FINASTRA

Lending

How technology is rapidly reshaping the lending business

The tech-driven processes that are streamlining workflows, cutting costs, and driving growth

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Introduction

From the oldest financial instrument to the adoption of AI: progress in the lending sector

Dating back centuries, the loan is one of the oldest financial activities on the market. Institutions have been lending money to customers almost since the beginning of civilization — and lending has continued to evolve and change in line with the commercial needs of institutions and their clients.

Over the past few decades the main area of transformation has been seen in the ways in which institutions have adopted technology to support the basic processes behind lending, from assessing clients' ability to repay, to working out relevant interest rates, to offering more complex arrangements such as structured finance and syndicated loans.

The lending sector is now moving into an accelerated phase of change, thanks to new technologies, notably artificial intelligence (AI) and digital assets technologies such as tokenization.

To compete in this new phase, increasingly dominated by new market entrants, financial institutions need to understand how tech-driven processes can help them retain a competitive edge – by improving client-facing as well as back-office systems.

So where are the biggest opportunities to streamline lending processes?, And what role will AI and digital assets play?

Streamlining lending processes

The biggest opportunities to streamline lending processes

While financial institutions are only too aware of the need to modernize and streamline lending processes, they also have to prioritize budgets and avoid disruption when introducing innovation.

Priorities should therefore lie with any processes that create friction between different players involved in lending, especially where those processes are still semi-manual.

Areas in which lenders can achieve immediate improvements within their processes include loan servicing automation and the drafting credit memos.

Eric Li, Head of Global Banking Research at strategic benchmarking, analytics and insights firm Coalition Greenwich, says that loan servicing automation is a low-hanging fruit that lenders can proceed with straightaway.

"The cost reduction is immediate, the benefits you realize are immediate and the returns are highly visible," he says. "Beyond that you are looking at the drafting of credit memos and agency workflows, perhaps more in the medium term than the short term."

> ***"For me, streamlining processes in lending involves reducing friction in operations without adding costs, and building a data foundation that allows the business to scale."***
>
> **Francisco Castaño Vega**
> Director Syndicated Loans Support, Caixabank

Reducing friction caused by manual work

Francisco Castaño Vega, Director Syndicated Loans Support, Caixabank, adds that one of the biggest opportunities is to streamline processes used in agency operations.

"There are areas where there is still friction because manual work is involved, and clients want a smoother experience – but we are all expected to deliver more with the same resources," he explains.

"Real benefits will be delivered by simplifying standardized credit workflows and reducing high volume, manual and agency tasks like notice registered reporting."

Sanitizing data

The other area for improvements is having more usable and consistent data, Francisco adds. "It's not about having more data, but having the right data to reduce reconciliation work and support better decisions."

In fact, says Vihang Patel, Head of Data and AI at digital market infrastructure provider Marketnode, there is a great opportunity to break down the silos between loan origination, the administrative agency and servicing.

"If you think about it, this has been one of the hardest parts of the process when we're talking about syndicated loans or even in general club deals," says Vihang. "That's where I see the big picture landing in the next couple of years."

The time is right for lenders to look at the processes that they use across their businesses and consider where and how they can be rationalized and simplified. Addressing these challenges requires reducing manual steps, simplifying the client experience, and standardizing data across internal systems and external partners — foundations that enable scale, automation, and better decision-making.

AI's role in lending

AI as a key driver of lending modernization

> *"From the operational point of view, the opportunity is clear: use AI to eliminate low value manual work today and build a data foundation that can let us automate much more of the operational process tomorrow."*
>
> **Francisco Castaño Vega**
> Director Syndicated Loans Support, Caixabank

Efforts to streamline lending processes are not new, and institutions have invested heavily in platforms, systems, and standardization initiatives over time.

A key missing element in all of those efforts, and a barrier to realize the vision of a smoother, automated lending experience has been a focus on operational processes, believes Vihang.

"Some initiatives were very bespoke in nature," he says. "One of the big areas of impact is when we can take a lot of unstructured data, then bring an inference to bear to make sense of it. That normally involves a lot of work that's manually done, and which is harder for software to do.

"Today's tools can bring all of that together into a workflow that is auditable, that compliance is comfortable with, and where the right escalation can be made to humans or the loan specialist at the right time, finally landing information into the system of record."

