

# Technology trends

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Assessing their critical needs amidst the deepest global economic recession in nearly a century, lease and loan finance providers worldwide were consumed this past year with improving their operational efficiency and, at the same time, reducing costs.

From the largest banks and commercial finance companies to niche lessors and captive finance organisations, the slowdown in financing volumes across most business sectors and the ongoing liquidity crunch spared few.

While new technology certainly could play a role in helping firms improve their operations and bottom-line profitability in this environment, tough spending restrictions in 2009 often affected technology acquisitions this year and will impact the future as well.

Cameron Krueger, Vice-President of financial services/banking and capital markets at the global consultancy Capgemini, succinctly described the challenge facing both lessors and technology providers in today's market.

"Now more than ever, a technology project must have a positive return on investment," Krueger said. "If it doesn't, then chances are it will not move forward."

While noting that industry spending on information technology needs increased for the sixth straight year in 2008, Krueger stressed an IT project does not get approved these days unless it helps an organisation immediately save money.

Shawn Halladay, a principal of The Alta Group consultancy that supports the global equipment leasing and asset finance industry, added the drive to reduce processing costs is taking place globally, beyond just Europe and North America. This includes strong interest in

improving operational efficiencies from clients and prospects in emerging markets in Latin America and China.

"With margins thin to begin with before the current market turmoil, processing costs are about the only place left to become more efficient," he explained.

Many industry software and service vendors say they are getting the same message from clients and prospects, and do not expect it will change much in the next year.

"Everyone is looking at their cost base," concurred Andrew Denton, Director of Sales and Marketing at London-based CHP Consulting, developer of the ALFA Systems technology platform for asset finance companies. "Anything that reduces the total cost of ownership and improves the bottom line is good."

To reach this goal, he said, companies continue to focus on workflow and automation tools. Furthermore, they want systems that are easy to maintain and facilitate the quick launch of new products to market.

Todd Davis, CEO of US-based International Decision Systems (IDS), one of the largest leasing software solution providers in the world, said cost reductions are always easier for a client to justify in a down economy. He added that his company is seeing clients place much more emphasis on how to optimise cost structures on multi-country and multi-continent software implementations.

IDS has developed a single origination platform that enables customers to book financing agreements to multiple portfolio management systems globally, automatically selecting the right one based on the characteristics of the transaction.

"The goal is to find consistent and replicable ways to reduce core origina-

tion and processing costs around the world," he explained.

Oracle Senior Director Tim Hricko concurred and said budget dollars are available for IT projects today, but customers want quick returns on their IT investments in as little as six to nine months.

"In this economic climate, customers are focusing on projects that provide the highest value," he said. "Whether they are rolling out to a new country, implementing business analytics or adding a new module to their platform, they are looking for a large return quickly and without a large investment."

Hricko noted the latest generation of the Oracle Lease and Finance Management platform, part of the company's suite of E-Business applications, has been particularly appealing to finance companies that operate in multiple countries and want to streamline processes across a continent. The latest version of the platform features a number of streamlined functions, which include flexible invoicing and receivable management; a new global tax engine; a rules-based accounting architecture that provides simultaneous Multi-GAAP accounting; and better support for a shared-services model.

Given the many advantages of today's computing platforms over existing systems, one would think strategic technology acquisitions that improve a lessor's front- and back-end operations and squeeze costs out of the system would take top priority.

In today's world, however, some customers have told vendors the price for many of today's technology offerings is hard to justify in an environment of declining sales and shrinking operational budgets.

Prospects who adopted a wait-and-see

approach to replacing outdated legacy systems in the past are now simply “hunkering down”, according to Michael Cumby, Chief Architect at Canada-based Constellation Financing Systems Corp., a developer of lease and loan management, origination/credit workflow and asset acquisition systems.

“Not long ago, companies were at least taking some exploratory steps in evaluating technology platforms, but the current economic crunch has curtailed this thinking,” Cumby said. “In some cases, it appears capital expenditure budgets just aren’t there.”

