Creating Smarter Lending Systems

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Overview

Lending is a fine balancing act for most Banks and Financial institutions today. With stringent and constantly evolving regulations, shrunken loan volumes, high customer attrition, and the demand for transparent processes, the going has become tough for financial organizations, especially after two back to back global financial meltdowns. The impact of these changes has been dramatic as well. Banks are increasingly clocking low profits. Their processes have become long drawn, complex, and inflexible. Audits are more stringent and promotional spends to capture more customers are at an all time high.

Seemingly, there seems to be no respite. The crises having affected economies of most countries across the world have spurred governments into action. They have retorted with strong and continually evolving regulatory measures.

All these factors are combining to compel banks and financial institutions to bring about transformational shift in how they manage operational quality, service customers with alacrity and efficiency, increase transparency and respond to regulatory changes with the aim to capture a limited market.

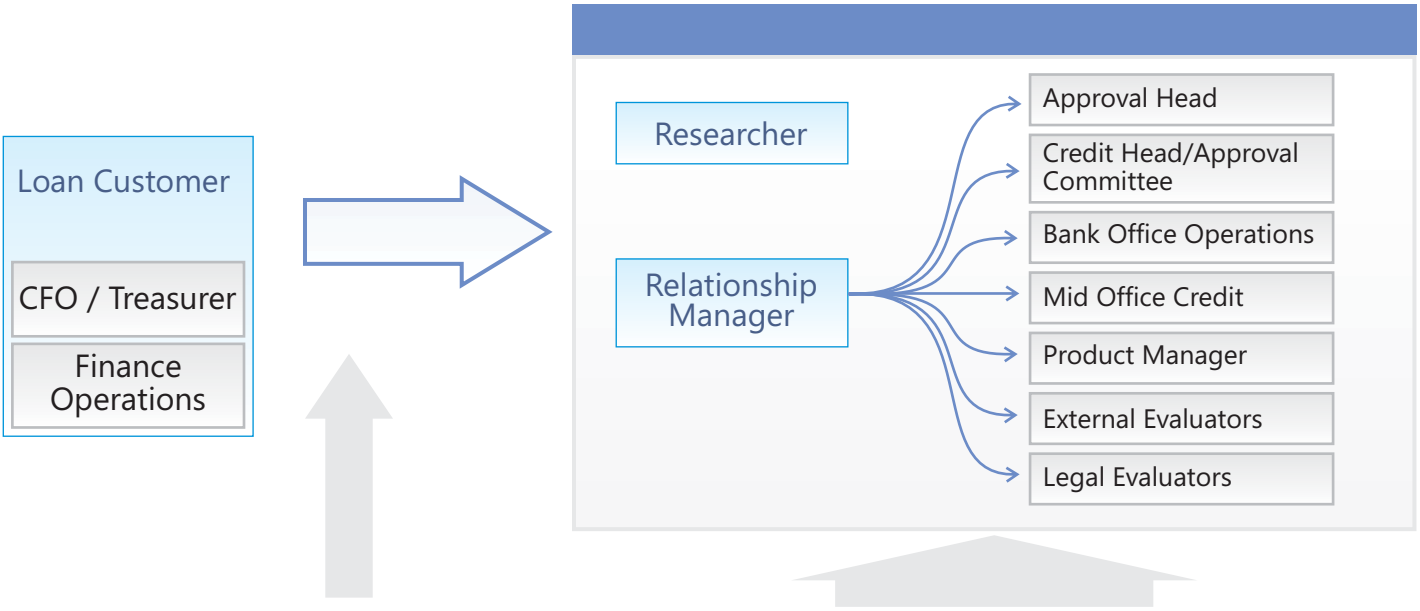
Manual Lending Process - The mammoth that lives

In its archetypal form, the entire lending ecosystem is managed manually, with multiple handoffs and loosely tied controls. Banks handling lending process manually end up facing the following challenges

- Relationship Managers struggle to access accurate information
- Business leaders lack a comprehensive approach in managing risk and collaterals, exposing the enterprise to high credit and operational threats
- Catering to audit requirements is strenuous as detailed trail of user action is not logged and there is no accountability
- Advising customers on the right product mix was always a challenge, as RMs rarely have access to reports on customer behavior which could be tied to relevant product mix and service offerings
- Weak customer services lead to higher attrition

