion, analysis, and application are *automated* and the insights you need to think beyond the loan are *real-time* and *relevant*.

## BIONIC INFORMATION PATHWAY





# OPTIMIZE

Adopt an **intelligent automation** approach to support scalable, sustainable change



“It is the connection of **insights to operational change** and improvement that make bionic organizations intuitive, agile, and uniquely positioned to dominate entire segments and markets.”

Organizations are maturing past the usage of single tools for process transformation into leveraging multiple computing technologies.

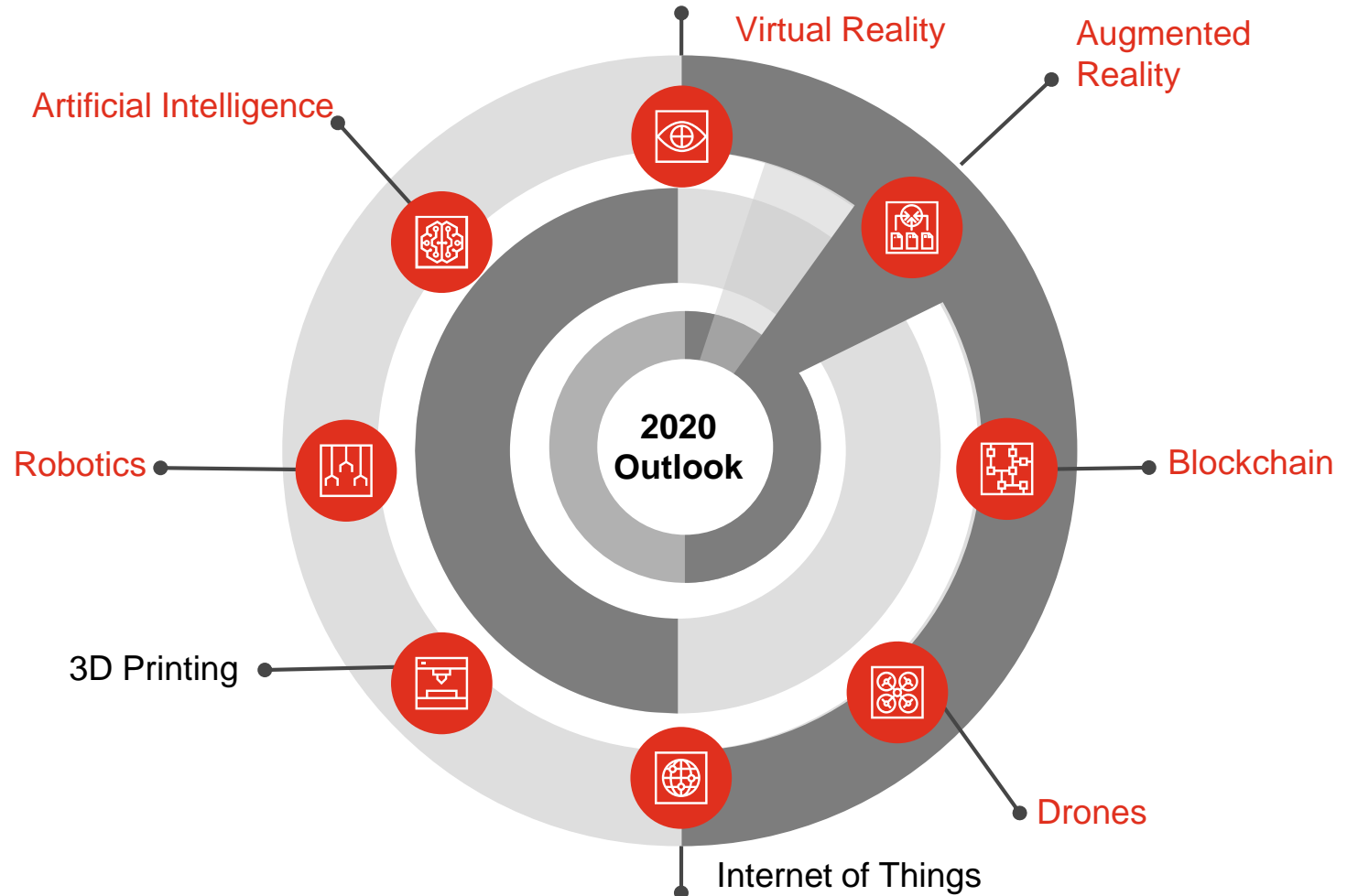
An intelligent automation approach **balances** near-term quick wins (*evolutionary*) with a longer-term capability building (*revolutionary*) that supports future strategy and competitiveness.