Fortunately, not all customers in this market have adapted such a stance. Constellation and other technology vendors have noted that some forward-looking business leaders are indeed using this time to update their systems to position their organisations favourably for the future.

“We’ve seen understandable caution, particularly in regards to major investments in new systems,” said Davis of IDS. “In some cases, sales cycles have been extended, although decisions are still eventually being made. Business line executives and their CIOs are viewing the downturn as an ideal time to put in place the software infrastructure that will drive competitive advantage for the inevitable economic upturn.”

**Focus on front end.** Oracle Global Leasing Sales Support Manager Sean Clarke said the current level of merger and acquisition activity in the finance industry is prompting many customers to focus their existing IT budgets on system rationalisation – determining which ones they are keeping or combining. These decisions are more short-term and tactical in nature, he stressed, pointing out long-term IT spending decisions also are being made based on the combined organisations’ strengths and weaknesses.

Other technology providers said customers moved forward in 2009 to complete technology projects planned or started before the industry slowdown accelerated during the fourth quarter of 2008. They noted many of those technology installations focused on originations.

“The action today is in the front-end part of the business,” Capgemini’s Krueger said, referring to what his clients have reiterated. “Companies are only spending money on technology that provides a real competitive advantage. The most effective technologies help lessors reach new sales channels.”

Competitive forces keep lessors awake at night, Krueger explained, espe-

Courtesy of Dell Inc.



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cially when they see someone else exploiting a channel better than they are. Until they think they have access to every customer covered, they do not rest peacefully.

Denton from CHP said much of his firm’s attention also has been placed on helping clients build leaner, yet more effective, sales forces and supporting their efforts to reach multiple, indirect channels to market through vendors, brokers and others. CHP’s fifth generation of ALFA Systems with added support for external parties and intermediaries will be rolled out globally in 2010.

Constellation’s Cumby went further. “With a limited amount of capital available at this time, people are spending it on ways that help them make more money or save more money – and this happens on the front end,” he said, noting Constellation has spent considerable resources over the past couple of years to enhance its software offerings to take advantage of the Internet and improve its functionality for companies of all sizes.

“The front end supports your sales force, credit process and even eventually your customer service efforts. All of these processes are ripe for operational efficiencies, saving money, increasing one’s sales pipeline and making more money for the organisation.”

Whatever channel is selected, the Internet is indeed playing a bigger role than ever in reaching and servicing the needs of customers, Krueger said. Today, origination platforms – particularly those that support micro- and small-ticket leasing – are Web-enabled, allowing the front-end solution to be accessible to

the client in the way the client prefers, he said. (Large-ticket finance providers, Krueger said, tend to focus on direct contact to manage transactions.)

To this end, US-based Ivory Consulting Corporation’s new QuickTRUMP application enables persons to use its pricing analysis software from mobile Internet devices and gather pricing information useful to closing leasing and loan transactions.

CHP’s Denton pointed out that, while front-end applications have indeed received much of the industry’s attention these days, back-end applications have not been forgotten. In fact, given the struggling economy, back-end technology tools that strengthen a company’s credit underwriting and collections efforts in particular are receiving attention.

“In today’s market, everyone wants to make solid credit decisions, so it is no surprise that everyone is looking at their underwriting systems closely,” Denton said. “But there is a difference between credit efficiency and credit effectiveness. To see if the credit process is effective, you need information from the back end. For example, did the customer generate repeat business? Did they terminate their agreement early? At the same time, when someone lends money, you want to make sure you get it back, so the collections process also is key, especially given the current conditions.”

Another priority requirement for back-end processing systems today is the need to enhance the interaction between the customer and service representatives. Critical to this effort is giving the reps all the tools needed to understand the needs

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of the customer on an individual basis and provide them with flexibility, Constellation's Cumby said.

"Over the past 10 years, we've been de-skilling the finance industry," he explained. "If a customer has a question or issue beyond a basic request, it is often handed off to multiple people or, worse yet, an automated system. By re-empowering people on the back end, customers know they will be making but one call to get their answers. That is what customer service should be."