Areas for trialing AI

Eric adds that there is a big trend for AI to be trialed across all elements of lending operations, mainly to achieve cost reduction or to make processes more efficient.

"There are three main areas where people are trialing AI," he observes. "The first is helping analysts draft credit memos, pulling data from different databases and achieving big time savings.

"The second is concerned with fraud detection, where AI tools can identify strange patterns in incoming data. The third is checking for early indicators of loan default, so associated more with risk management."

Although such tools are driving process improvements, they are not yet at the stage when it comes to actual credit decisions, adds Eric.

"We think that's still a couple of years away," he predicts. "Credit decisions are not linear processes, and can be quite subtle."

Francisco agrees that the real benefits of AI so far have been on the operational side, such as structuring information, documents, emails, or PDFs.

"AI reduces manual work and accelerates onboarding, as well as improving data quality," he says. "We are using it to carry out automatic checks detecting inconsistencies, so the team can focus on exceptions."

As AI use becomes more common at both home and work, there's an assumption that it can be applied to every process. Yet in some cases, especially where lenders are dealing with complex loans, clients will still be keen for humans to be making the final decisions.

The rise of tokenization

The role of tokenization and digital assets in lending

Alongside AI, one of the most discussed topics in financial services today is tokenization – representing a relatively slow and cautious journey towards digital assets and currencies.

Eric believes tokenization is still a fairly tricky topic to debate within the lending ecosystem: "People think about loans as just financing, but at the end of the day they are payment products as well.

"We do see a lot of projects going across every institution we work with in terms of how they want to apply digital assets within their lending/payment ecosystems. But so far, everybody is doing something very applicable to their own institutional characteristics – because their loan portfolios are different, and the regulation they are subject to is so variable.

"It's therefore very difficult to generalize where we think the biggest winners will be, but it's likely to be in the emerging economic markets, because historically inaccessibility to loans has been the biggest sticking point there."

Lack of interoperability holds back tokenization

Vihang adds that he has seen a steady demand for credit-based products in this area: "When we look at the markets in general, what we call the real world asset markets and tokenization space, a vast majority is credit-based."

