A Point of View by Oracle Financial Services

Credit Management Sync or Sink

Rethinking Corporate Credit in the Light of a Sluggish Credit Market

Today's sluggish corporate credit market and vulnerable credit quality gives a greater imperative for banks to improve their credit management systems to reduce risk exposure and cost of business.

The main issue plaguing credit management operations in banks around the world is getting the right information to the right user at the right time.

Given the size of credit quantum, there are usually several stakeholders in the credit management process within the bank.

Externally, there are the regulators, customers, guarantors, counterparties and data providers such as rating agencies.

Internally, the credit management process would have to link with legal, capital approval, risk modelling, credit analysts, management, technology, mid-office, back-office, sales and executive management office.

External

- Regulators
- Customers, Guarantors, Counterparties
- Data Providers (Ratings, Financials)

Internal

Credit & Lending Stakeholders

- Business Products Back-Office
- Executive Management
- Sales Team
- Technology Team
- Risk Modelling
- Credit Analyst/ Officer
- Mid-Office
- Legal Team
- Capital Approval

Six Blind Men And The Elephant

The challenge arises when each stakeholder uses a different system to deal with different parts of the credit management process – not unlike the tale of six blind men and the elephant. Each man ended up with a different opinion of how the elephant looked like based on which part of the elephant they touched.

The disconnect may be at the organisational level or may be driven by the systems supporting the credit management process. For example, the system of record for an account tend to exist in different systems and is updated T+1 or T+2. As a result, there will be incomplete or incorrect information across multiple systems that are not in sync.

If the underwriter or credit has to make a decision, he has no idea if the information is up-to-date or real-time.

Approval systems may thus take weeks as it goes through various stakeholders who are looking at it through different systems, sometimes with offline collaboration.

This antiquated process affects credit approval and sales. Even a simple $1m overdraft for a client who already has a $50m facility may take more than a week to approve because of all the processes and paperwork involved.

Sub-optimal Output Affects The Bottom-line

It is important to note is that while all the stakeholders require a different view, the underlying information is exactly the same – remember the elephant?

Due to the disconnect between systems across stakeholders, bank officers oscillate between incomplete data or information overload.

The underwriting department may end up over-protecting the bank from market opportunities and end up arranging information instead of doing useful real-time analysis and advisory.

Sales may also end up chasing opportunities that are of poor quality resulting in sub-optimal capital allocation. Diversion of bank loans to unprofitable ventures may also affect loan repayment.

Corporate Customers Are More Digitally Literate Now

Although **90%** of the corporate credit management business comes from existing customers rolling over existing facilities, banks need to broaden the range of services offered to meet demands of corporate treasurers.

Corporate treasurers want more sophisticated banking services on their iPads and mobile phones but many banks still offer transaction-based interactions.

With legacy systems, it may be too expensive and time-consuming to roll out new services that can benefit corporate clients such as receivables management, forecasting and cash flow management.

There is pressure for banks' credit management systems to be more evolved as corporate customers become more digitally literate. Increasingly, the corporate ERP (enterprise resource planning) system can be more evolved than banking systems.

A more user-friendly interface and easier access to account information can combat the common grouse among corporate treasurers of decision delays and inferior communication from their bank.

Right Information to the Right User at the Right Time

Current home-grown or dated systems expose the bank to information asymmetry. Within the bank, various stakeholders have different reporting requirements. Management may want to look at the overall portfolio to make forward-looking decisions for the bank.

Regulators are also pushing for more up-to-date information as markets continue to be volatile.

However, the compliance department may take a long time to pull together all the information as collaterals may be captured elsewhere and trade finance may not know the current aggregate exposure to a country or sector. Regulator queries may require a large amount of time and effort but with low confidence in the quality of submitted responses.

For more information visit:
www.oracle.com/corporatebanking

Tremendous Opportunity For Greater efficiency

As the crux of the issue is around systems, there is a tremendous opportunity for banks to extract efficiency gains with a system update.

The global trend sweeping credit management systems in banks is to take it out of core systems and make it an enterprise solution.

This allows credit information to be aggregated but with different stakeholders viewing different information with a different dashboard. Management can look at the overall portfolio profile while sales can assess counterparty exposure.

IT May Be Forcing A Poor Fit

However, credit management is usually not seen as a prime candidate for transformation by senior management compared to other more “value-adding” parts of the corporate banking business.

When there is no top-level leadership to lead the bank to revamp credit management processes and systems, decision-making can be led purely from the technology side.

When the technology or IT department leads the charge with little strategic decision-making from the business side, the bank may end up with a solution that may not be the most appropriate for efficient credit management and requires a lot of integration.

The IT department may want a sweeping standardisation across the enterprise for greater overall efficiency. However, this may lead to some banks adopting document management systems for credit management.

This may solve the problem of paperwork but does not address business processes that are needed to link the many stakeholders in the credit management process. The lack of domain expertise in this field may also result in long-drawn implementation and massive integration to business user requirements later on.

Incremental Innovation Drives Bottom Line

A complete overhaul may be prohibitive in terms of cost and effort required. However, banks can focus on opportunities with an efficient credit management system with a proper limit management system and back-end processing system.

Some banks have successfully introduced innovation in credit management through incremental transformation.

According to the CEB TowerGroup 2015 Adoption and Investment survey, better risk management and process improvement stand out as the most important value driver for technology investment.

Project sponsors for credit management can start by updating the system of record or the credit approval and monitoring system – areas that will have a direct impact on risk management and process improvement across different divisions.

By achieving these larger business goals, the sponsors will be able to secure broad project and budget support during system evaluation and investment decision.

At the same time, analytics can be effectively utilised. Currently, the bank essentially provides a data dump to their customers with reports around balances, payments, stock transaction. By providing insights and trends information in addition to more flexible reports, banks can help their clients with their own tracking and forecasting.

There are real opportunities for banks to revamp their credit management systems to reduce exposure to risk, decrease turnaround time for loan processing, reduce cost of servicing and extract greater efficiency from their existing business.

Good economic conditions may mask credit problems by allowing even the marginal credits to perform well enough to avoid defaults. However, the current market volatility means that banks need to be prepared with the right tools and accurate information to avoid potential reputation, financial and operational risks. It is sync or sink for credit management.

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