Revolutionizing Corporate Lending in Today's Digital World

Make Loan Processing Easier and Simpler

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INTRODUCTION

Growth is an imperative for success in any business, regardless of industry, size or geography. Businesses need funds, which can be invested in various activities such as mergers, acquisitions, diversification of product portfolio to foster growth and innovation. Over the last few years, corporates are finding that these investments have become more expensive making it difficult for them to achieve growth. This situation presents an opportunity for banks to finance businesses through different loan solutions such as asset based lending, project financing and working capital loans depending upon on the specific needs of the business.

The most prevalent trends in the banking industry today are:

1. Transition from LIBOR to Risk-Free Rates: The impending transition from LIBOR to risk-free rates provides banks a once-in-a-generation chance to truly take a look at their loans and lending software applications and transform it according to best practices
2. Post-Pandemic World Of Digital Banking: In the face of a new global financial crisis due to pandemic, banks need to make sure their loan origination and loan processing meets the challenges of thr future. This also gives traditional banks a chance to accelerate their digital capabilities
3. Mergers and Acquisitions: The overall value of mergers and acquisitions is expected to get even higher in the coming years, iimplying a significant need for external funding, which will primarily be sourced from banks
4. Capital Expenditure: Cumulative capital expenditures are expected to rise, indicating a huge corporate lending opportunity for banks

While the opportunity for banks to engage in corporate lending is substantial and can generate more profits than securities and bonds, providing the right loan solution is not easy. Inefficiencies in the current corporate lending systems, which are straddled with numerous manual workflows, poor data quality with paper based documentation, subpar process standards and broken connectivity between silo based systems, have made the entire lending process more complex and time consuming.

It is therefore, time for banks to transform their corporate lending systems to one that embodies 'key enablers' such as seamless multi-channel experience, automated business workflow, tighter connectivity and collaboration among stakeholders, superior analytics and reporting, transparency across transactions, centralized data repository and support for originating and servicing syndicated loans and secondary loan trading.

The right lending system will enable banks to analyze borrowers' global risk faster and more efficiently, adhere to changing regulatory norms and meet the financing needs of all types of organizations from small companies to large multinationals with operations across the globe.

BANKS ARE CONSTRIANED BY LEGACY SYSTEMS

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

Time-consuming administrative tasks

The current lending systems require bank staff to undertake repetitive non-value adding tasks such as manual gathering of data, inputting customer information in multiple forms and periodic request of borrower's documents. For underwriters, these tasks divert them from more important tasks like faster risk management and underwriting activities hindering the structuring of effective loan products. There are also possibilities of underwriters not noticing certain imminent risks while structuring a risky deal. 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.

Manual workflows

Low level of business process automation causes poor process management with manual errors, duplication and low process governance. Currently, several tasks such as filling Uniform Commercial Code, calculating borrower's global exposure, monitoring borrower's compliance and periodic request of documents from borrowers are still manual, which can easily be automated to not only deliver high quality and reliable results consistently but also reduce cost. During loan origination, validation of loan requirements for funding and reporting is usually done in a checklist or spreadsheet, which is not only slow and inefficient but also error-prone. Therefore, manual workflows are a stumbling block in the growth of corporate loans.

Inconsistent data

Inconsistent data spread across multiple stakeholders increases the complexity of gathering the right data and causes unnecessary delays in structuring the loan solution. This can cause loss of business either to a bank or to a shadow lender with faster loan origination process. Inconsistent data can also cause underwriters to overlook certain critical information enhancing the overall loan risk for a bank. Not having proper documentation and reporting can result in the bank being non-compliant with regulatory requirements. During loan servicing access to up to date information such as interest rates, fees, schedule and other information is necessary for timely funding of the corporate customer. Consistent and seamless data is very important especially in case of syndicated lending or secondary loan trading where the stakeholders are quite large in number and the need for update to date information is necessary to incorporate and ensure right participants' share of the loan and interest earnings.

Arbitrariness in underwriting

Lack of single source of truth and usage of excel based analysis causes unnecessary delays in calculating global exposure and structuring the right loan solution to clients. This might lead to loss of business to banks and FinTechs that offer faster origination processing and incorporate flexible and customer friendly loan terms and conditions. In order to win the rat race banks might use arbitrariness in the credit appraisal management forgoing some important processes and also incorporating favorable terms and conditions for customers that prove really risky to the bank. Increase in loan risks reduces the ability of the bank to scale its corporate lending business and be profitable in the process.