Clarke from Oracle summed up the importance of back-end systems by stating there are a lot of legacy back-office applications still out there that pose technology risks to finance companies.

His colleague Hricko agreed. Many global finance companies cobble together point solutions with manual processes, resulting in their IT platforms becoming more disparate and lacking direction, while business processes diverge across the global market. They are then faced with high costs due to the complexity of maintaining or upgrading these systems, he explained.

"Without updates, they become technologically obsolete," Hricko went on. "This, in turn, impacts the business, as the lessor cannot respond to market demands, including new financial products, offering self-service capabilities, tailoring invoices to meet customer needs or bundling equipment and services, among other services."

**An aversion to data conversion.** In addition to cost concerns, another hurdle for both customers seeking to upgrade their systems and technology vendors is the dread surrounding data conversions.

"Conversions are surely a daunting task for some clients," said Greg McIntosh, Executive Vice-President of the Cyence Business Unit of Davis + Henderson, another Canadian-based provider of lease and loan origination, portfolio management and credit solutions. "Many have had experiences with data conversions in the past where things haven't gone so well and they have concerns with the effort involved."

The Davis + Henderson Cyence software now features enhanced reporting, portfolio and compliance monitoring functions which, McIntosh said, will help the firm's efforts to attract clients in the banking industry.

Constellation's Cumby agreed overcoming data conversion concerns can be challenging. "Some of the platforms in place today in the leasing and banking industries were installed 25 years ago.



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People recognise there are newer, better systems available, but they're sometimes unwilling to go through the pain and effort of converting, especially given the complexity of these systems."

The process of data conversion is expensive because the existing vendor often has to transfer the data out, he added. "They want their piece of the pie and charge for this," Cumby said.

Due to the natural evolution of technology, however, McIntosh of Davis + Henderson said data conversions are not as hard as they were four or five years ago. Recent compliance and regulatory measures that prompt finance providers to store data in one place also have helped.

"Generally speaking, clients today are doing a better job of maintaining data from different sources in a more consistent format," he explained. "Especially master customer records and base transaction information . . . This goes a long way in assuring smoother data conversion."

**Seamless data flow.** While end-to-end processing platforms exist, the use of separate front- and back-end applications, as well as other add-on software from vendors, gives companies the ability to spend strategically and upgrade parts of their transaction platform without incurring the significant cost of a total system implementation, Capgemini's Krueger said. It also enables them to leverage best-in-class technology from various sources.

"There's been a tendency over at least the last five years for companies to seek a solution that comes from one vendor, but

this does not mean it is a true end-to-end solution," Constellation's Cumby added. "They may be bringing multiple applications provided by a system integrator. In such situations, the customer is looking for one party that can be held accountable."

Davis + Henderson's McIntosh agreed, noting today his firm's customers often focus on improving select technology system "touch points" versus decommissioning existing platforms all together.

Historically, one of the greatest challenges with using multiple vendors has been the efficient communication between applications. A common issue facing finance companies has been how best to link the applications through interface tools, so they work together and data flow seamlessly. Some technology providers say interfaces can often consume much of an implementation project's budget and resources.

"The biggest challenge with interfaces should not be the technology, but it still is to an extent . . .," CHP's Denton said. "Our platform is an XML system but, to make linking to it easy, the other side should use modern technology, too. There's a number of industry service providers – big name players – that are still caught using techniques and technologies from the 1990s or earlier."

One of the biggest issues to overcome, Denton said, focuses on definitions and how values are calculated. "Numbers may be able to seamlessly transfer between applications, but how were they generated? Definitions need to be consistent," he explained. "Industry associa-

tions across the globe need to develop consistent definitions to help make transacting smoother. Such an agreement on basic language of the industry will help make interfacing a lot easier. Until this is done, technology vendors can only take things so far.”

Oracle's Hricko was more to the point. “A hodgepodge of multiple systems often produces fragmented, inaccurate data, which is misleading or functionally useless,” he said, adding that the result is poor decision making based on inaccurate or incomplete information.

