FINASTRA

Lending in the new normal series #5

Is syndicated lending ready to innovate?

Syndicated lending is a colossal, $4.5 trillion market[1], essential to the functioning of the global financial system. In recent years, it has seen a rise in the number of participants in deals: as many as 2,000.

And while there has been some increase in online venues to help newer participants, the market remains fragmented, siloed and non-standardized, despite its size and importance.

The LMA's recent FinTech Survey[2] underscored this lack of technical sophistication. It highlighted a knowledge gap among over 75 percent of participants around the ways in which new technologies can be practically applied to business needs.

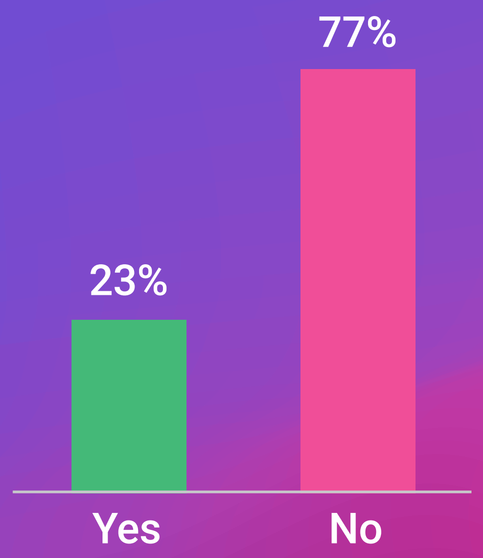
Fragmentation in syndicated lending leads to one problem in particular - identifying a single source of truth. While the source should of course be the agent, the widespread use of spreadsheets or functionally inadequate systems means that there is still an issue identifying the source of truth in the market.

The lack of standardization in the industry adds complexity. Organizations have to manage their syndications – and the way they communicate with partners – in different ways. And while some servicing systems are on the API journey, they tend not to integrate well. Some smaller agents still run syndications from spreadsheets, and this lack of technology can prevent them from taking on more business.

Limited technical sophistication makes it tougher to manage the business, especially against a macroeconomic backdrop of low interest rates and relatively low agency fees. It also limits the extent to which lenders can capture client relationships with Fortune 500-sized companies, where they could potentially grow fee-based revenues. Innovation in syndicated lending has been slow in past decades: disconnected spreadsheets are commonplace, and multiple notifications are still issued for every rollover.

Finally, the private, unregulated nature of syndicated lending means access to deal information is often word of mouth, which blocks entry for new participants. It also reduces liquidity, which is further restricted by issues around timely settlement in secondary trading.

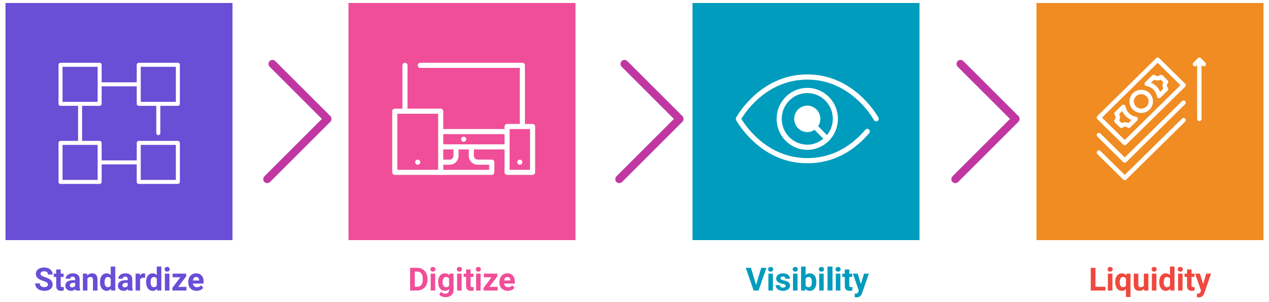
Do you believe you know as much as you need to about fintech, as likely to impact your business?



1. https://blogs.iadb.org/ideas-matter/en/covid-19-and-the-deglobalization-of-banking/
2. https://www.lma.eu.com/news-publications/press-releases?id=177

To become more attractive, syndicated lending is an asset class that needs to change

$4.5 trillion market



We see a path that begins with standardization, because once you standardize, you can digitize; once a market is digital it becomes more visible to other participants; and more visibility means more liquidity.

The LIBOR change has been a catalyst for this. But could it be distracting people from the bigger picture? The market is focused on transition when there are important issues to consider – around what comes afterwards and what needs to happen to service the needs of lender groups.

If it was digital-first and API-enabled, syndicated lending would be able to absorb changes such as the LIBOR transition more easily. It may be that alongside LIBOR reform, the rise of APIs is the other powerful catalyst needed to move the industry forward.

People are ready to embrace technology: the fact that 2019 was the year of the LMA's first FinTech conference may have been an important signal that syndicated lending is getting ready for the digital journey.

About the author

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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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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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