Lending in the new normal series #7

Will the new normal for lending be better than the old?

In this series we've taken a look at lending and its future in a transforming economy. We began by exploring why this industry – the engine of the global economy – needs to change, before going on to look at how technology can transform the human side of lending at a time when face-to-face business is largely impossible.

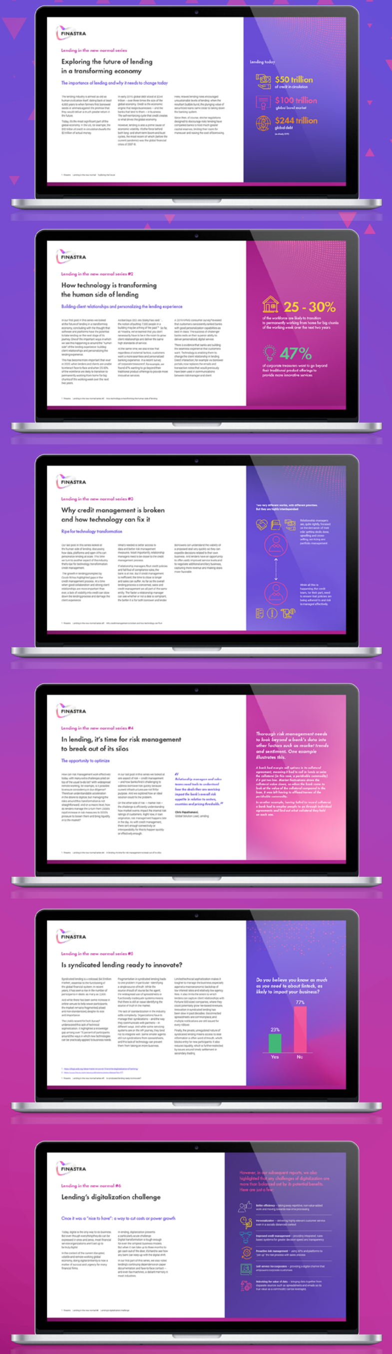
We identified what fit-for-purpose credit management might look like; and how risk management could work more effectively. And after examining how syndicated lending could modernize, we looked at the challenges standing in the way of digitalization, which is the thread running through all of our discussions.

It seems certain that together with the Covid-19 pandemic, these issues are likely to have a material impact on lenders' business strategies. Open APIs, for example, can bring in data on customers that presents banks with a whole new range of triggers for action and personalized sales approaches.

Credit and risk management, which are both highly fragmented across lending, have the potential to be integrated more closely with sales (allowing faster and better decisions) and to be much more automated. And with more transparency and data inputs, better risk management could have positive knock-on effects into the cost of capital and market pricing. More transparency could also improve liquidity in the fragmented syndicated market.

The new normal for lending will be different. It will be a more digital space, and more connected, with platforms allowing for the disintermediation that creates a range of new lending business models. The convergence of cloud, digitalization, APIs and real-time information has truly transformative potential.

To take just one example: "originate to distribute" has always been an attractive model for banks but has proven hard to achieve in practice. Today's technologies should put this low-risk, high-profit model within easier reach of lenders. Blockchain/distributed ledger technology could transform it even further, creating a central record and tokenizing the originate-to-distribute process from day one.



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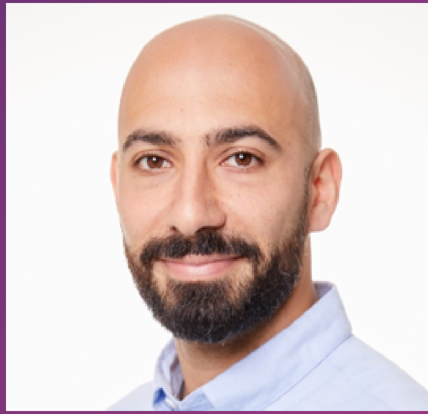
About the authors



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As Global Solution Lead for Lending at Finastra, Christopher Papathanassi is responsible for the overall line of business within the field, and works cross functionally to provide support with; deal execution, validation and execution of go to market activity, product strategy and bringing thought leadership to the market . With over 14 years' in the industry, he is an experienced commercial lending specialist.

Prior to his current role he worked on the bank side where he held a variety of roles within lending, both on the business and change management side. He holds a Bachelor's Degree in Business Management from Bournemouth University.

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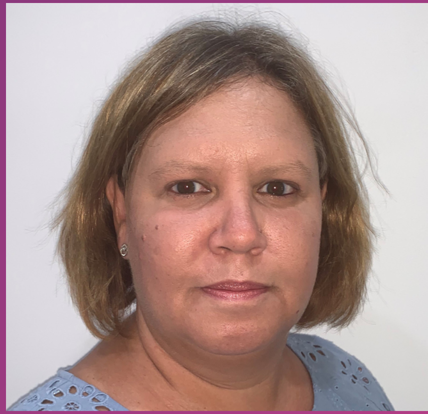

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Helen Orton is a Senior Principal Product Manager within the Finastra lending product team and has over 25 years of experience working in the commercial lending industry. Helen specializes in syndicated lending with a focus on new product innovation and driving collaboration within the sector.

Helen has worked at a variety of banks including GE Capital and Barclays Capital and for software providers working on both servicing and origination applications.

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Another factor driving digitalization is the need for greater visibility. Although the pandemic may not necessarily lead to much new deal activity, we are seeing an increase in M&A and trading, and troubled asset management of the sort last seen during the 2008 financial crisis.

The integration and data access made possible by APIs can provide the visibility that's particularly important when dealing with troubled assets. Similarly, in the current housing market, banks need a clearer view, not necessarily in order to be able to get out of assets, but to see risk/reward ratios as clearly as possible.

As with the LIBOR transition, the current crisis has provided a stimulus for lending to change. With cloud, APIs and platforms – and standardized, connected data – new business models become possible. Banks previously deterred from acting as agents on syndicated deals could now have the necessary information to take part.

With better data availability, deals that previously looked unattractive may be revealed as viable. Banks could take different paths: becoming product providers or taking a more relationship approach; or developing specific niches and specializations.

The technology building blocks are in place. All the industry needs to do is join them together. Even amidst an economic crisis, the new normal for lending could be much better than the old.

For more information
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About Finastra

Finastra is building an open platform that accelerates collaboration and innovation in financial services, creating better experiences for people, businesses and communities. Supported by the broadest and deepest portfolio of financial services software, Finastra delivers this vitally important technology to financial institutions of all sizes across the globe, including 90 of the world's top100 banks. Our open architecture approach brings together a number of partners and innovators. Together we are leading the way in which applications are written, deployed and consumed in financial services to evolve with the changing needs of customers. Learn more at **finastra.com**

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