



Algorithms: Loan Approval Efficiency Vs. Customer Sentiment

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Summary: Algorithms are becoming a mainstay in loan approval processes, but studies show that interaction with tech doesn't do much for customer satisfaction. Overcoming this challenge might involve CFIs adding back a dash of what they do best into their automated processes: the human touch. We discuss how this can be accomplished.

In his spoof of the self-help genre, comedian (and former US Senator) Al Franken created the cardigan-wearing "Saturday Night Live" character Stuart Smalley. Each skit with Smalley starts with him staring in a mirror and saying, *"I'm good enough, I'm smart enough, and doggone it, people like me."*

Like Stuart Smalley, we all seem to need validation. That characteristic can play a role in how customers feel about automation and algorithms. Increasingly, community financial institutions (CFIs) use algorithms to make decisions like approving loans or opening accounts. Those algorithms have been a boon to both CFI and customer efficiency. But the lack of human interaction can be problematic in unexpected ways when it comes to customer sentiment.

Algorithms and Emotion

A Wharton Business School study found that when people get a favorable decision on a loan application, they tend to [feel better if the decision comes from a person](#) rather than an algorithm. But when the result is unfavorable, customers are equally unhappy whether the decision was rendered by a person or a machine.

Algorithms — even if they yield satisfactory results — don't have the ability to make customers happy, according to this study. That's an important quality to consider when deploying algorithms and suggests the need for humanizing the process to gain higher satisfaction levels when approving loans or other actions.

The Arbitration Theory

The researchers attributed their surprising finding to something called arbitration theory. In essence, people need to feel good about themselves, so they attribute positive news to their own actions. It's easier for a loan applicant to think they made a good impression on a loan officer than on a robot. This discrepancy in customer satisfaction between personal interactions and algorithms complicates matters when it comes to using technology and automation for efficient service and decisions.

Overcoming Arbitration Bias

Although algorithms can't increase customer satisfaction, they can make many processes easier and faster for your CFI. To use automated processes less often would put the burden back on staff, and your institution's efficiency could take a hit as well. How can a CFI overcome this inherent bias toward human interaction over algorithms without sacrificing the benefits of technology? The key is to add a human touch to automated approvals. Here are two methods you might want to consider.

1. **Deploy artificial intelligence to make the digital experience more personable.** The Wharton study referenced a test in which applications to a country club were approved by three different methods: a person, a standard algorithm, and an algorithm designed to be more like a person, including giving the algorithm a name. People were least happy when the approval came from a cold algorithm. But their satisfaction level was about equally more positive when dealing with a person or with a more humanized algorithm.
2. **Use more people in the loan approval process.** A CFI might simply have its business loan officers monitor applications and be prepared to jump into the process before approval. Another option is to have the algorithms prequalify candidates and leave the final decision to a loan officer. You could also choose to leave your process as-is, but follow up the automation with a human interaction, like a phone call or an email.

Although algorithms have clearly improved processes for CFIs, it's not surprising that a robot doesn't do much for customer satisfaction. To overcome that situation and retain the efficiency gained by using technology like automated loan approvals, CFIs will need to fall back on their historical strength of providing a personal touch. What this looks like for your institution depends on your CFI's unique capabilities and your bandwidth, but you should find that even a little more human interaction in your automated processes goes a long way toward customer satisfaction.

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ECONOMY & RATES

Rates As Of: 02/09/2023 12:26PM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	4.72	0.02	0.30
6M	4.88	0.08	0.12
1Y	4.86	0.19	0.15
2Y	4.50	0.30	0.07
5Y	3.88	0.26	-0.13
10Y	3.68	0.17	-0.20
30Y	3.74	0.11	-0.23
FF Market	FF Disc	IORR	
4.58	4.75	4.65	
SOFR	Prime	OBER	
4.55	7.75	4.57	

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