# Intelligent automation is not a single tool, but a smart way to integrate emerging technologies into a solution that transforms the way you work

PwC has identified several of these **8 emerging technologies** as those that will have an impact on lending.

- In the future we expect to see:
  - Blockchain-based virtual branches
  - Decentralized transaction management
  - Virtual and augmented reality home tours
  - Site inspections and monitoring using drones
  - A hyper-efficient and intelligent lending process driven by the engines of artificial intelligence





# Don't just automate processes, transform the business

These examples illustrate how emerging technology can create opportunities to increase both efficiency and experience -- two critical components in becoming a bionic lender

## PERSONAL INTERACTION

**Threat:** Borrowers are demanding different standards when it comes to speed, convenience, security, and interaction.

**Threat Level:**

M

**Opportunity Level:**

H

**Opportunity:** Digitize administrative tasks allowing the loan agent to become the customer's "personal advisor".

## VOICE ASSISTANTS

**Threat:** Virtual assistants are being deployed to perform tasks or services for an individual based on verbal commands.

**Threat Level:**

H

**Opportunity Level:**

H

**Opportunity:** Develop virtual assistant technology for borrowers, enabling self-service and the possibility for increased transactions.

## AUTONOMOUS LENDING

**Threat:** Fintechs and/or digitally mature competitors are using emerging technology to automate the lending process.

**Threat Level:**

M

**Opportunity Level:**

M

**Opportunity:** Create fast-lanes for automated processing and streamline "high-touch" processes using AI and machine learning.

