A Point of View by Oracle Financial Services

Unshackling Syndicated Lending
Headwinds Faced in Syndicated Lending

The current model of syndicated loan processing may hamper banks as they struggle to cope with the fast-paced industry growth and evolving customer demands.

Currently, the market is monopolized by larger players - with 50% of global syndicated lending volume being managed by the Top 10 banks such as JP Morgan, Bank of America Merrill Lynch, Citi, Deutsche Bank and Barclays.

Domestic banks are stepping up due to increased economic growth and the growing need for corporate funding in their home markets. In Asia, the pending ASEAN Economic Community’s financial and banking integration in 2020 has seen larger domestic banks take steps to establish offshore branches in the region to support their clients’ business growth.

At the same time, non-bank financial institutions such as pension funds, asset managers and insurance firms, have stepped in to fill the gap when banks retreated from syndicated lending to de-risk their balance sheet and respond to Basel III post-crisis.
However, business growth in syndicated lending is still shackled by manual processes. Home-grown systems cannot adequately support demands from internal stakeholders such as audits, compliance, sales; as well as external stakeholders such as clients and regulators. Much of the challenge is due to the nature of the business. Syndicated loans are usually complex structures with up to hundreds of borrowers and lenders involved in a single project.

It becomes even more complicated in the secondary loan market, where lenders buy and sell loans. Lenders still interact manually, typically by fax, with multiple agents on multiple loans.

Operational inefficiencies make it difficult to reconcile positions between borrowers, lenders and loan agents. Position breaks may also happen when the record of loan commitment balances registered by the agent differ from those recorded by lenders. Banks relying on manual processes may also find it difficult to cope with different regulations across different markets.

Thus, banks may be missing out on larger and higher revenue-generating syndicated deals due to the great manual effort and time required to execute these more complex deals.
Although the U.S. has seen a rally driven by expectations of looser financial regulation under the new Trump administration, there may little respite in the regulatory pressure on anti-money laundering and cyber security. As the regime changes and its implications come into focus, industry observers expect an increased use of sanctions as a foreign policy tool, adding a layer of complexity for lenders when evaluating new transactions and investments.

Proposals on tax reform will also affect highly leveraged corporations to review their debt load and re-evaluate their capital structure as the new legislation may reduce deductible interest expenses for tax.

At the same time, lenders are coming to terms with the operational impact of Brexit on the syndicated loan market. Multi-jurisdiction lending arrangements to large European blue chip companies will be especially affected under parallel or overlapping regulatory regimes.
Blockchain, or the underlying distributed ledger technology could play a role in speeding up the syndicated lending process from origination to payoff. By facilitating real-time settlement and providing an integrated database, blockchain can benefit borrowers, agents and asset managers in both the primary and secondary market.

A recent development that has made blockchain a serious contender is the ability for parties to include details of a trade to a distributed ledger but limit the level of transparency of these details. It is thus possible to broadcast the transaction with only the buyer and seller seeing the necessary details while everyone still works off the same set of data on the ledger.

Blockchain is still a long-term game as use cases are still limited. However, its inherent concept of an open ledger, decentralized platform and integrated central database offers the potential for banks to address costly manual processes in a syndicated lending arrangement.
Unshackling Syndicated Lending

Current settlement periods of 19 business days or more limit the growth of the syndicated loan market by tying up precious capital on the sell-side and building costly credit lines on the buy-side.

There is a need to move from a product or process approach to an application-oriented approach to ensure that syndicated loans catch up with the other asset classes with shorter settlement cycle and more efficient processing.

Straight-through processing has been a challenge in syndicated lending compared to other asset classes because of its contract-intensive nature and the amount of information that is exchanged between buyers, sellers and agent banks.

Reducing cycle time to settlement can potentially reduce counterparty risk, drive more efficient capital allocation and increase market liquidity and reduce settlement costs.

Straight-through processing releases capital for the lender, including the lead arranger who should set aside regulatory capital for the time that the exposure has not been syndicated. Trading desks can also engage in new trades if position limits are reduced through quicker settlement.

While the syndicated lending market has made progress on cutting down paper-based processes, the current scenario is still far from ideal. Investing in more contemporary technology architecture offers the opportunity for banks to inter-operate with various other core systems in a more seamless manner. This reduces processing time and allows for more focus on large, more complex loan arrangements.

For more information visit:
www.oracle.com/corporatebanking
# Unshackling Syndicated Lending

**By Investing in Loan Syndication Technology, Banks can Reduce:**

- Time taken to service loans
- Errors from manual processing and human input
- Errors information flow across multiple parties
- Systems needed across different countries and currencies
- Information silos across multiple systems

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<th>Benefits</th>
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<tr>
<td>Less risky loan syndication process as loan positions are viewed and reconciled in real-time</td>
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<tr>
<td>More efficient capital allocation</td>
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<td>Increased speed of execution</td>
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<tr>
<td>Error-free straight-through processing</td>
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<td>Better visibility of operations and exposure by currency/country/industry</td>
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<td>Better reporting &amp; data analysis</td>
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