In partnership with

LEVERAGING TECH AND AUTOMATION IN THE LENDING INDUSTRY

16 November | 09:00 GMT
Bracken House, London

Roundtable

OVERVIEW

Despite inflationary pressures and subsequent rising interest rates, this challenging economic climate has brought many opportunities for financial services, including building societies and other lenders. However, the lending industry is not immune to the prospects of a shrinking economy and the inevitable transition towards digitalisation. Rapid reactions and innovative strategies are needed to build operational resilience and satisfy customers who need a swift and accurate lending experience more than ever.

Building societies, banks and other lending firms are automating many operational processes and utilising emerging technologies such as open APIs and cloud-related tech. Further digitalisation is also helping lenders become more resilient and able to compete with fintech firms. In tandem with emerging trends in tech and automation, lenders must ensure effective risk management when integrating new processes in order to mitigate financial losses and ensure regulatory compliance.

This roundtable, hosted by the Financial Times in partnership with Mambu, brought leaders from lending firms and building societies together to discuss how digitalisation and automation can assist in building operational resilience and becoming more competitive in an increasingly overcrowded market. The roundtable addressed the biggest pain points for mortgage lenders with practical solutions.

1. LEGACY SYSTEMS AND DIFFERENT PRODUCTS:

- For banks, building societies and credit unions, legacy core systems can be decades old and incompatible with newer software, whilst also posing compliance and cybersecurity risks. In inheriting these outdated systems, an appropriate strategy is one that considers both the reliance on the existing core and its capacity to integrate with newer technology, whilst outlining how disruptive complete transformation could be.
- However, the ability to digitally transform to cloud-based platforms is not a binary issue, especially as some problems are more 'bespoke' for some lending companies. An understanding of the limitations of current legacy systems is important in assessing the need for review and transformation.
- If the system is old, that doesn't mean it isn't functional and reimagining back-end systems may not provide significant benefit in this case. It is important that the existing core system can facilitate the launch of new digital products and therein be compatible with cloud APIs. The orchestration and application journey are pressing challenges for many lenders in dealing with multiple systems.
- Incorporating a strategy for core systems that builds functionality whilst creating the capacity to build around it, can better support lenders and allow for compatibility - the ability for old systems to talk with new ones.
- Organisations want to understand where automation capabilities can come from, in growing their data teams to develop a comprehensive understanding of the intrinsic transactions and internal and external behaviours.

> “And we are grappling with a number of challenges. Cultural and technical, in terms of what I inherited was a very, very old set of systems - half of which are out of support. So we are trying to do a dual transformation.”

2. REGULATION:

- Moving away from legacy systems and upgrading technology, generates a number of regulatory compliance issues. Any digital modernisation must be appropriately reported to regulators and points of risk in new systems must be identified. Some are concerned about the cost of ensuring information is standardised with every broker to the letter, and that every point is the same, where a more pragmatic approach to this regulatory compliance could be made possible.
- Some speakers cited a more open dialogue with the Prudential Regulation Authority, in providing better guidance on how to tackle obstacles during transformation. In some cases, this advice was considered more helpful than advice provided by the Financial Conduct Authority.
- Some are concerned with the level of risks managing multiple systems, and the ways that those systems have to be connected, as running multiple APIs into different sourcing systems must be avoided.

“When it comes to the regulators we have a more open dialogue with the PRA which is proving far more helpful than the FCA, and is open to have a pragmatic conversation and guide us in certain ways and tell us where the obstacles are.”

3. RISKS AND CONCLUSIONS:

- Platforms don't generally fail as an application, and the risk instead comes from the underlying technology stack. Operational resilience is an important consideration when it comes to choosing a system. Box failure of on-premise solutions is a notable risk and being able to move to another cloud point is a strong selling point when a technology provider fails. In addition, the ability to run the business on a manual basis is definitely an advantage from a regulatory standpoint.
- Cybersecurity is front-of-mind for lending organisations, with some opting for a 24/7 security operations system partner to constantly screen for general narrative and dark web information on vendors. Some even agreed that it was only possible to be so safe, without an on-site expert.
- Some organisations may rely on existing infrastructure to perform core functions and cannot afford to build a new system from scratch, so building on top of legacy systems may be favourable. Building a completely new system comes with resource constraints, but large changes may need to be made if underlying system capabilities do not comply with new regulations, and open APIs are not compatible with legacy systems.

“I think when you're going through any sort of transformation in reg reporting in your models and your capital models, it's about how you align those. Because you can't just turn one off one day and switch the new one off, you've got to run them in parallel. So there's a lot of, I think, risk around that.”

“So you get those two approaches, which means the platforms don't generally fail as an application. The application still exists. The risk comes more from the underlying technology stack alone.”

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