Financial Services

Addressing Corporate Credit Needs and Mitigating Risk

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CORPORATE CREDIT MANAGEMENT NEEDS A RE-THINK

Corporate customers are undergoing rapid transformation. Host of factors such as digitization, globalization, stringent regulations are putting pressure for corporate customers to transform. Corporate customers are bringing in the next generation operational capabilities with lean process design, intelligent process automation and advanced analytics. With these new capabilities corporate customers are paving the way for network effects that is achieving massive scale in no time with new and innovative business models. To undergo rapid growth corporate customers are in need of faster access to credit lines that guarantee a steady flow of investments available whenever they need them. Additionally banks need to be up to date and re-evaluate on frequent basis the business risks they will face due to exposure to customers across the globe. Given the complexity of credit management, usually there are several stakeholders such back-office, risk modeling, credit analysts and underwriters that need the right information at the right time. Currently the silo based systems handled by different stakeholders prohibits seamless information flow and this leads to lack of complete customer and market information inhibiting banks staff from taking the right decision and offering the right solution to customers while safeguarding the bank appropriately from business risks. The right corporate credit management solution will enable banks to accelerate the process of offering credit lines, help them to prequalify credit lines during customer onboarding, customize credit lines to suit corporate customers' unique needs, proactively assess customer credit worthiness and manage exposures throughout customer lifecycle and mitigate business risks.

RISING OPPORTUNITIES FOR CORPORATE CREDIT

Intense competition and the need to grow rapidly across the globe has led to a spurt of business activities such as diversification of product portfolio, merger, acquisition, brand spinoffs, innovation and entering new markets leading to a steady growth.

- **Mergers and Acquisitions:** The overall value of Mergers & Acquisitions in the year 2018 went up to $4.4 trillion[1] and this is expected to get even higher in the year 2019, implying a significant need for external funding, which will primarily be sourced from banks.
- **Capital Expenditure:** Cumulative capital expenditures are expected to be $27 to $29 trillion during the period 2015 to 2020[2] indicating a huge corporate financing opportunity for banks.
- **Growth in Trade Finance:** Analysis by the Boston Consulting Group estimate global trade flows will hit a record US$24 trillion by 2026; with the most optimistic scenario projecting trade finance revenues will reach US$48 billion in the next three years, at growth rates just exceeding 6% a year[3].

INEFFICIENCIES PLAGUING CURRENT CORPORATE CREDIT MANAGEMENT SOLUTIONS

Corporate financing is significant source of revenue for banks. For example, the cumulative size of all commercial and industrial loans in United States for the year 2017 was approximately 25.2 trillion USD[4] but if banks don't transform their credit management than they would not be able to capture the full opportunities offered by corporate credit. Below are the inefficiencies faced by banks that is prohibiting them from capturing the rising opportunities of corporate credit.

Non-core activities

A typical corporate credit management origination and servicing process involves multiple meetings with customers and internal teams, manual gathering of data, and updating the same customer and market information in multiple silo based systems managed by different stakeholders. These non-core tasks divert key bank staff like underwriters and credit analysts from more important tasks like faster risk management and underwriting activities hindering the structuring right credit line. For back office operations, these repetitive tasks slow down the process and increase the possibility of errors. Repetitive and manual administrative processes drive significant inefficiencies in the system, increase the time required at each step and impact the banks' ability to quickly provide the right solutions to its customers.

Disorganized processes

A typical service request involves multiple meetings and information is collected by the RM and provided in an informal way to the various stakeholders through excel sheets and word documents. Lack of tools and process governance inhibits bank from collecting accurate data and offering a comprehensive view of all the data to various internal and external stakeholders. The need to update into multiple silo based applications managed by external and internal stakeholders also causes data redundancies across the system. Lack of single version of truth across multiple stakeholders increases the complexity structuring the right credit line faster. Inconsistent data can also lead the bank to overlook certain critical information enhancing the overall risk for a bank. Not having proper documentation and reporting can result in the bank being non-compliant with regulatory requirements.

