# How a "Full Picture" of Customer Financial Risk Could Revolutionize the Asset Finance Origination Process

## HOW A "FULL PICTURE" OF CUSTOMER FINANCIAL RISK COULD REVOLUTIONIZE THE ASSET FINANCE ORIGINATION PROCESS

"Should I approve this lease/loan to this customer?" It seems like a fairly straight-forward question, one that asset finance professionals ask themselves repeatedly every day. But when there are thousands or possibly even millions of dollars at stake as is common in the commercial asset finance industry, it's often not an easy question to answer. In difficult economic times, it is also one that is certainly not taken lightly.

In striving to make a profit, banks and other asset finance operations realize they must also take risks. But they are careful to strike a balance by incorporating a thorough risk/reward analysis into the asset finance origination process. To do so, credit analysts try to evaluate an applicant's total credit, capitalization, collateral, and overall attractiveness by painting a picture of their current financial risk across all their business dealings. In order to make a financing commitment and offer competitive terms, each application must meet certain risk/reward criteria. These requirements must be in synch with the primary goals of the origination department—namely to increase the volume of contracts approved and booked, to earn a profit, and to identify and reject high-risk deals that could reduce the company's overall return-on-assets. The success of the entire origination process, however, hinges on one necessary core ingredient: customer financial data.

## CURRENT CHALLENGES

*High Costs & Low Productivity*

Despite its critical importance, the current process of "originating" and then securing a commercial agreement is often heavily manual, labor intensive and inefficient. Some companies utilize spreadsheets or even paper-based processes to manage customer data and do credit analysis. Others have home-grown systems that require major coding changes to maintain, putting significant drains on IT resources and budgets as their company expands. At the time an application is first "originated" or received, customer data must often be entered once, and then re-keyed manually multiple times into different credit processing systems, each with different log-ins. In addition, changes or updates to customer financial data often do not automatically filter down into these systems, so the endless cycle of manual, error-prone re-keying of data is repeated yet again. This inefficient process not only reduces the productivity of valuable employees and increases costs, but it also leads to an environment where unintentional errors can and do occur frequently, creating serious data quality concerns and potential compliance risks.

*Slow Turnaround Time*

Because the overall process is so costly and resource intensive, it often takes several days or longer for credit applications to get approved and finally booked into back-office processing systems. Adding to the frustration, some applications often disappear into a "black-hole" of processing without any clear visibility into the status of the application along the way, and no reporting capabilities are available to tell customers why applications are being delayed. In evaluating why deals are lost, many asset finance groups find out that their process simply took too long and a potential customer chose to give their business to the company who got back to them fastest. Whether representing large-ticket or small-ticket items, customers need asset financing to operate their businesses and as such they all appreciate fast responses and good customer service. Slow turnaround time means lower volumes of booked deals, an important measurement of success and critical factor of profitability for financial organizations.

*Poor Data Synchronization*

In addition to process-related frustrations and customer satisfaction issues, most asset finance management professionals agree that one issue stands above all others in hindering the success of their origination team: they cannot easily "see the big picture" of a customer's credit risk across their entire account portfolio. A large corporation might have relationships with a particular customer in many different areas of the company, and those financial transactions or other information sources may be stored in separate, disparate back-office portfolio management systems that do not talk to one another. This situation gives rise to serious "information leaks" that spring from the inability to feed customer data back and forth across multiple back-office systems within a single organization. As companies have changed and grown, either by acquisition, expansion of portfolios or extension into new markets, the asset finance origination process has gotten much more complex. Credit departments must now evaluate a potential customer's credit risk across different business units or geographic borders. Because changes cannot filter down automatically into the appropriate back-office systems, customer data can quickly become out-of-date. As more and more finance companies service multiple platforms, data accuracy has suffered and the need for some kind of “smart synchronization” of customer information across business unit boundaries has grown exponentially.

*Poor Data Quality*

When finance organizations are challenged by error-prone data entry, slow update processes, and data synchronization issues, the result is that important credit decisions are often made based on insufficient and/or incorrect customer data. For example, when a recent customer delinquency fails to show up in the financial risk assessment, a bank could approve a lease to a high-risk customer in error. Other data issues that could similarly jeopardize the success of credit risk management departments include:

- Incorrect industry codes
- Incomplete data on total lease or loan participations
- Inaccurate underwriting exception capture
- Lack of clear reporting
- Incorrect risk ratings or changes to risk ratings
- Missing off-balance-sheet exposure

Any and all of these data quality problems could lead to the approval of risky deals that increase exposure and negatively impact profitability in the future, upsetting the precarious balance between risk and reward for that financial institution.

