The transformation of syndicated lending

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Introduction

Despite a temporary slowdown in early 2020, the outlook for the syndicated lending market remains strong. Following a rebound in the second half of last year, annual volumes hit $1.5 trillion in the U.S. alone.[1]

It's part of a continuing trend and one of the market parameters explored in a recent webinar titled "Transform into a Platform Player with Digital Lending Solutions." The webinar, conducted by Finastra and HUBX and hosted by Banking Exchange, drew industry experts to discuss the state of the market and the vital importance of technology to the future of syndicated lending.

Read on to learn some of the insights revealed as Eyal Altaras, Director of Global Solution Consulting at Finastra and Axel Coustere, co-founder HUBX, collaborated to deliver market intelligence from a combined total of over forty years of industry experience.

1. Bridget Marsh and Tess Virmani. International Comparative Legal Guides, Lending & Secured Finance 2021: A Practical Cross-Border Insight into Lending and Secured Finance." ICLB ninth edition. Web.

Have syndicated lenders been left in the dark?

"We need a fundamentally new way of working. Not a seismic shift, but a transition away from a deal-by-deal approach toward a platform approach, eliminating silos and tackling each part of the process as a sequence of events."

Axel Coustere
Co-Founder, HUBX

As other industries have evolved to utilize new and emerging technologies, syndicated lending has remained largely rooted in the past, highlighted by a lack of digitization. Underscoring the labor-intensive impact these processes have had on the market, Eyal Altaras, recounted his early days in the industry.

"When I first joined the financial industry, one of my early roles was to support the production and distribution of the syndication book to investors," said Altaras. "I remember the large mailroom with the massive tables in the center where we collated the syndication books for mailing to prospective customers. The process was both labor and paper intensive and gave the organization no visibility into which investors were interested in the opportunity, to name just one of the drawbacks."

Fast forward to now and Altaras says the industry has changed but not enough. For one thing, paper-based processes continue to dominate the front office. A webinar polling question revealed that less than 25 percent of the syndicated process was electronic for over seventy percent of the attendees.

That leaves arranging banks to manually review a corporation's financial information and select potential syndicate members, a process that requires numerous phone calls, emails, and personal meetings to syndicate a deal, not to mention hours of data entry. A reliance on a paper-based method for tracking syndicates and loans also has also left financial institutions in the dark when it comes to future deals, unable to draw insights from past interactions that could foretell risks or identify opportunities.

"We need a fundamentally new way of working," said Axel Coustere. "Not a seismic shift, but a transition away from a deal-by-deal approach toward a platform approach, eliminating silos and tackling each part of the process as a sequence of events."

Advocating a shift toward technology adoption doesn't come lightly to Coustere. As a syndication expert, he understands the sacred nature of banking data and the financial institution's reluctance to shift to a new way of operating.

He also understands the risk financial institutions are facing every day by failing to evolve. Just consider how three years of financial statements can multiply into tens of thousands of manually entered data fields. One small mistake made early in the data entry process is then carried across multiple documents and lenders, exposing the financial institution to risk from both a regulatory and a profitability standpoint.

On the other hand, simple technology adoption can decrease the risk of errors utilizing automation and a single source of truth. Financial institutions can also reduce costs and realize targeted insights that can inform future decisions.

To reach this state of streamlined operations, Altaras and Coustere see the future of syndicated lending as one fully integrated system that connects origination with distribution. According to the experts, it's the best way to provide real-time data visibility from a single source of truth for faster access to borrower and investor information and enhanced outcomes.

Taking a sequential approach to syndicated lending

As syndicated lending deal volumes have risen over the last decade, so have the number of participants.

"From my experience and from talking to customers, the feedback we receive from clients is that the front office teams build investor lists manually, and rely on numerous emails, phone calls and face-to-face meetings to syndicate a deal. With syndicated lending continuing to grow, where some deals can exceed 2,000 to 2,500 lenders, can we really afford to continue with the status quo?"

Eyal Altaras
Director of Global Solution Consulting, Finastra

It isn't uncommon today for deals to include more than 2,000 lenders, increasing complexity as banks continue to rely on manual paper-based processes.

Lack of technology adoption and the continued reliance on manual processes have led Coustere and Altaras to advocate for an end-to-end platform solution in syndicated lending. Platforms facilitate transformation by offering a modular approach, allowing financial institutions to add tools and capabilities to address the entire lending life cycle.

The first step is to eliminate static spreadsheets, siloed data rooms and manual execution in favor of automation and straight-through processing. 'According to Coustere, with a platform strategy banks can automate eighty percent of front and middle office processes, which will drive significant opportunities to reduce operational risk and costs.

