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Lending

evolantm Lending Newsletter

July - August 2009

In this issue we cover the following topics:

- Taking Stock – a reflective essay examining the current lending market & signs of recovery
- Low-Cost & Low-Risk Modernization – new Evolan Consulting offering
- Rationalizing the Models – the BPMN revolution
- Feedback from Evolan Arrears Management event in Paris

Taking Stock – the March to Normalization

After a traumatic twelve months across the lending markets, fueled by accusations of blame for the entire crisis leveled at the credit market, the summer calm offers some potential for reflection – and an overdue chance to redress medium and long term strategy.

What can we expect over the next twelve months? How will the European market look in the summer of 2010? Can we expect a similar market structure as today or a return to the status quo before the bubble burst? Who will be the main contenders and who will we be competing against? These questions all impact medium term strategy, but how can a credit provider best respond?

Market Drivers through 2010

We see two main factors that will have significant impact on the credit market and both these drivers will direct tactical survival and dictate short-term staff focus, as well as long term bank strategy. The first is a necessary consequence of the current crisis where rising unemployment and crashing consumer confidence manifests itself in unprecedented levels of mortgage and loan arrears across the continent. Many analysts are already suggesting that the peak may have been passed, but either way, banks can expect higher than normal levels of arrears for some time to come. The second main driver anticipated over the coming year counterpoints the negative news associated with arrears and holds out hope for a speedy normalization. As the recovery creeps onwards, consumer confidence will rise resulting in a growth in loan applications and originations; believing that the worst is over bargains will be there for the taking.

These two main issues will occupy the credit providers for the foreseeable future, presenting strategic challenges to ensure the most is made of what opportunities are out there. The convergence of increased arrears management, coupled with a gradual growth in loan origination, represents a diametric shift in focus and a correspondingly flexible and adaptable strategic response from the lender over the coming twelve months. Taking a longer term view, what is the best strategy to maximise market share once the upturn properly kicks-in and how best to manage the current high levels of arrears efficiently and appropriately?

A Peak in Arrears

Over recent months we have been compiling market reactions from analysts and feedback from the Evolan Lending events held in Belgium, the Netherlands and France. What we see is a diverse picture across the continent due to varied unilateral economic responses to the crisis, coupled with differing socio-economic funding across EU. Some countries are more indebted than others and respond accordingly. Countries with a historically more aggressive credit strategy such as the UK and Ireland are experiencing the greatest impact with markets in serious decline. This is counterpointed by the less

speculative countries such as Germany, Belgium, Poland, Czech republic, etc. which maintain a relatively stable, if stagnant, credit market. Even the countries taking the middle ground such as the Netherlands, France and Italy are coming through relatively unhurt compared to the higher-risk nations.

The inevitable rise in arrears dictates a response combining an efficient lending organization structure with procedural excellence underpinned by modern IT solutions. But despite the crisis being very much on-going, the opportunity to modernize is not past, given that implementation time for a new system can be as low as three months. As new loan applications and originations inevitably increase through the rest of this year and into 2010, the banks will be much more risk sensitive and therefore need to be more diligent in risk profiling all new borrowers. A modern lending solution employs customer profiling based on observed data allowing sophisticated and predictive analysis of customer segments. With risk factors growing in importance, full risk assessment must be tangible in order to prove to regulators and internal management that the true exposure is known and understood.

Post-Crisis Normalization

The inevitable march to recovery may be slow, but the trends are already visible. However, in addition to banks and regulators being increasingly risk averse, bank customers are equally cautious. There is certainly low demand at the moment, but it is rising. Some banks have the money to lend, and are being encouraged to increase their efforts by their European governments, but consumer confidence remains low and may take a few more months before any substantial growth is experienced.

While the lending business may be slowly picking up, the banking landscape has irreversibly altered. The initial casualties were the banks that had extended their reach across borders. We now see most foreign banks having to retreat from their territorial expansion of the past decade with substantial impacts on the domestic markets that once welcomed them. The intermediary markets across Europe have suffered as their product supply dries up. Brokers are typically now offered much worse conditions from banks who are understandably trying to protect their own sales networks.

As ever, when gaps arise in the market, new players evolve to fill those gaps. Increasingly these are non-financial companies looking to expand into a potentially lucrative market while prices are low. In many countries, especially the UK, non-banks such as the retailer Tesco and media company Virgin have entered the market on the back of established and trusted brands. While banks are simply trying to regain some credibility in the eyes of the consumer, new entrants can leverage a household brand coupled with an established branch network, often open 24 hours a day, 7 days a week. We have seen this before of course; remember the rush of retailers into the online financial services markets of the mid to late 1990s? While the internet rush of a decade ago was not an unqualified success, this time there is more optimism for success.

