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Why retail lending origination excellence is important in Asia



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Across Asia in recent years, consumer demand for credit cards, unsecured loans and mortgages has increased substantially. With positive demographic changes and favourable economic conditions, it is expected this growth will continue at pace.

The need for banks to focus on retail lending origination excellence is not simply an option, but a necessity, if they are to close the gap between growth aspiration and execution readiness. To achieve this, banks need to develop and refine a number of capabilities across the retail lending value chain, thereby fostering revenue growth, cost reduction, higher credit quality and ultimately, profitability.

Based on our analysis of market maturity, we have segmented Asia into three groups. These include: Advanced Asia (Australia, Hong Kong, Japan, Singapore); Maturing Asia (Malaysia, South Korea, Taiwan, Thailand); Emerging Asia (China, India, Indonesia, Philippines).

Strong prospects for growth in Asia Pacific lending

Confidence in retail lending growth is particularly evident in Emerging Asia. This confidence is driven by strong domestic demand, a growing middle class and government policy designed to boost credit availability. Most notably, demand for retail lending is growing faster in comparison with other types of lending in Asia.

In Advanced Asia, increasing consumer sophistication (demonstrated by the rise in foreign purchases and investment in the property market) is driving growth in retail lending, with both unsecured debt and mortgage debt growing at an exceptional rate in 2010.

In contrast, banks in Maturing Asia tend to have a more balanced retail lending portfolio, with greater emphasis on non-mortgage products (for example; personal loans, auto loans).

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Challenges to retail lending growth

To secure rapid and profitable growth in retail lending origination, Asian banks need to address a number of challenges, such as differentiation, pace, scale and regulation.

That is, a lack of differentiation in customer acquisition and product and service innovation is making



it increasingly difficult for banks to meet evolving customer demands and grow revenue per customer. The origination processes also tend to be slow and painful for the customer, which in turn reduces the ability for the sales force to secure swift sales.

Banks in the region also lack scalable platforms to achieve growth. Inadequate technology platforms mean banks cannot achieve significant cost efficiencies and realise optimum economies of scale. Finally, banks often do not have infrastructure that is compliant with the new and emerging regulatory requirements, inhibiting the ability to capture optimum revenue share.

So, from a geographic perspective we believe

In Advanced Asia it will be critical to focus on end-to-end process automation using integrated technology platforms, standardisation of processes via cross product regional factories, investment in advanced segmentation, and analytics to support greater sales force effectiveness.

In Maturing Asia it will be critical to develop a ‘customer origination’ mindset and empower a skilled sales workforce. They must simplify legacy business processes, introduce automated credit decision-making, and improve credit monitoring to enhance end-to-end profitability.

In Emerging Asia it will be critical to focus on process control, the development of simple sales tools, sales force product education and pricing. They must also improve credit risk management in order to achieve rapid and scalable growth.

Lend me that money!