Key Highlights

- BPM based solution to grow from 14% to 54% in next 2 to 3 years
- 70% Banks have plans to simplify their Lending Architecture
- 73% Banks are concerned with their Commercial Lending performance



Customer Experience	RM's Experience
High TAT Lack of Predictability Lack of Transparency	Sprends and inordinate time inordinate time in managing the proposal process No single source for all required information No timely and comprehensive data to be a consultative seller

Following the global meltdown, financial organizations operate under stringent guidelines and a lot of pressure to meet multiple stakeholder requirements. Banks, as a result have started ushering in automation of their lending processes. Banks have a choice between Packaged Applications or a BPM Platform based Loan System.

Packaged Applications

A packaged Applications are best suited to meet the current business need of a LOB, delivering all necessary features and functionalities to meet existing business requirements. All necessary workflows, business rules and logic, checks and balances and documentation generation are part of the packaged application. A packaged application seems to be the best approach for short term as it is built around solving a specific problem or opportunity, the resolution of which is immediate in nature.

Packaged Applications however lose their edge when long term benefits are weighed. These applications are rigid. The architecture of these applications is such that entire process flow, data intake, business rules and documentation support are inside the packaged application and as such any change requires coding, testing and deploying. Hence as a bank scales up its operations or gears up to take on new regulations and trends, customizing these applications is often an expensive and slow process. Since these applications are standardized banks cannot leverage them to create unique processes, thereby losing out on a major differentiation factor.

In today's cut throat financial landscape, this can prove to be a big window of opportunity. Also as customer segmentation is becoming more and more distinct there will always be need for three different packaged applications to meet the need of Retail, SME and Corporate customers.

BPM Platform Based Loan Origination System

The BPM philosophy is focused on transforming business processes. The underlying principle is to help enterprises stay ahead of their competition with continuous process improvement. Equipped with BPM technology, enterprises can effortlessly manage changing business dynamics. BPM tools make this possible by abstracting the process logic and business rules.

BPM platforms provide a complete lifecycle management of business processes. They integrate astutely with existing and myriad technologies. Leveraging these solutions, enterprises can embed efficiency among people, processes, content, and technologies. BPM Platforms also allow reusability of organization's investment by retaining parts of existing business application that has been built over many years and has lots of business knowledge ingrained in it.

BPM platform based loan solutions offers a smarter option for Banks and Financial Institutions to transform their lending process. While BPM platform provides the agility, process transparency and continuous improvement platform, the Loan solution accelerator built on top of it has industry best and next practices.

The general perception is that different aspects of a lending process need to be managed differently. Each product line, customer segment needs detailed understanding and bespoke solutions to arising challenges.

A granular look reveals that the basic underlying principle remains the same. Applying intelligent business rules can go a long way to serve the purpose.

BPM platforms are rules driven and hence are future ready. Banks can easily respond to new regulatory requirements and opportunities as they arise. As a result BPM solutions create better RoI. BPM solutions save organizations from the trouble of adding processes and technology to manage each arising challenge. Delivering transformational results, a BPM platform based Loan solution delivers the following advantages to a bank

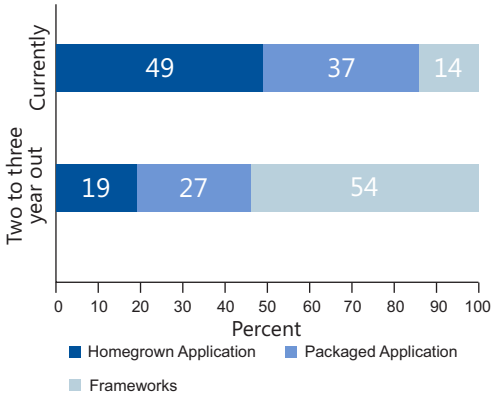
- End to End automation of lending process with optimized workflow, that reduces cycle times drastically
- All three lending system Retail, SME and Corporate on the same platform
- Brings about predictability, transparency and Management's visbility in process for better decision-making
- Allows customer facing employees to focus on sales and enhancing services passing non-value add data entry activities to back office / operations teams
- Provides an overarching view of all existing loan systems to give stakeholders access to all relevant information centrally
- Manage change effectively as requirements, laws, processes, and regulations evolve
- Allows for expansion from department-only processes to even broader BPM for greater business value

Extending BPM to a Hybrid Platform

Banks and Financial institutions stand to gain more than just process transformation when they leverage a BPM application. A BPM application can be extended beyond just a single process to include different variations of the process and also transform independent Line of Businesses.

