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WHITE PAPER

Options for process automation of corporate loan approvals

Business Process Modeling (BPM) technology promises to automate the corporate loan origination process, while retaining subjectivity in decision making. It covers corporate, mid-market and business banking.

Globally, most banks have a semi-automated corporate loan approval process. They deploy systems for certain key elements of a loan life cycle, such as risk scoring, loan and collateral management. However, for proposal management they rely on word documents and emails. This is due to the relationship-centric nature of corporate banking which demands a level of subjectivity in decision making.

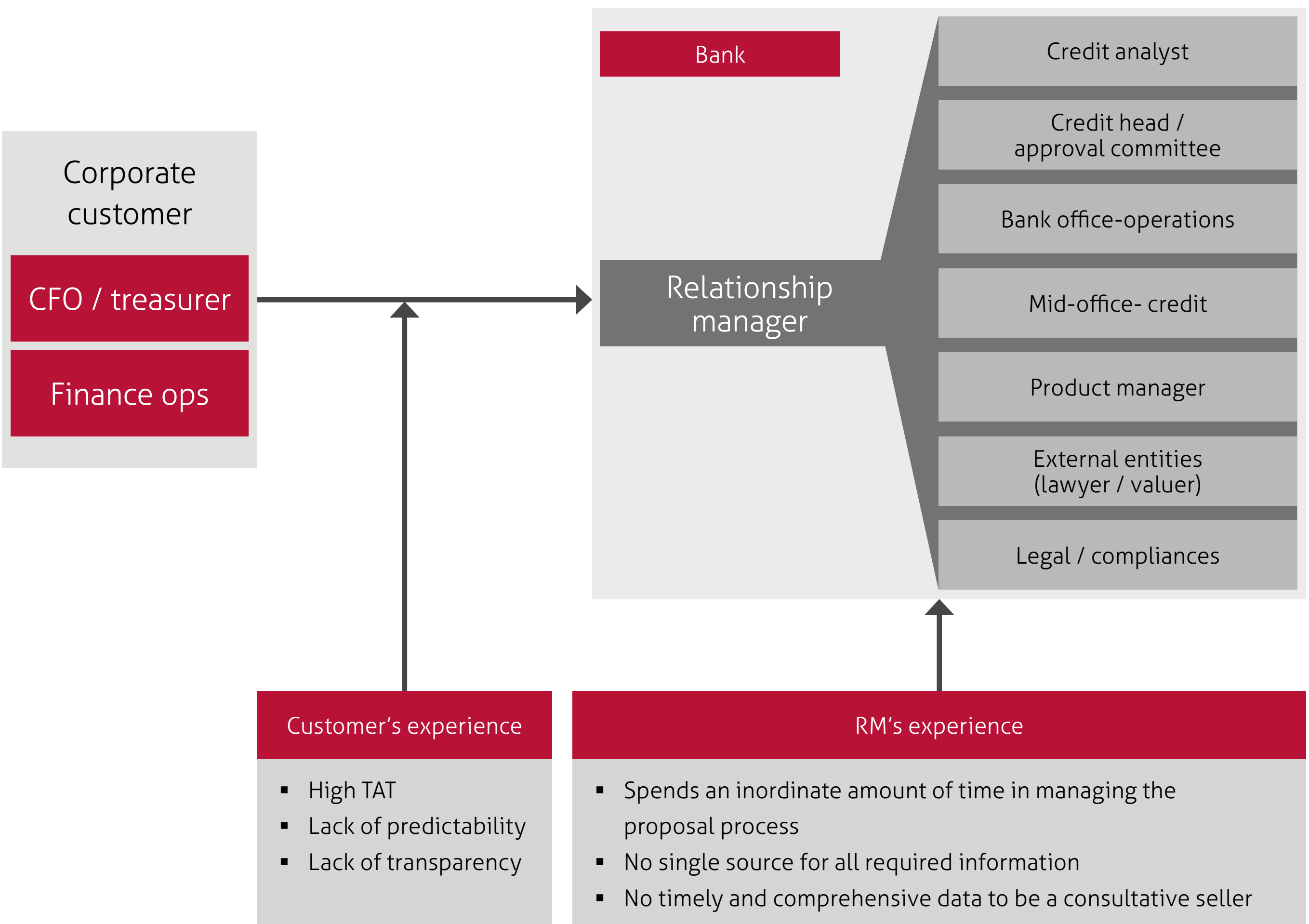
Retail lending counterparts of banks have automated not only the approval process, but also the actual credit decision. This has created the impression that end-to-end automation is the only option. So most corporate lending businesses, unless pushed to a corner, do not sponsor automation initiation.