A Rational Response

With the exception of the few countries that followed a highly aggressive credit strategy, the established European credit model remains relevant and proven; a strategy of responsible lending remains the viable way forward. So in addition to new entrants, the likelihood is that the intermediary market will recover quickly as clients have a long history of lending from the broker model in Europe. However, banks are confronted by many of the same issues as before the crisis (multi-channel, currency, product management, etc.) but these are compounded by the increased complexity associated with the need for improved risk analysis.

Sopra's new Evolan front and middle office product offers unrivalled performance and efficiency. Innovative management information tools provide analytics on loan application risks as well as resource allocation to ease the peaks in activity. When this is coupled with our recently launched **Work@Home** capability that gives all bank administrators fully flexible working conditions, Evolan solutions further increase responsiveness and agility enabling banks to fully capitalize on market changes to greatest effect.

Complexity Management

Unquestionably, we are in a more complex and dynamic market that is non-trivial to master. Implementing a new IT system is rarely straight forward. Analysis shows that many large scale implementations from established big name vendors result in failure, often due to the fact that mortgage and lending complexity is routinely underestimated. Vendors may be IT specialists, but lending is a specialist market. Banks cannot rely on a vendor to fully understand the complexities of their requirements. This is especially true for core-bank vendors who often append a generic credit component to their system in order to satisfy basic retail lending requirements. The need to translate the lending business drivers into a responsive IT implementation is a specialist task, which big name vendors can not always deliver because of a lack of lending expertise.



Tammo van Leeuwen
Director Market Strategy
Evolan Lending

A Brave New World

The next twelve months will prove to be interesting. We can expect a continued growth in collections across Europe in conjunction with a slow normalization of the loan application and origination levels, albeit more risk sensitive. The fluctuations in the market will continue to put a strain on support organization and therefore staffing levels. Maintaining service levels in uncertain times is vital to credibility and demand increased bank flexibility.

With new non-bank entrants launching themselves into lending, accompanied by impressive financial muscle, we expect a dynamic period for the medium term. At Evolan, we understand the nature of the market and do everything possible to assist our customers and prospects as we transition to the new credit market.

We sincerely wish all our readers a productive yet relaxing summer.

Tammo van Leeuwen.

Have Your Say

We would very much welcome your feedback and opinion on the views expressed above. Do you concur with the analysis or does your experience differ? Please share your opinions on the future of the lending market with us directly by emailing Tammo at tvvanleeuwen@sopragroup.com.

Low-Cost & Low-Risk Modernization



The New Evolan Consulting Offering

When evaluating the options to modernizing a lending system, banks are faced with two basic options: a big-bang replacement of the incumbent solution from a vendor / in-house development or a phased upgrade spreading the costs, risks and disruption over a longer timeframe. While a full replacement may be preferable for many business and technical reasons, it is not always the most pragmatic option, but incremental upgrading is typically more complex than replacing. To reduce the barriers and smooth the transition, Evolan has created a methodology that maps business functionality to IT systems avoiding the issues often associated with the incremental change of existing infrastructure. This allows the bank to better manage the migration and enables extensive reuse of core functional building blocks, unlocking their potential and extending their longevity.

The Logical Steps

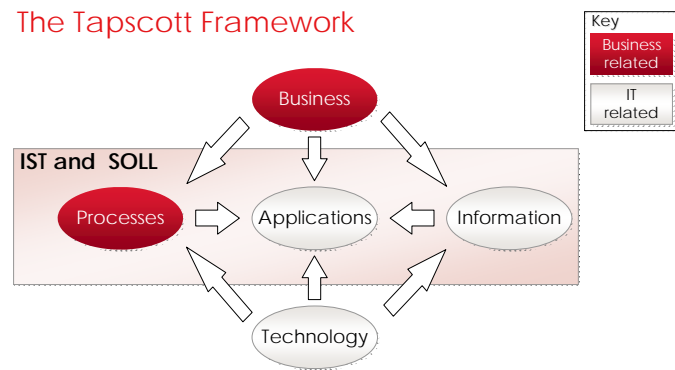
When beginning the process of defining new lending system needs, the first step is to define the desired to-be situation, irrespective of technology considerations. This gives a true reflection of the business related key process indicators and underpins the process with metrics to back-up strategic choices. The framework identifies and analyses the current infrastructure to identify redundancy and highlighting what needs to be replaced. In this way, it can be isolated and rebuilt as needed with minimal disruption. The underlying goal is a seamless migration. To do this we use the generic Tapscott framework that supports an incremental replacement strategy. Banks have little need for generic

business models that apply to all industries, so we have taken this model and populated with lending specific knowledge and pre-defined models ready for lending and mortgage solution development.