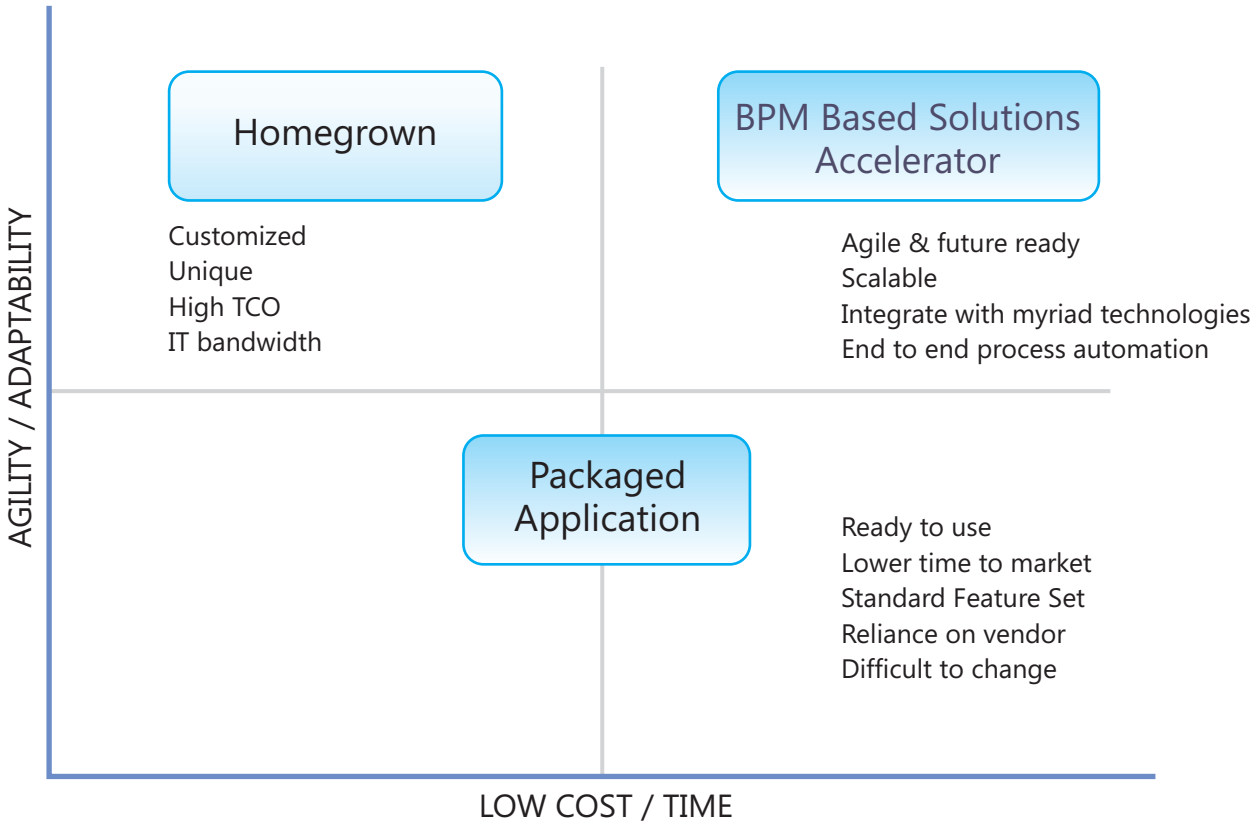
BPM platforms are highly scalable. While a Bank may start with a single process such as Account Opening or Loan approval, the same platform can be extended to transfigure multiple processes such as Credit Card Issuance, Corporate Lending, SME Loan approval, Wealth Management and so on.

Gartner, world's leading IT research firm in one of its study indicates "Flexibility of Frameworks is driving banks to not only look towards BPM for loan origination but for the enterprise processes".



Source: Gartner Report-Four technology approaches to retail loan origination published: 23 November 2011

Gartner in one of its study in 2011 predicted that preference for BPM solutions will grow from then 14% to almost 54% in the next two to three years. That is a trend which is very much evident now.



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