Paper based documentation

Currently most documents deployed in commercial lending 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. Since there are several stakeholders in commercial lending process manually transferring these paper documents for access and updating the right information is time consuming delaying the overall process of originating and servicing the loan and it could lead to data inconsistencies and loss of information.

Poor connectivity between different stakeholders

The corporate lending ecosystem is distraught 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 the overall processing of the loan. 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. 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 hyper-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.

Information silos

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.

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 STATUS QUO IS RISKY, TOO

Loss of market share

Banks cannot afford to maintain status quo when it comes to inefficiencies in the system. Over the last few years, shadow lenders such as P2P lenders, business development companies, money market and hedge funds and structured investment companies have grown their market-share of commercial lending.

Inefficiencies and high operating costs are forcing banks to reduce their share of small and medium enterprises (SMEs) financing. SMEs are important for the growth of both developed and developing economies and they account for more than half the GDP of high-income countries and are significant source of corporate lending revenue for banks.

FinTechs with their lean operating model, superior credit risk assessment with nontraditional data are able to offers loans to SMEs 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.

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Impact on profitability

The rise in regulatory requirements is also increasing the associated costs of meeting them. 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.

Missed opportunities of financing large deals

With existing corporate lending systems incapable of coping with current demands and opportunities, several banks are losing the opportunity to finance large-sized deals and unable to capture the "originate to distribute" loan market through loan syndication and secondary loan trading. The revenue potential for banks in such deals is huge, with book-runner fees alone reaching billions of dollars. Syndicated loans require tremendous amount of information to be exchanged between customer, the lead arranger and the banks comprising the syndicate group and there is also greater amount of data gathering and consolidation due to the inherent complexity and involvement of multiple players. All this is not possible without integrated IT landscape that facilitates the flow of information efficiently and incorporates a centralized and efficient data repository that stores participant and customer information effectively.

In the secondary loan trading market, investors looking to trade their parts of the loan with other financial institutions must also exchange purchase and sale agreements. The agent bank needs to track all lenders and their respective percentage ownership of the total loan so that it can finally settle the payments. The agent bank must also be able to verify that the lender has sufficient position to cover the trade, as well as identify relevant trades ready to be settled, so it can complete the transfer of ownership on its books.

The unique characteristics of syndicated loans make settlement far more difficult than other asset classes. This requires extensive automation, integration and capabilities in the IT system to enable such transactions to be executed successfully. Automation will reduce the high cost of syndicated loan settlement and also reduce settlement time, which helps increase market liquidity for syndicated loans and reduces the potential for default by either of the counterparties.

DIGITAL LENDING PLATFORM FOR THE FUTURE

It is time for banks to addresses these gaps and enhance their abilities to create and sell the appropriate loan solutions to customers while deriving cost benefits. The optimal solution should have the following 'Key Enablers':

Flexible loan options

Flexible loan options help meet customers' requirements better thereby enhancing their overall experience. The ideal corporate lending system will support revolving as well as non-revolving commitments, amendments and renegotiation, flexibility in fees and interest rates, multiple rollovers, flexible disbursements and comprehensive payment and settlement options. These features will allow banks to meet the needs of corporate customer of any size and industry while leaving the option for negotiation again during the lifecycle.

End-to-end lending

A typical end-to-end corporate lending system which meets all types of financing needs of customers requires effective collaboration and seamless data transfer between all the stakeholders. Corporate Lending solutions usually have large number of internal stakeholders such as different departments and functions within the bank and external stakeholders such as partner banks, debit and credit bureau and agents. Without tighter integration between the bank's internal system and the systems of the external stakeholders it would be very difficult to ensure seamless data flow and collaboration. Banks should aim to enable a hyper-connected IT landscape with help of Open API and SWIFT and ensure tighter connectivity between all the systems required for processing loans. This eliminates the need for manual data transfer and ensures effective collaboration. Banks can further enhance collaboration between stakeholders by incorporate coaching, training programs and various types of incentives. End to end system ensures faster credit appraisal, origination and servicing of loans enabling banks to scout for more loans and earn more revenue and profits.

Seamless multi-channel experience

A seamless multi- channel experience removes platform barriers that negatively impact customer satisfaction. The system capabilities of assisted and self-service options and seamless transition from one channel to another will ensure there is consistency in experience across touch points. This will also help reduce the number of visits required to the bank branch.