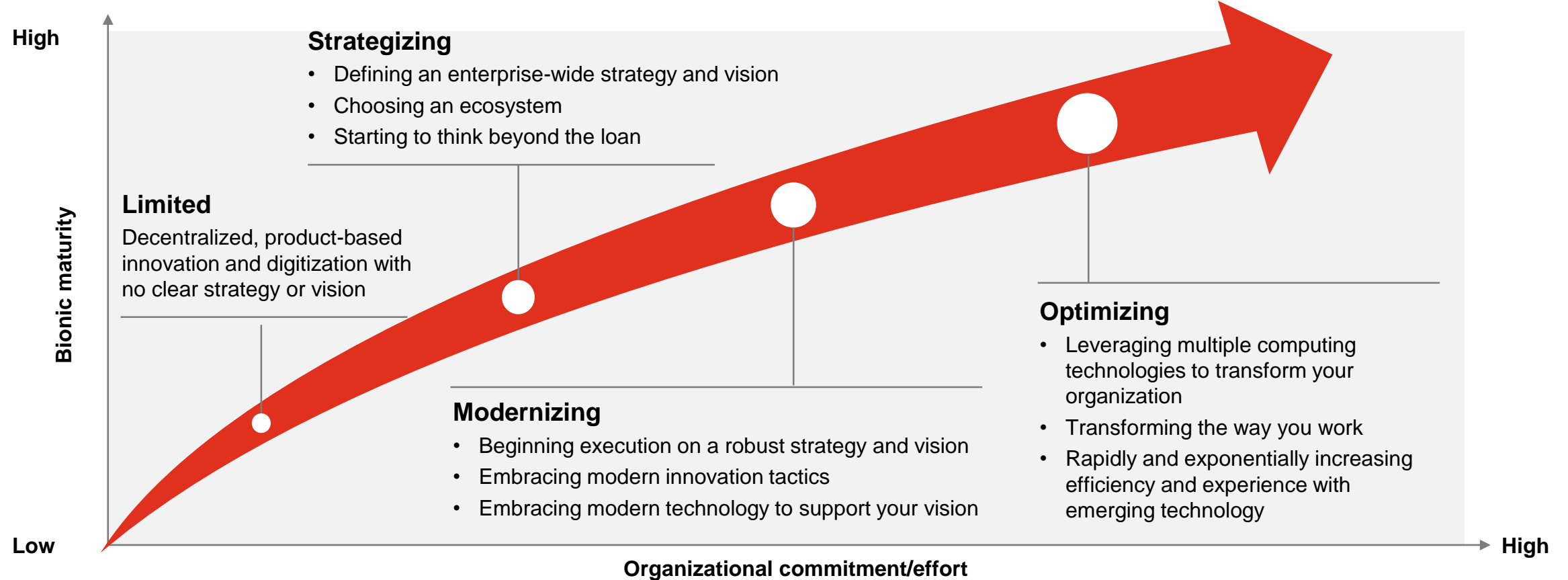


A PwC assessment of a non-bank lender's operations identified potential savings of 30% of the overall cost to originate through digital investments for operations -- \$60,000,000 in savings for this lender.