## THE SOLUTION

The asset finance origination process is primed and ready to follow in the footsteps of other business process reengineering efforts, such as purchasing or supply chain management, in order to reduce risk, boost productivity, cut operational costs, improve customer service, and help asset finance organizations become best-in-class competitors. To do so, technology must play a major role. Companies are beginning to ask for more sophisticated front-office capabilities from today’s asset finance solution vendors. Namely, they want a system that gives them an easy way to access real-time customer financial data across all their business units. As such, they need a solution that has the ability to sit on top of all those disparate back-office systems, consolidate all the information and churn out one cohesive view of a particular client's credit risk such as credit bureau information, scorecards, payment history, delinquencies, and exposure. An ideal solution would cover the entire origination lifecycle from quoting opportunities, through credit decisioning and documentation, all the way to approval and booked deals. Such a system would enable a constant stream of fluid customer data with these specific capabilities:

- Robust integration between front-office origination systems and disparate back-office portfolio management systems so all customer data can be collected and stored in a central repository.
- Direct online access for users to instantly see a single, consolidated view of a company's whole financial and credit risk picture.
- The ability to key-in customer data and updates once (without logging in multiple times) so information is automatically distributed to appropriate back-office systems using real-time "smart" synchronization.
- The ability to keep metrics on their origination process, analyze success of distributed sales channels, and generate standard and customized reporting to better manage portfolios.
- Intelligent, adaptive configurability so they can easily administer changes on their own, as they need to, as the company changes and grows.
- Support for global deployments with multi-language, multi-byte, and multi-currency capabilities.

## BENEFITS

*Reduced Costs & Increased Productivity*

By eliminating steps, improving workflow, and limiting the manual tasks required to process applications, costs would be squeezed out of the process at every turn. Moreover, asset finance professionals would be freed from paper shuffling and manual re-keying of data. They can then refocus on more strategic, revenue building initiatives such as increasing the volume of booked deals which will no doubt result from such considerable process improvements.

*Faster Response Time*

A direct benefit of a better coordinated origination process and improved data flow is faster customer response time—in many cases the time from credit application to approval can be shortened from days to mere minutes. Whether financing direct or via a dealer network, a quick yes/no answer on an asset finance application means customers get faster access to the capital they need to grow their business. The sheer ability to make a fast decision will not only result in greater customer satisfaction, but it could mean the difference between getting a deal and being passed over for a competing offer. In the asset finance arena, speed could therefore open the doors to new business and represent a significant competitive advantage in the industry.

*More Flexibility*

With a flexible, web-based front-office system in place to automate their origination process, asset finance professionals can gain the ability to administer and configure their solution to the way they do business, rather than have to alter their processes to fit within the limits of the technology. Companies can be in control of customizing forms, workflow and business rules, and can share best practices across their organization. As their business grows, they can make their own changes without expensive coding changes or IT upgrade pain, and they will not have to stop and ask their software vendor for assistance. This type of an adaptive, scalable solution further streamlines the origination process and positions the company for future savings.

*Reduced Risk*

With full integration across back-office processing systems and automated data synchronization, analysts in every location can have total visibility over the customer's complete account portfolio, including those originating in other geographic areas. Because updates are routed automatically, they see the most current information available for that client. Credit analysts can then make more informed decisions, and do so more rapidly, by viewing consolidated data about outstanding contracts, payments, delinquencies and more. So-called "smart" synchronization of customer data and comprehensive portfolio visibility is a catalyst to better decision making, which in turn decreases exposure, mitigates risk, and improves the bottom line.

## CONCLUSION

By modernizing a mission-critical financial process and providing easy access to cross-company, up-to-date customer financial information, everyone involved in making commercial asset finance decisions could see significant efficiency improvements, lower processing costs, reduced risk, and higher overall profitability. Because the business need is so great, the related benefits so numerous, and the negative impact of risky decisions so high, any asset finance management software vendor hoping to make headway in this area may need to step it up. Asset finance companies are beginning to expect that their technology investments will pave the way for complete account visibility. Indeed, this burning desire for "good customer data" could end up being the engine to fuel major process improvements in the near future and may ultimately help revolutionize the leasing originations process as we know it.

## About International Decision Systems

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