ORACLE
Business Process Services

TRANSFORM CORPORATE LENDING FOR SUCCESS

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Table of Contents

INTRODUCTION

Corporate customers are undergoing a rapid transformation. They are leveraging next generation operational facilities that include lean process design, intelligent process automation and advanced analytics. Armed with these new capabilities corporate customers are paving the way for network effects - reaching massive scale in no time and creating and innovative business models. Meanwhile, corporates are also more in need of funds than ever before and now demand immediate financing solutions customized to suit their unique business needs. They want banks to be ‘thinking partners’ who can provide innovative advice and solutions and help them succeed in their business.

Banks on the other hand are still traditional in nature. They offer capital but not on-demand. There is a massive time lag between a customer’s request for loans and the financing provided by the bank. Although banks offer highly reliable relationship managers, the relationship managers tend to be reactive their approach to offering solutions. Rather than adopting a proactive approach where they act as ‘thinking partners’ and contribute to innovative ideas that help corporate customers boost profitability or stay ahead of the competition.

In order to be relevant banks need to transform the management of their corporate lending processes in a way that can enhance staff productivity and value. Such a transformation can accelerate loan origination and servicing and ensure superior customer experience. Banks need to move away from manual based workflows to intelligent process automation. They should be enable a connected ecosystem, one that connects multiple stakeholders both internal and external, to maximize collaboration and co-creation. Empowering their staff with appropriate analytical tools and skills will not only improve staff productivity, helping them engage meaningfully with customers, creating innovative solutions. Focusing on improving corporate lending process management will also mean minimizing non-performing assets. Furthermore, banks should offer superior digital experiences and easily extend differentiated experiences to meet dynamic customer demands. If banks do not transform their lending systems now they risk losing their business to other more efficient banks and shadow lenders such as institutional investors, peer to peer lenders and business development companies.

THE OPPORTUNITY FOR CORPORATE LENDING

Changing business imperatives

In an age where globalization and intense competition defines the business arena, the search for growth has led to a spurt of activities such as diversification of the product portfolio, increased mergers, acquisitions, brand spinoffs, innovation and entering new markets leading to a steady growth in M&A, CAPEX and OPEX requirements.

Increasing expenses for organizations to fuel growth

Figure 1: Steady growth in M&A, CAPEX and OPEX[1,2]

These investments are also rapidly expanding the corporate lending market. For example, the cumulative size of all commercial and industrial loans in United States for the year 2018 was approximately 26.4 trillion USD[3].

CHALLENGES FACED BY BANKS

While commercial loans offer the greatest opportunity for growth, banks are unable to scale their corporate lending business because of several inefficiencies mentioned below.

Non-value add administrative tasks

Current corporate lending solutions are burdened with repetitive manual processes and excel based analysis. Much of the customer data is not captured during credit line origination. Instead, relationship managers have frequent back and forth meetings to gather customer requirements effectively. Additionally, data has to be entered by the bank staff into multiple systems. These repetitive non-core manual activities take away time from tasks that bring real value to customers and can create significant inefficiencies in the system.

Absence of a single version of truth

Currently relationship managers collect data from customers informally, over multiple meetings and pass it on manually, to various internal and external stakeholders. There is no formal centralized application that can help collect data and ensure every stakeholders has access to the same information, giving them the ability to make the right decision and take appropriate action. The need to update multiple silo based applications, both internal and external, aggravates the problem of data inconsistency amongst the various stakeholders. Not having a single version of truth may cause serious repercussions for the bank. Apart from not providing the right solutions to customers, banks can face serious business risks due to global exposures to customers. Additionally data inconsistencies can lead to non-compliance with regulatory requirements resulting in severe penalties.

Poor process management

Lack of proper process governance and standards prevent stakeholders from effectively collaborating with each other leading to further disconnects in information. As a result of this incomplete relay of information, approval processes takes weeks instead of few hours. Silo based systems hampers the bank's ability to perform 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 in approvals because of the extensive processes and paperwork involved[5].

Incomplete view of data

Banks of today simply lack the tools to provide a comprehensive and real-time view of customer and market information to the bank staff. Having a comprehensive view of customer and market information enables the bank to offer the right solutions at the right time to customers, track business exposures to the customer in real time and avoid unforeseen business risk.

Lack of digital documentation

Currently most loan processing documentation is mostly paper based right from sales to origination and servicing. Apart from the obvious problem of high cost of operations - including 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.

Substandard customer experience

Even though corporate customers are highly literate where 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.