Poor collaboration between stakeholders

The external and internal stakeholders in credit management are several. The real challenge is these stakeholders have their own silo based applications with their own data increasing complexity, causing data redundancies and delaying the overall processing of the credit. Also because of lack of proper process governance stakeholders do not collaborate effectively with each other leading to further disconnect of information. As a result of this incomplete information that are out of sync approval process takes weeks instead of few hours. Silo based systems reduces the bank's capability to do an effective AML and KYC processing and calculate the bank's global exposure to a client in real-time throughout the customer lifecycle. According to Oracle's internal research even a simple $1m overdraft for a client who already has a $50m facility may take more than a week to approve because of all the processes and paperwork involved[5].

Lack of comprehensive view of data

Even with ensuring single version of truth many banks are unable to provide a comprehensive view of customer and market information to bank staff such as credit managers, underwriters and relationship managers. Having a comprehensive view of customer and market information enables relationship managers to offer the right credit solutions at the right time to customers while at the same time credit managers can avoid unforeseen business risks by tracking business exposures to customers in real-time.

Paper based documentation

Currently most documents deployed in credit management processes are paper based right from sales to origination and servicing. Apart from the obvious problem of high cost of operation that includes paper costs, storage and delivery, paper based documentation can cause other serious problems to banks. Complying with regulatory requirements becomes extremely difficult since it involves a very strenuous process of consolidating information from paper documents and reporting to regulators.

Poor customer experience

Even though corporate customers are highly literate where as digital is concerned they are underserved digitally by banks. According to BCG, 95% of corporate executives demand their corporate digital experiences be as good as their retail experiences[6]. Current digital experience offered to corporate customers are meagre in nature. According to Mckinsey, most banks are increasingly focusing in offering digital experiences in the area of cash management, capital markets, payments and FX trading[7].

Corporate Banking customers are undeserved digitally

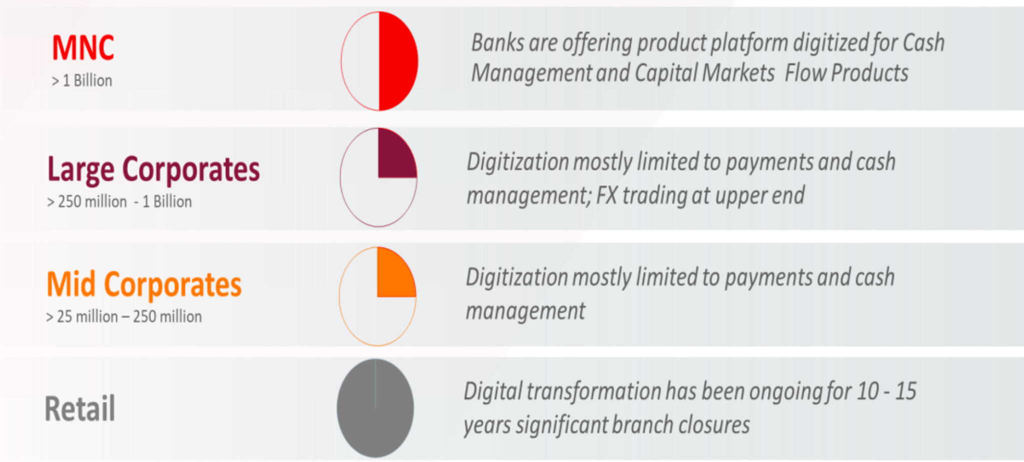

Figure 1: Digital experience offered by banks across various corporate customer segments[7]

Even though there is immense pressure on banks to offer superior experiences for corporate customers to initiate credit line, request for a credit service or track status in real-time directly from self-service or through corporate ERP systems most banks are not considering credit management as a prime candidate for enabling superior customer experience.