The opportunities are realized by uniting automated deal, facility and lender position onboarding with real time analytics on active deals, loan books and lender networks populated directly from each bank's origination or CRM system. Financial institutions can then sync front- and back-office data from a single viewpoint, enabling a multitude of capabilities and benefits:

- Simplified communications and document sharing between syndicate managers and the investor community
- Automated investor selection and matching
- Seamless tracking of all loan commitments and positions from a single platform
- Support for multiple concurrent deals
- Higher quality insights in real time and more accurate data reporting

With an end-to-end platform solution, agents and lenders realize seamless communication in the cloud, utilizing real-time accurate data.

This approach eliminates the need to interact manually with hundreds or even thousands of lenders, making it easy for financial institutions to scale, while optimizing balance sheets and improving time to funding for borrowers. Since data is updated across systems in real time, financial institutions can also run faster more accurate reports to achieve easier regulatory compliance as well as insights to guide future actions.

Migrating lending processes to a platform solution allows agents and lenders to communicate seamlessly in real time about deal syndication and distribution. Have you considered how a platform approach to digitization could transform your financial institution?

The attributes and benefits of a platform environment are two things that Altaras and Coustere know well thanks to the recent integration of Finastra's Fusion Loan IQ servicing solution with HUBX Arranger, a digital front-office platform designed to eliminate manual workloads and improve efficiency by harnessing data insights and automation.

According to Altaras, collaborations like these are offering financial institutions a way to leverage digital technology across the end-to-end loan syndication process, making it possible to easily manage deals and grow portfolios.

Platforms rule, how end-to-end loan syndication happens

The integration of the HUBX digital front office platform with Finastra's Fusion Loan IQ, is made possible by FusionFabric.Cloud.

To comprehend the full benefits of FusionFabric.Cloud, it's important to understand the platform concept. Platforms house digital products. APIs form an integration layer, supporting rapid connections between systems and making it possible for them to communicate.

"FusionFabric.cloud platform allows banks to collaborate safely on a joint book running, (where syndicate lenders, co-book runners, primary banks and other lenders all work and collaborate together on a single platform," said Altaras. "While banks can collaborate in a standardized manner, each one manages its own hub where data is ring-fenced and private."

The connectivity of the two systems works particularly well for syndicating loans but is equally amenable to re-syndicating a paper due to an amendment, such as changing the facility amount or a renewal.

"HUBX Arranger works hand in hand with Fusion Loan IQ," said Altaras. "The connectivity between the two systems utilizing FusionFabric.Cloud allows for an ongoing exchange of information between the two systems. The combined solution then allows banks to quickly and easily syndicate and re-syndicate as needed."

One of the biggest advantages of moving to a platform approach is the ability to manage any deal of any size from a single environment. It's a powerful capability that enables a host of actionable insights that financial institutions have never been able to access before.

Thanks to the data integration capabilities of HUBX, combined with the strength of digital analytics and automation, banks are now able to easily understand which potential lenders will make the most positive contributions to the syndicate with the least amount of risk.

It's what Coustere refers to as the network effect, helping the financial institution become a marketplace by easily scaling between deals in a cost-effective manner.