Poor connectivity between different stakeholders

The corporate lending ecosystem is fraught with poor connectivity between a bank's internal and external stakeholders. Each of the stakeholders have silo based systems with partial integration capability and their own data increasing complexity, causing data redundancies and delaying overall loan processing. Silo based systems reduces the bank's capability to perform effective AML and KYC processing and calculate the bank's global exposure to a client. It also inhibits the bank from leveraging services from agents and third party vendors to provide a complete and efficient lending solution to its customers. Especially syndicated loans require a connected IT environment that enables active participation and data flow among systems of multiple banks. Inability to offer syndicate loans inhibits a bank from financing large loan requirements of large organizations and thus losing out on large fee based revenue opportunity.

THE RISK OF MAINTAINING STATUS QUO

Loss of market share

The above inefficiencies in banks' current methodology and tools to process loans has led to shadow lenders, business development companies, FinTechs, money market and hedge funds and structured investment companies to their grown their market-share of commercial lending.

Small businesses with revenues of more than $500,000 per year account for 20-30% of all corporate loans revenues of banks. Additionally there is also a funding gap of $2 trillion for SMEs in emerging markets. FinTechs with their lean operating model, superior risk assessment via nontraditional data are able to offers loans to small businesses quickly at a lower cost and superior customer experience. Traditionally SMEs who were dependent on banks are now convinced that their source of funding can only be obtained through these digital commercial lending institutions[5]. If banks do not transform their lending solution now and fill the 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 commercial lending space.

Impact on profitability

The rise in regulatory requirements is also increasing associated costs. Basel III, Dodd-Frank and CRD IV have increased liquidity requirements and mandated the banks to deploy more robust risk modeling and reporting. Further, Dodd-Frank will now require detailed data submission and sophisticated analysis of financial systemic risk. With IFRS (International Financial Reporting Standards) now being adopted across the world, loan accounting has become more complex[6]. If banks are to remain profitable in their corporate lending business they need to improve their operations to drive cost efficiency while deploying right analytics and reporting tools to mitigate the mounting regulatory burden.

Inability to finance large deals

Syndicated loans help bank to capture large loan opportunities while helping mitigate the risk of financing these large loan requests from customers. But the nature of syndicated loans is way more complex than normal loans. Syndicated loans require tremendous amount of information exchange between customer, the lead arranger and the banks comprising the syndicate group and there is also greater amount of data gathering and consolidation given the inherent complexity and involvement of multiple players. All this is not possible without an effective connected ecosystem, high level of straight-through processing and superior process automation. With existing corporate lending solutions lacking these capabilities banks are incapable of financing large sized deals and unable to capture the huge "originate to distribute" loan market through loan syndication. In 2017, global syndicated lending was US$ 4.6 trillion, indicating the huge potential that will remain untapped if banks are not able to leverage these sophisticated lending options. The revenue potential for banks in such deals is huge, with book-runner fees alone reaching billions of dollars[7].

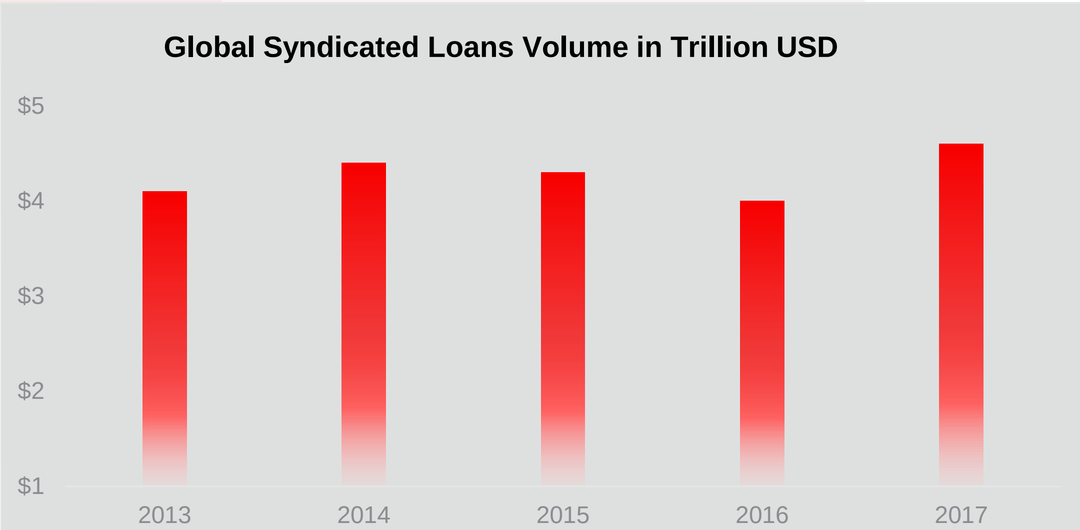

Figure 3: Syndicated loan volumes in trillion USD[7]

THE NEEDED TRANSFORMATION

It is time for banks to enhance their abilities to create and sell the appropriate loan solutions to customers while deriving cost benefits. The capabilities that need to be put in place to enhance the success of corporate loan solution are listed below.