The schematic below highlights the obvious problems with existing practices.

Existing practices are highly manual processes with multiple handoffs. The Relationship Manager (RM) is responsioble for the approval process. The other key stakeholders / influencers are:

- **Customers:** They see the bank's RM as a consultant: One who will advise them on the appropriate product mix, based on their needs / utilization patterns and the bank's policies
- **Business units:** Banks are under constant pressure to realize revenues from assets faster, while bringing costs down through operational efficiencies
- **Regulators / Chief Risk Officer :** Banks have to be more proactive and comprehensive in exposure monitoring, collateral management and covenant tracking. This ensures compliance with regulatory norms, besides mitigating credit and operational risks
- **Auditors:** They demand a complete and detailed trail of user actions throughout the approval process

HIGHLY MANUAL PROCESSES WITH MULTIPLE HANDOFFS



- **Competition:** Even a day's delay or uncertainty in responding to the customer could result in losing business to the competition

Post the industry meltdown, there is pressure on the retail business, with increasing demands from stakeholders, especially regulators. Banks have started exploring options for bringing some level of automation in the corporate loan approval process. However, most initiatives end up with either one of these outcomes:

- **No action:** The IT department tries to make do with a quick fix approach. While this approach is simple and practical, the ROI does not justify the investment in time and money and hence, no action is taken
- **Sub-optimal solution:** Some banks do take action, but they end up with an IT solution that only partially addresses the needs of all the stakeholders

Solution options

Each bank is unique in its business offerings, structure and IT set-up. Hence there is no single solution / approach that can solve their problems. Typically, banks adopt one of three technology choices:

The traditional monolithic enterprise application

Policies, processes and structures are different in each bank. They may either choose to develop an in-house application or opt for a product which does not use any proprietary tool. This approach would make IT procurement simpler and the upfront customization effort might also be manageable. However, these monolithic applications are not future proof. It is safe to assume that things will change as banks grow and new regulations come in. Customizing these applications for future needs would be a costly and slow process.

The quick fix solution – a workflow around the proposal document

This kind of solution enables collaboration and manual workflow. It allows users to work on the same word document, the way they do now. The only differences are:

- The proposal and other related documents would be stored centrally
- There would be no need for offline interactions, as the tool enables basic workflow

The biggest benefit would be that the user could still work on a word document. There is almost no need to change user behavior and prevailing practices.

These are simple solutions to build, yet not many banks have adopted them. The key reason is that there is less than the desired ROI due to the following:

- This solution addresses only the requirements of auditors. Other stakeholder needs like TAT reductions, predictability, transparency and access to credit (exposure) data are not taken care of
- The proposal data is captured as free text in the MS Word document, hence it cannot be utilized for:
    - Making the approval process more context sensitive
    - Defining rules for ongoing facility monitoring