Where is your  
organization on your  
**digital journey?**

# Where is your organization on your digital journey?

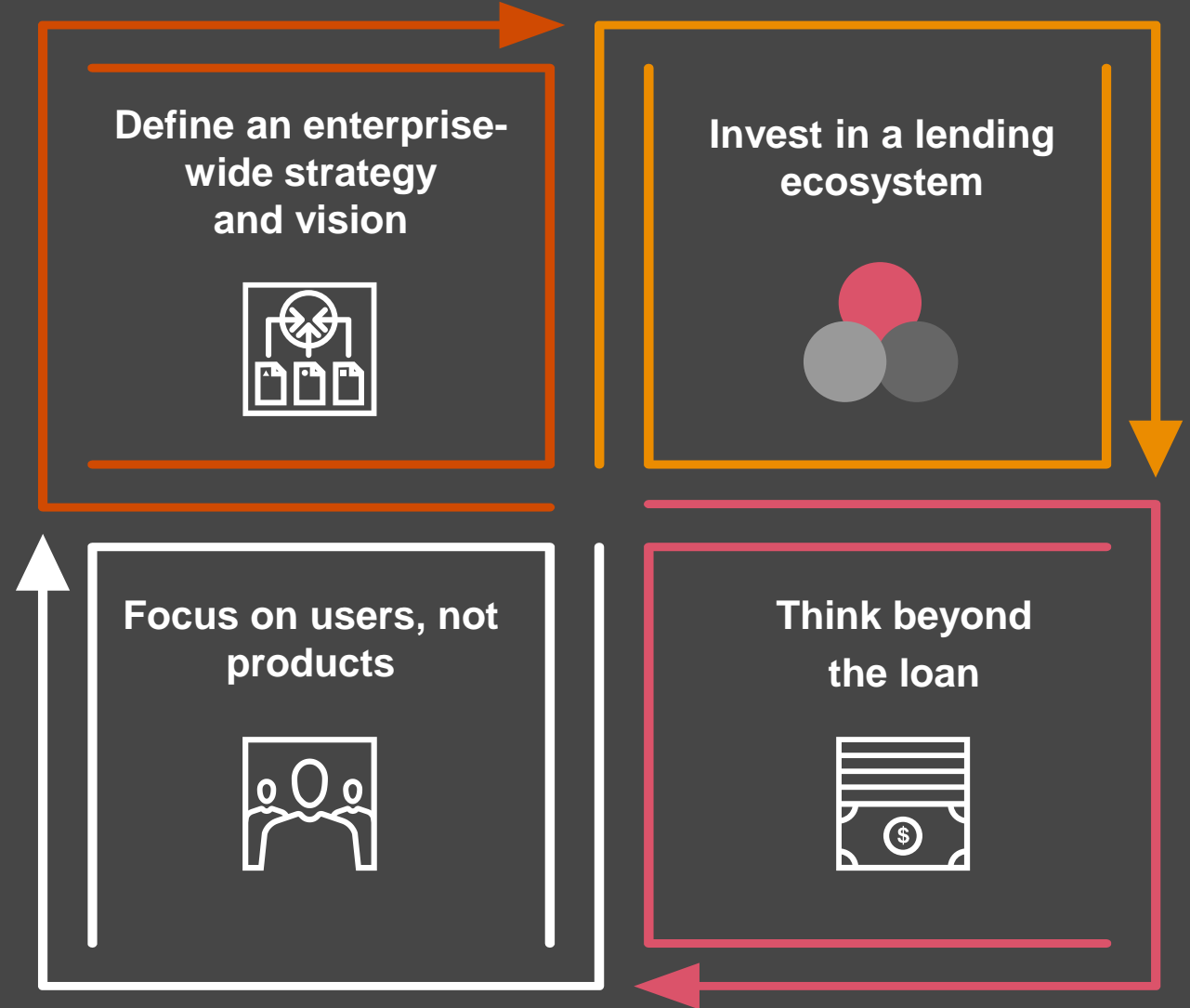
## Illustrative digital maturity model



In **summary**...