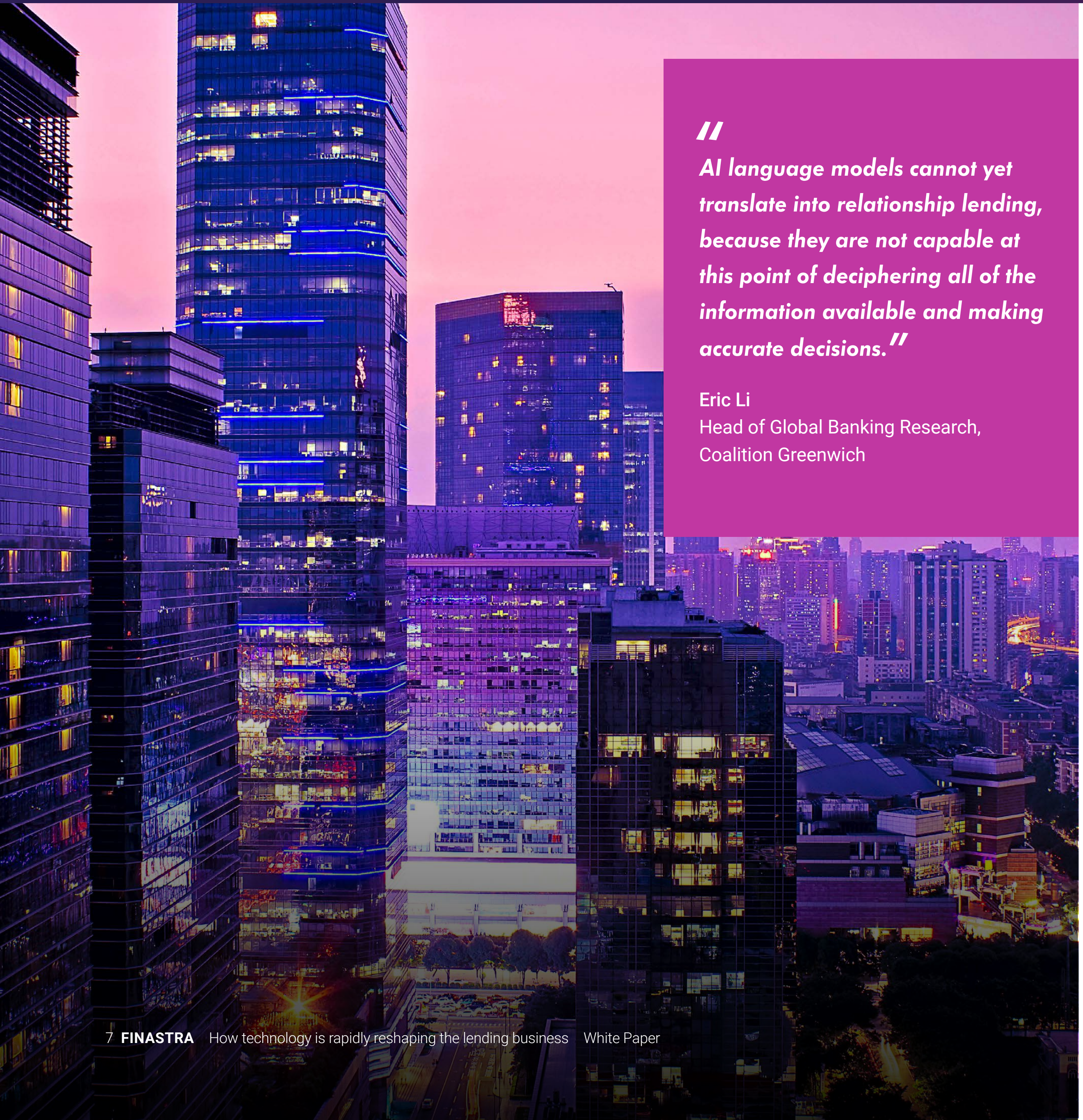
A second barrier is having the right data to tokenize currencies, Vihang adds. "Unless people go back to the starting point of having clean data, and being able to have a shared data standard, you're going to find it difficult to scale beyond a certain closed loop in which these assets are operating right now."

Francisco agrees that standardization is the key to the future success of tokenization in lending: "We need to find ways to adapt and to create a standardization organization that finally allows the industry to scale with both tokenization and automation in the sector," he concludes.

Tokenization brings efficiencies to the lending process, with near real-time payments and global accessibility. However, there are still differences between blockchain networks used to store information about transactions, while securities laws vary between jurisdictions, opening up potential risks and barriers for lenders.

> *"We do see the need for further growth in tokenization. But that will be capped by the current lack of interoperability, since everything is working in private permission networks right now."*

Vihang Patel
Head of Data and AI at digital market infrastructure provider Marketnode



> *"AI language models cannot yet translate into relationship lending, because they are not capable at this point of deciphering all of the information available and making accurate decisions."*
>
> Eric Li
> Head of Global Banking Research, Coalition Greenwich

Conclusion

The lending market will continue to evolve, but the biggest changes are still to come

There is no doubt that technology has brought huge change to bear on the corporate lending market, or that organizations are securing early wins by adopting process automation and AI tools that reduce manual tasks and refocus finance professionals on higher value work.

But in the opinion of many, AI tools are still at the stage where they can help with inefficient processes rather than replace professional judgement in terms of lending.

While other areas of financial services, such as retail and consumer lending, are easier to automate, corporate lending – especially more complex lending – is based on non-standard information and depend on nuanced decision making.

It's a similar story when it comes to digital assets and tokenization. There's a growing interest in using such assets in lending, perhaps for speed and efficiency purposes, but it seems that concerns about interoperability and standardization are still in play.

The consensus amongst the experts appears to be that it makes sense to trial AI tools and apply them to the low-hanging fruit of processes such as loan servicing automation, but not to jump straight into using them for higher value tasks.

It's also the right time to prepare for a future when AI tools have evolved and tokenization has standardized to a greater extent by addressing data inconsistencies and complexities.

By improving data quality, simplifying core processes, and adopting flexible technology platforms, lenders can position themselves to take advantage of future advances in AI and digital assets.

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