The future-proof transformative approach – a BPM-based solution

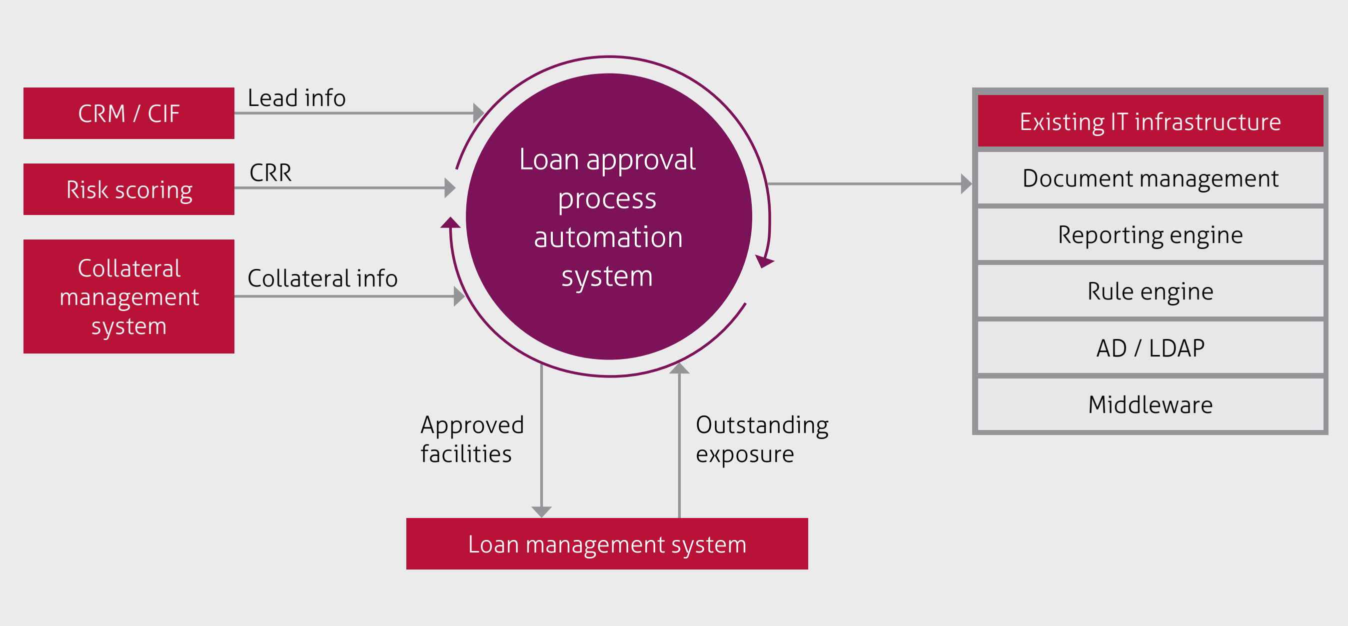
Banks can extract the most out of technology if they are open to adopting a more transformative approach. Adopting a BPM tool and doing a BPM / re-engineering exercise will help banks meet both short and long term objectives.

The general perception is that there are too many variants of the loan approval process in banks. Each product line and customer segment is assumed to have a custom process. However, close analysis reveals that while there are minor variants in rules and approval levels, the underlying process is the same across the bank.

An enterprise business process definition emphasis this approach. It requires collaboration between business and IT. This results in longer implementation timelines. However, it gives the bank levers to implement a future proof solution, which enables:

- Automating the loan approval process and implementing an optimized workflow, that enables improved TAT, predictability, transparency and better decision-making
- Segregating tasks to enable the RM to focus on sales and passing non-value add data entry activities to back office / operations teams
- Building a wrapper layer over all existing loan systems to give stakeholders access to all relevant information centrally
- Digitizing the proposal to online forms. This facilitates capturing information in an actionable format and reproducing it in a Word / PDF document in the bank's defined format for user reference

DEPLOYMENT OF A BPM-BASED LOAN APPROVAL SOLUTION



Since the process can be automated to granular activities, the business owner monitors and optimizes each activity, team structure, sub-process and overall process. The bank continues to evolve its processes and structures to meet business and regulatory needs with quick time-to-market. The transformation is spread over a longer period to make transition easy for people. This also ensures that the business is not adversely affected during this period.

Comparison of the three solution options

	Traditional application	Content-workflow management	BPM
Functional coverage	High	Low	High
Addresses all stakeholders' needs	Yes	No	Yes
Go live time frame	Long	Short	Medium
Future-proofing	No	Yes	Yes
Time-to-market of ongoing improvements / modifications	Long	Short	Short
Investment in technology	Medium	Medium	High
Leverage the technology platform across banks	No	Medium	High
Tools to enable monitoring and optimization	No	Medium	High

Technology consideration and final recommendation

BPM tools have evolved considerably in the last decade. They have proven to be useful across different groups within the bank. Modern BPM tools give a robust platform to design, implement and effectively govern multiple processes. They come with a range of integration capabilities along with rich user interface. Overall, they provide a good platform to implement an enterprise corporate loan approval process automation platform.

About Mindtree

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