State of the art process management

Banks should aim to enhance process efficiency with state of the art process management that helps manage the complete process lifecycle from modeling, optimization, automation and execution. The process management capabilities should enable banks to optimize processes with process simulation, customize processes and form fields specific to a particular loan and finally manage unstructured processes with adaptive case management.

Connected ecosystem

Banks should invest in Open API and other well-known integration frameworks that allow for seamless integration 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 demand experiences similar to their experiences from retail banking solutions. Banks offering corporate banking services should enable innovative self service capabilities for corporate customers across channels. Additionally, by leveraging Open API banks should help corporates directly initiate credit line and service request from their ERP systems and track status and utilizations to ensure better business operations.

Staff value added tools

Comprehensive dashboards that offer real-time insight into customer relationships, loan status, non-performing assets and market dynamics should be put in place. Taking advantage of advanced analytics, Artificial Intelligence and Machine Learning can help banks predict customer repayable capability, loan losses, fraud detection and risks. Additionally these capabilities can enhance customer experience by enabling bank staff to proactively recommend innovative solutions to customers.

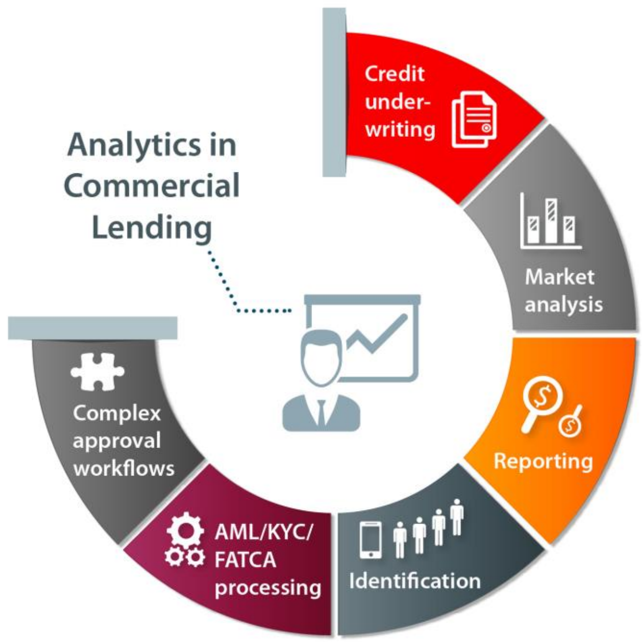

Figure 4: Analytics improves the efficiency of several functions for commercial lending[8]

End to end origination and servicing

Banks should adopt a comprehensive solution that ensures accelerated loan origination, servicing and closure. It should enable banks to customize loans specific to the business needs of the customer with wide variety of loan options. Banks should also be able to support loan restructuring throughout the loan lifecycle with wide range of amendment options.

Pricing Excellence

A strong corporate and bank relationship is the key to success in a corporate lending business. Relationship managers need to be able to analyze past customer-bank relationship based on various factors such as customer's business, industry, size, price sensitivity, and growth potential[9] and structure deals accordingly and offer price advantage to loyal customers or customers that show the promise of greater profitability in the future. Additionally Relationship Managers can also bundle loan products and services effectively to offer discounts and other benefits and enhance customer experience.

Support for both 'Originate to Hold' and 'Originate to Distribute' loans

Given the huge potential for lending that opens up with syndication, a lending solution must be designed to handle not just loans to hold but also to distribute, in order to enable banks to capture large loan requirements. The greater complexity in originate to distribute loans can be well handled with the right system, skills and processes in place. With the banks' ability to offer bilateral loans, and syndicated loans, they will be able to meet requirements of all types of clients. As the solution will support aspects such as master agreement, participant transfer and income sharing, banks will be able to choose between different financing options, while also reducing their risk, which is higher in case of complete self-funding.

CONCLUSION

Corporate lending presents significant opportunities to banks when it comes to offering multiple lending solutions to their existing customers and elicit more business from new customers. However, corporate lending solutions are fraught with inefficiencies, non-core administrative tasks, poor process management, partial connectivity between stakeholders and paper based documentation. In order to capture the growing demand for corporate lending banks needs to enhance corporate lending process management with capabilities such as superior process management, comprehensive loan origination and servicing, connected ecosystem, seamless digital experience and originate to distribute to attain maximum success.

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