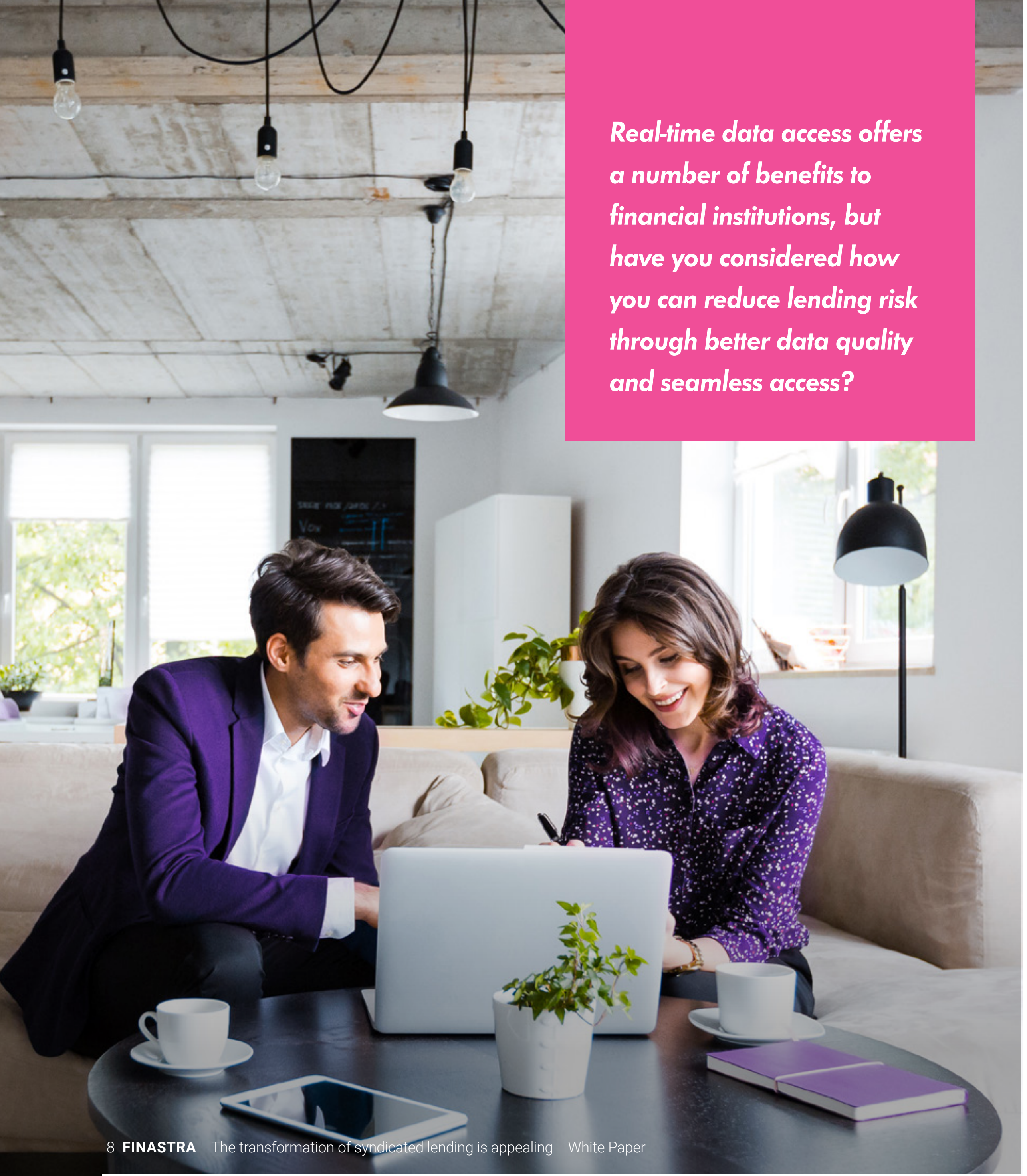
"FusionFabric.Cloud platform coupled with HUBX and Loan IQ allows banks to collaborate safely on a joint book running, where syndicate lenders, co-book runners, primary banks and other lenders all work and collaborate together on a single platform."

Eyal Altaras
Director of Global Solution Consulting, Finastra

Fusion Loan IQ and HUBX powers your syndicated lending

Integrated solution using Finastra's FusionFabric.Cloud platform, Loan IQ and HUBX

- Centralized repository holds information and documentations for every deal
- Automated investor selection and matching
- Support for multiple concurrent deals
- Seamless tracking of all loan positions from a single portal
- Higher quality insights in real time
- More accurate data reporting



Real-time data access offers a number of benefits to financial institutions, but have you considered how you can reduce lending risk through better data quality and seamless access?

For banks worried about protecting data in such an interactive environment, Coustere is quick to reassure.

"HUBX has been designed from the ground up to ensure that data is brought back into the bank, that it's connected to banking core systems dynamically and it reflects at any given point the full picture," said Coustere. "The idea is to ringfence and protect the data, so that banks can connect with each other without compromising any of their proprietary information or capabilities."

Thanks to the connection through FusionFabric.cloud, data from HUBX then also flows seamlessly and securely into Fusion Loan IQ. Data in one is automatically populated in the other synchronously.

With more interested parties than paper to share, a financial institution in this position has a few choices, such as increasing the deal size or reallocating positions.

The ability to dynamically update data in both Fusion Loan IQ and HUBX and share it across the platform provides an up-to-the minute picture of where the deal is, providing greater and more accurate details for making decisions on how to best proceed.

The data integration even facilitates financial institutions as they test market appetite for potential deals and arrangers as they manage margins.

In the end, the push for a new and dynamic way of working is accelerating across syndicated lending, and platforms make it possible for financial institutions to jump right in, upgrading to a more efficient way of working.

To learn more about the platform environment in syndicated lending, you can listen to the recorded webinar or schedule a demonstration to see the HUBX and Fusion Loan IQ integration in action.

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About the author

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Director of Global Solution Consulting at Finastra

Eyal leads the global solution consulting team for lending at Finastra. He is a subject matter expert in loan trading and settlement. Eyal has been with Finastra for 23 years and was one of the original designers for the market leading Fusion Loan IQ.

Additionally, he has expertise in trading, P&L, accounting mapping and regulatory compliance. Prior to Finastra he held roles in the lending businesses at financial institutions including Citibank. Eyal holds an MBA in finance from the City University of New York.

Contact us

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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 top 100 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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ID-9852 / 0821