REPERCUSSION OF NOT TRANSFORMING CORPORATE CREDIT MANAGEMENT

Declining Profits

BCG found that 45% of corporate banking divisions worldwide showed declining profits. BCG points out that lack of digitization, legacy systems are of the one of the many causes that is causing declining profits[8]. Banks apart from digitally transforming their corporate banking functions, need to invest in an effective credit management solution. An efficient credit management solution will not only help banks to extend the right credit line to customers boosting revenue it will also aid banks in proactively tracking exposures which intern will help in reducing non-performing assets and compliance and regulatory expenses enhancing the profitability of banks.

Worldwide significant percentage of banks are showing decline in profits

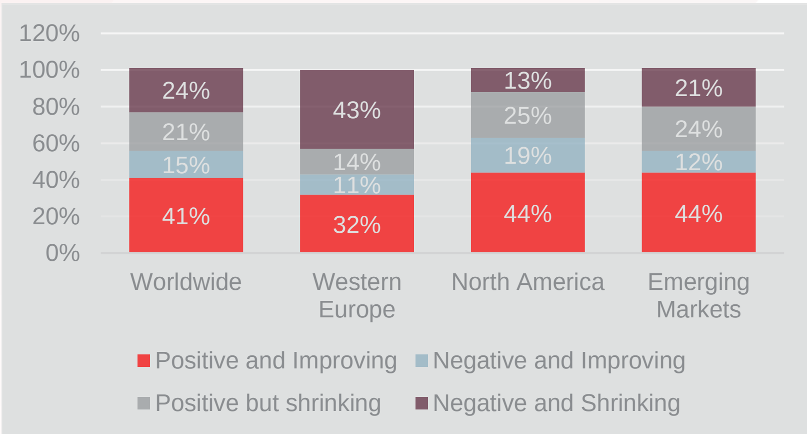

Figure 2: Three year economic profit trends of corporate banking divisions globally, 2014-2016[8]

Threats from Fintechs

Small businesses with revenues of more than $500,000 per year account for 20-30% of all credit revenues of banks. Additionally there is also a funding gap of $2 trillion for SMEs in emerging markets. Fintechs with their superior credit risk assessment and digital capabilities can extend credit line within matter of hours instead of days. Traditionally SMEs who were dependent on banks are now convinced that their source of funding can only be obtained through these alternate financing institutions.

Stylized SME Balanced Sheet

Figure 3: Stylized SME Balance Sheet and Impact of FinTech Solutions[9]

If banks do not transform their corporate credit management now and fill their gaps to provide competitive and value-added solutions they will continue to lose significant amount of market share while FinTechs and other shadow lenders rapidly gain ground in the credit and financing space.

THE NEEDED TRANSFORMATION OF CORPORATE CREDIT MANAGEMENT

Being an integral perquisite for corporate loans and trade finance, banks should see corporate credit management as a prime candidate for transformation. The capabilities that need to be enabled to enhance the success of corporate credit management solution are below.

Superior business process management

Banks should aim to incorporate a business process management that ensures not only process automation but also helps to optimize processes with process simulations, manage the entire process lifecycle right from modeling, optimization, automation and execution and finally help banks to handle unstructured tasks with adaptive case management.

Real-time exposure management

Banks should incorporate tools that help them to minimize exposures to corporate customers across the globe and mitigate risks. The tool should provide accurate information of the market conditions. It should enable banks to track exposures by country, subsidiary, currency, analyze limits and utilization and monitor key credit events in real-time. The tool should allow banks to utilize maximum leverage of collaterals and gain a comprehensive view of the linked collaterals. Incorporating such a tool will enable banks to minimize business risks.

Connected Ecosystem

Banks should invest in Open API and other well-known integration framework that enables it to seamless integrate with systems of corporate customers, credit bureaus, field agents, partner banks and Fintechs to build a connected ecosystem that ensure seamless data flow and faster transactions.

