Can incumbents compete with challenger banks in COVID economy?

In this webinar featuring Julian Hebron, founder of The Basis Point, and Van Vaziri, account executive at Blend, explore the landscape of digital lending as we make our way through the COVID economy.

Overview

- Why COVID economy will make or break banks
- How COVID is changing household behavior toward banking
- How mortgage complexity applies across bank products
- Incumbents vs. challenger banks in COVID economy
- Why digital/human customer care makes your brand

"The fintech-powered incumbent can easily win here. Why? Because they have the full product set ... With the right fintech partner powering you, you're at a great advantage."

Julian Hebron
Founder, The Basis Point

As lenders of all kinds navigate the current challenges, adopting a mix of human and digital elements will be key, according to Vaziri and Hebron. Explore the key takeaways from this intriguing conversation.

1. Why COVID economy will make or break banks

According to the speakers, there are three relatively negative symptoms for which lenders may receive an unfair share of the blame.

General economic pressures
Goldman Sachs predicts a 34% decline in quarter over quarter GDP for Q2 of

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this year, netting out at 5.7% contraction in growth throughout 2020.

Acute employment issues
Unemployment rates spiked to 14.7% in April, while the unemployment-to-population ratio hit a record low of 51.3%. There were around 20.5 million jobs lost in April alone, of which ~88% were “temporary” job losses.

Uneven recovery
As we transition into a period of economic recovery, the expectation is that it will come in “fits and starts” according to Bank of America, driven by the continued evolution of the virus, the trailing wake of the current economic decline, and the unclear efficacy of government-driven stimulus programs.

With stocks and global markets generally improving, consumers may expect that their situations will follow suit. Unfortunately, the “real economy” lags behind, and consumers are still facing relatively dire prospects. The frustration arising from this inconsistency may be directed at lenders.

2. How COVID is changing household behavior toward banking

PayPal’s suite of services have experienced a large increase in new account activation, rising from 3.0-3.9 million in Q1 to 7.4 million in April alone. That’s around 250,000 new accounts added a day.

This is just one example, but it is a useful glimpse into the speed of change that we are experiencing as a result of COVID and the ensuing social changes.

3. How mortgage complexity applies across bank products

According to Hebron, there are four components of mortgage complexity:

- It is emotional
- It requires a high degree of human interaction across the process, whether in person or digitally
- It involves strict regulatory oversight
- It features a number of loss mitigation strategies

These traditional challenges are now being faced by a broader set of consumer banking products:

- Financial strain and economic uncertainty have made every monetary interaction emotional
- Social distancing has increased the need for digital engagement across products
- New regulations intended to support economic recovery are forcing lenders to be nimble
- Economic realities are forcing lenders to rethink loss mitigation across their portfolios

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4. Incumbents vs. challenger banks in COVID economy

Incumbents have something that challengers don't: robust and full product sets. Challengers have something that incumbents don't: native digital capabilities and the capital to support rapid innovation.

COVID has helped mature some challengers into established players, with a core ethos of "the phone is the branch" marked by a differentiated digital engagement strategy.

For those lenders that started with the branch, where to turn?

According to Hebron, powered by a fintech partnership, incumbents can gain the digital agility needed to compete on core challenger feature sets while still maintaining the full product suite that sets them apart.

5. Why digital/human customer care makes your brand

If nothing else, COVID has illuminated the need for increased humanity in our digital interactions. As lenders of all shapes and sizes work to develop their next steps, they can look to services that integrate the personal touch that makes in-person interactions with the ease of purely digital interfaces. Some key features include:

- Speed of completion in purely digital scenarios, when digital help is more difficult to provide
- Seamless transitions between experiences, whether across customer journey stages or across products
- The capability for a human touch through services like co-piloting
- Integrated data verifications and automated document validation
- Secure abilities to sign and deliver when in-person alternatives are not viable
- Intelligent services to automate underwriting and conditioning elements
- A consistent user experience from application to close

Doing so can result in marked improvements:

- Around 4x the number of loans processed during spikes like the refi boom
- 2x increase in self-serve applications
- 40% decrease in time required to submit an application
- 3 days saved with instant pre-approval letters