Business Modeling Flexibility

Tapscott is a framework that describes business architectures in a logical and consistent way aiming to optimize communication between management, business and IT. The framework divides implementations into 5 components, two business related (business strategy and processes) and three IT based (applications, information and technology).

The Tapscott Framework



For each part of the framework, Sopra has pre-defined the lending specific needs with the strategy drivers, detailed process descriptions and all essential elements of the complete information architecture.

The utilization of the predefined descriptions of the individual elements of the framework will increase the speed and quality of the detailed analysis between the established architecture and the to-be situation, locating the gaps and defining what needs to change to ensure a fully future-proof business architecture. Many lending business and IT departments plan to change or radically upgrade established lending systems; or they are at least planning for future needs. To meet these demands and quantify the process, irrespective of the final solution implemented, Evolan has the ideal accelerator tools that greatly increase productivity and reduce fundamental transition costs and business impact.

If you are interested in more information on Evolan's consulting services please email us directly at evolanlending@sopragroup.com.

Rationalizing the Models – UML to BPMN

Evolan has been applying our established UML models and modeling technique to lending solutions for many years. But due to unprecedented customer demand, we have augmented the UML model base by adding the use of the latest industry standard: Business Process Modeling Notation (BPMN). UML is primarily a technical software development tool which has been superseded by the more complete and inclusive BPMN. BPMN has the advantage that it is a more business process oriented framework which makes it easier for business changes to be reflected in process workflow.



Business Process Modeling Notation is a graphical representation for specifying business processes in a workflow. BPMN is maintained by the OMG.



As part of the Tapscott framework, we have taken the Tapscott process element and pre-populated it with our best practices. The Evolan International Best Practices are a long established list of over 100 main lending processes with over 500 process steps. These are available out of the box in the form of process models which greatly speed up system implementations and ensure all options are covered. Our models come already prepared to connect to the existing workflows within the bank, greatly reducing implementation risk and ongoing maintenance.

BPMN compliance is a valuable addition to our offering and complements our UML process models without replacing them and allows the banks to reuse their established BPMN tools. BPMN offers much improved workflow control with more advanced tools. Converting processes to workflows is much easier. With easy access to content and simpler management tools, coupled with multiple viewer tools available, makes BPMN a logical and pragmatic choice for business modeling.

Feedback from Paris Arrears Management Forum

Earlier this month we concluded our short road-show of Arrears Management events with a forum in Paris. As ever, the mix of customer testimony and Sopra analysis proved successful generating proactive discussions and many valuable insights into the French market.



The French lending market and the wider French economy is naturally feeling the strain of the current financial crisis. The number of corporate bankruptcies in the first four months of 2009 is up 21% on 2008. These are mostly confined to smaller and younger firms but the transport and industrial sectors have also been hit hard.

Crédit Agricole - Atlantica, a long-term valued customer of Evolan Collection provided valuable feedback on how Evolan efficiently processes the increased levels of arrears while keeping their arrears management division in profit. The bank sent out a total of 450,000 arrears notification letters, but the outstanding arrears in over 91% of these was repaid before disclosure. However, due to system efficiency, the bank recuperated a total of 99.73% of the outstanding arrears if you also take into account the recuperation after disclosure. This high recuperation ratio is due primarily to the efficiencies inherent to the modern Collection Management solution employed.

Crédit Agricole - Atlantica made specific mention of Evolan Collection's ability to present a complete history of all events during the full life cycle of the arrears management process. The ability to segment the processes according to the client's behavior proved particularly valuable. Also the full automation of the arrears processes from the first incident with the choice to immediately send a letters for one or more products has proved successful. Other valuable money saving features included the ability to regroup the letters for a particular addressee.



With Evolan Collection, the bank was able to invoice per type of loan (if permitted by the applicable law) a reminder cost proving that arrears management can be a profitable business.

A satisfied customer now operates a highly efficient and profitable Collection Management solution that matches their business drivers for the long-term.

We hope that this newsletter has been useful to you and your organization. However, if you do not wish to receive future editions, please send an email to evolanlending@sopragroup.com with "unsubscribe" as the subject.

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