# STRATEGIZE

Change your mindset -  
focus on users and ecosystems,  
not products



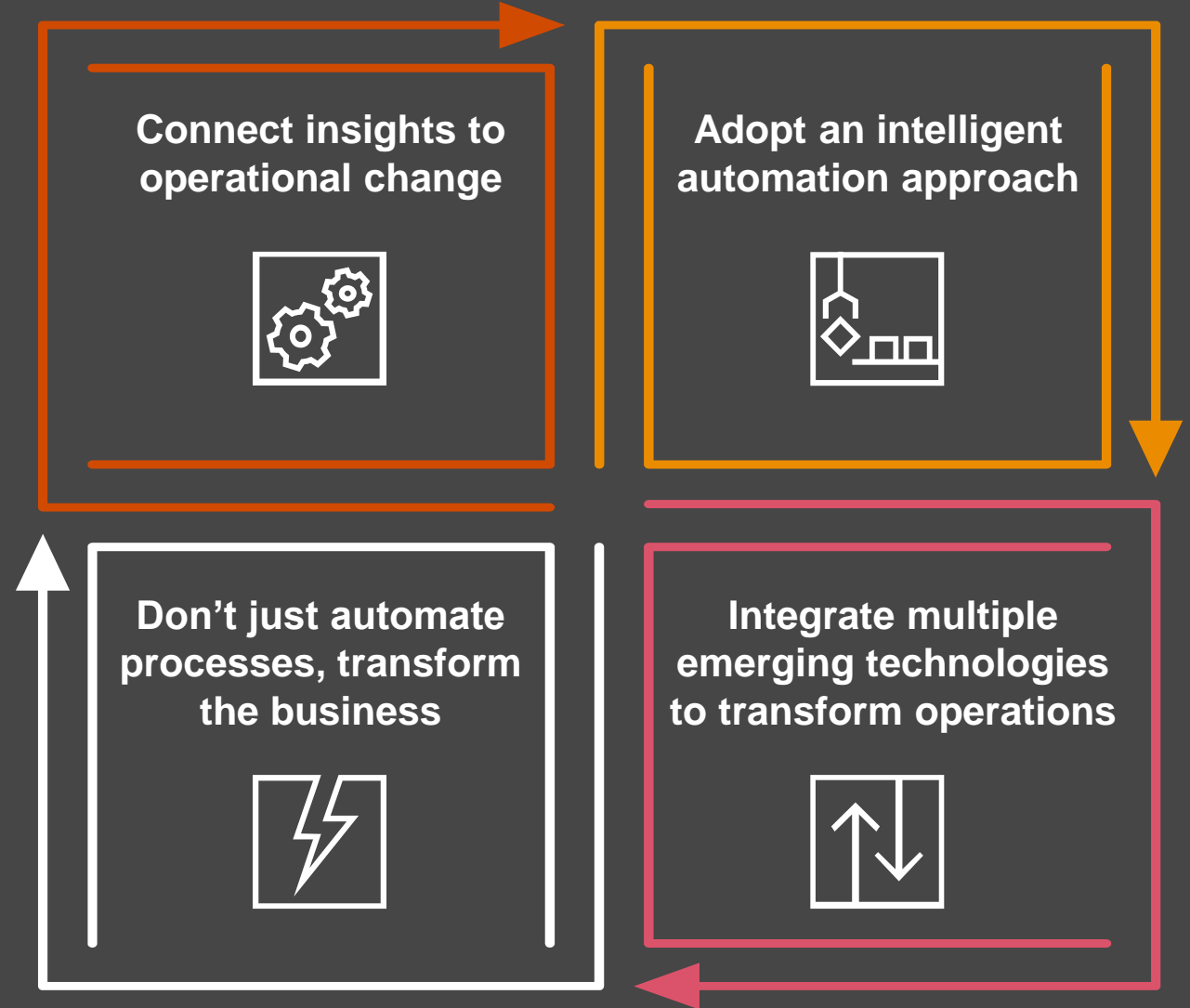
# MODERNIZE

Embrace modern innovation tactics and technology to support your vision



# OPTIMIZE

Adopt an intelligent automation approach to support scalable, sustainable change



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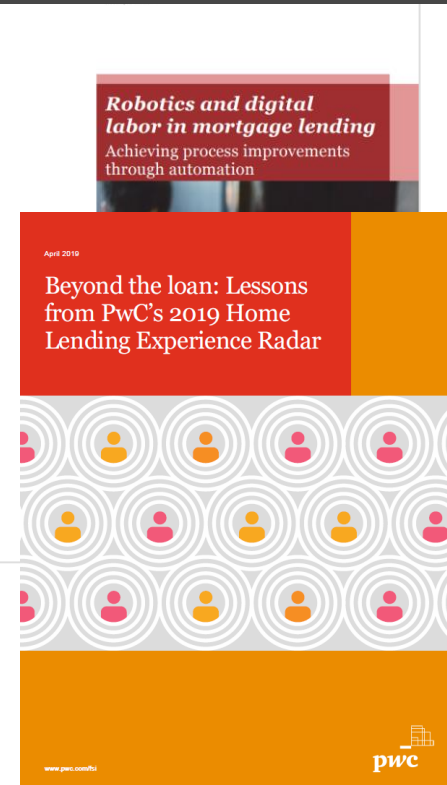
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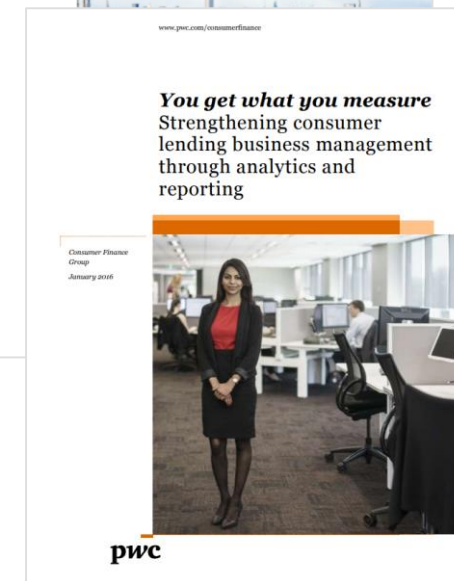
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Find our full-length white papers at  
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**Getting a bang for your digital buck:**  
In consumer lending, "going digital" is no longer enough

How to deliver a positive ROI on your investments in digital lending





# Thank you

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