Automated workflows

Automation of routine, lower-value tasks can reduce time, eliminate manual errors and improve the overall workflow. This will enable real-time status tracking apart from faster processing. With automated workflows and computer-aided tasks, wherever there may be a requirement for human intervention, banks will be able to offer more reliable and faster solutions to their customers. The resulting benefits are elimination of redundant manual processes, faster processing, real time information flow and reduced operational cost.

Effective process standards and governance

Incorporating formal process standards that defines the required processes for credit appraisal, origination and services of a loan is absolutely necessary. While business process automation ensures to an extent that processes are followed, banks need to govern and monitor the processes and identify any shortcomings to optimize the overall workflow.

Transparency across transactions

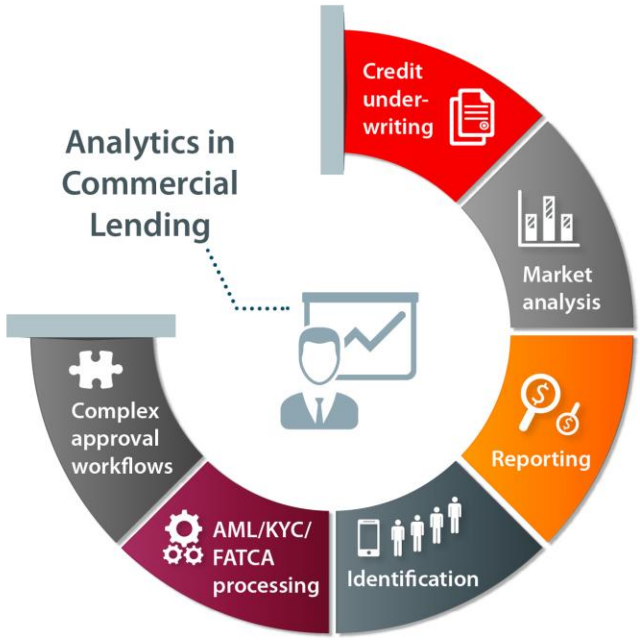
Corporate customers require complete transparency across all their transactions. While automation and end-to-end integration enables banks to implement this transparency banks must also incorporate real time status update through all the channels to ensure that customers are provided with the most up to date information of every transaction that it is taking place.

Centralized Capabilities

With a centralization of lending capabilities, banks will be able to ensure faster origination and servicing as the need to collaborate between different loan systems is eliminated. Underwriters can now easily calculate the bank's global exposure to multinational clients that have subsidiaries across the world. Access to real time and centralized data, will allow banks to offer the right solutions at the right time. This will also enable banks to frequently alter the loan terms as per changing customer needs. Consolidate view of all stakeholders such as customers, partners, investors, agents will empower banks to incorporate effective relationship management, ensure regulatory compliance and incorporate proactive credit management that allows the banks to identify customers' financial distress during unstable market conditions and incorporate necessary measures to safeguard themselves.

Superior insights and analytics

Incorporating advanced analytics has its several benefits. It enables underwriters to analyze effective global exposure to customers under different economic scenarios, and mitigate risks. Using standard and customized reports banks can adhere to regulatory requirements such as BASELIII and Dodd Frank Act. Further, with superior analytics, banks can identify new loan opportunities and cross-sell and up-sell different types of loans to customers.



Pricing Excellence

A strong corporate and bank relationship is the key to success in a corporate lending business. Relationship managers need 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 and secondary loan trading, 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, syndicated loans and loans on secondary market, 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.

Partnership with FinTechs

Banks should partner with FinTechs to not just gain wider share in the SME financing market but also enhance their operational efficiency, incorporate faster origination and a more effective underwriting process with the help of the FinTechs' superior analytics and risk management capabilities. In order for the partnership to most effective banks should provide the underlying infrastructure and also fund the loans while these FinTechs frontend the entire solution, enable faster origination and superior digital experience.

CONCLUSION

Corporate lending presents significant opportunities to banks to offer multiple lending solutions to their existing customers and elicit more business from new customers. However, corporate lending businesses face daunting challenges such as increasing costs, growing regulatory burdens, and a volatile business environment, which negatively impacts revenue and profits. In order to capture the growing demand for corporate lending banks needs to enhance corporate lending with key enablers which include automated workflows, process standardization, centralization of data, 'Originate to Distribute' capability and partnership with FinTechs to drive maximum impact.

The Pandemic gives traditional banks a chance to catch up digitally and accelerate the transformation from loan servicing to engagement.

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