Seamless Digital experience

Digital savvy customers of today demand experiences similar to their experiences from retail banking solutions. Banks offering corporate banking should enable innovative self service capabilities for corporate customers across channels. Additionally by leveraging Open API banks should enable corporates to directly initiate credit line and service request from their ERP systems and track status and utilizations to ensure better business operations.

End to end credit origination and servicing

Banks should incorporate a comprehensive credit management solution that ensures faster credit origination and servicing. The solution should allow banks to offer pre-qualified and customized credit lines suited to the unique needs of the customer. Customer should have the option to renegotiate credit terms throughout the customer lifecycle. The solution should enable banks to accurately evaluate customer credit worthiness that also ensures maximum leverage of collaterals and offer the right credit solution to customers.

Superior insights and analytics

Banks should enable bank staff to leverage advanced analytical tools and dashboards that offer comprehensive view into customer and market information. The solution should also help analyze customer credit worthiness under different economic scenarios and identify opportunities for new credit lines or enhancement of existing limits. Analyzing customer credit worthiness also helps to effectively identify global exposure to customers and mitigate business risks.

BENEFITS BROUGHT BY CORPORATE CREDIT MANAGEMENT TRANSFORMATION

The transformation of corporate credit management brings in several gains to the bank. Banks can offer customized credit lines faster to corporate customers as and when they need it. Bank staff are empowered to offer superior solutions to customers while also ensuring that their bank is safe guarded from unforeseen business risks.

Accelerated credit line origination and servicing

Superior business processes management and connected ecosystem will enable banks to incorporate effective collaboration between stakeholders and optimized processes to ensure customer requests for immediate credit line or service request is met within few hours instead of weeks.

Pre-qualified credit lines

Banks can pre-qualify a wide range of credit lines with customer specific preferences and with right limits and covenants based on the bank's exposure to the customer and the customer's credit worthiness. Prequalifying credit lines eliminates the need to evaluate customer credit worthiness during a loan request and helps banks to meet the on-demand financing need of the customer, greatly enhancing customer satisfaction.

Empowered bank staff

Bank staff can maximize their efficiency and serve customers better. Optimized processes maximizes process efficiency. Dashboard helps bank staff to offer innovative solutions proactively to customers and mitigate business risks. Open APIs empowers IT to easily enhance user experience, ensure latest security protocols are in place and enable a scalable ecosystem.

Enhanced customer experience

A seamless connected experience removes platform barriers that negatively impact customer satisfaction. Self-service options across channels and connectivity to corporate ERP will ensure there is consistency in experience across touch points.

Lowered business risks

Exposure management tools and advanced analytical engine will helps banks to mitigate business risks as banks will be to analyze real-time exposure to customers across country, subsidiaries and different credit types.

CONCLUSION

Corporate customers are transforming at a rapid pace and they need access to wide range of credit lines throughout their business lifecycle and this provides immense opportunities for banks to grow their corporate credit management business. However, banks' corporate credit management is facing numerous challenges such as time consuming non-core activities, disorganized processes, lack of collaboration between stakeholders and poor customer experience. In order to capture the growing demand for corporate credit banks needs to transform corporate credit management system to incorporate process automation, real-time exposure management, connected financial ecosystem, seamless digital experience, comprehensive credit origination and servicing and advanced analytics. With this transformation banks can meet corporate customers credit needs faster, offer innovative solutions, enhance customer experience and lower business risks.

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ORACLE CORPORATION

Worldwide Headquarters
500 Oracle Parkway, Redwood Shores, CA 94065 USA

Worldwide Inquiries
TELE + 1.650.506.7000 + 1.800.ORACLE1
FAX + 1.650.506.7200
oracle.com

CONNECT WITH US

Call +1.800.ORACLE1 or visit oracle.com. Outside North America, find your local office at oracle.com/contact.

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Author: [OPTIONAL]
Contributing Authors: [OPTIONAL]

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