His colleague Clarke agreed. “Fragmented systems make it hard for companies to determine what products and services they provide to global customers in each market, who their best customers are and the reasons why.”

Cumby said there is an exception to the interface issue. “I've not seen effective interfaces between systems,” he said. “Unless we're working with an application originally designed to work with multiple systems that needs to integrate with multiple vendors, such as a one that calculates personal property tax or provides UCC codes.”

Cumby went on to say that he thinks interfaces have become less robust in recent years, with vendors pulling back their efforts in this area to protect their portions of the market. In fact, he said, there are some vendors that are phasing out interfaces entirely as they build end-to-end systems.

The interface challenge manifests itself with customers that operate in multiple countries, Oracle's Hricko said, where it is not just a single interface between one origination system and back-office platform, but multiple interfaces between markets. The resources needed to support and maintain such an IT structure can be huge.

Conversely, Capgemini's Krueger said such interface concerns are generally *passé* and not a critical issue in the purchase decision process like they used to be.

“Not long ago, people worried about this, but now front-end solutions link with other back-end applications like it's no big deal,” Krueger explained. “The bigger solution players in the market that have been around a while have refined their interface technologies to make this really a non-issue, or at least something that can be handled.”

Interface effectiveness is not much of a problem outside of North America and Europe, according to Halladay of The Alta Group. This is because most of the

emerging markets for financing simply do not have advanced credit scoring capabilities, multiple jurisdiction sales taxes and related challenges that make interfaces an issue – yet.

No matter where one stood on the interface challenge, the overall value of aligned systems is clear. IDS Vice-President Dave Nash said when the origination system and back-office system are well integrated, more of the top-line revenue increase from enhanced origination processes goes straight to the bottom line.

“An example of this is an employee doing a credit analysis in the front-office system who has the ability to quickly access real-time information on payment history or earlier transactions with the company across multiple operating entities,” he said. “This advantage enhances credit decisions and improves fraud detection, both of which lead to greater portfolio quality.”

Oracle's Clarke added that finance companies using a global platform can further enhance their bottom lines through the use of common best practices executed through a shared-services model that greatly reduces portfolio servicing costs.

**Decision making.** Another point virtually all technology providers agree on is the requirement that today's technology systems do more than simply churn out an unprecedented amount of data. They must help finance companies actually make better business decisions. “All of our customers today share the need for much greater visibility into all aspects of their portfolios,” said Gerry Perham, IDS Vice-President of products. “That means all data in the financing portfolio must be accessible at all levels, from seeing the big picture to having the ability to drill down to the individual customer, contract or asset, as necessary, to evaluate the risk inherent in the portfolio.”

For organisations operating today in multiple countries, the need to centralise information is even more critical, according to Oracle's Clarke. Global platforms that can provide a “Single Source of Truth” enable business analytics and help executives make effective decisions.

“When information is spread throughout the front- and back-office systems, how does one pull the info together to secure a complete view of the business?” Clarke asked. “That's why analytics have become a key IT driver over the past few years.”

No matter how risk is evaluated or how much cost is squeezed out of the

transaction process, finance providers clearly realise that customer service is still critical to their success. “Leveraging technology to identify weaknesses in processes and ways to improve them ultimately pays off in better customer management,” said The Alta Group's Halladay. “The faster and more efficient the transaction process becomes, the greater benefit to both the dealer trying to close a deal and the end user who needs the equipment.”

**Separating wheat from chaff.** While nobody has a crystal ball accurately to predict what the future may hold for the lease and loan finance industry, technology vendors do expect the challenging economy to continue to fuel an industry shakeout through 2010 and beyond. A few surprises may be in store.

“The current economic environment will eventually separate the wheat from the chaff,” Cumby of Constellation said. “At the beginning of this decade, there was a significant influx of software vendors. Many of the new players offered primarily front-end-based applications using new technologies spurred by the Internet. Some of these companies are left, but many are gone. I expect to see a similar situation now, with some companies just not making it. This may include older software firms who have significant portions of the market . . . The companies that survive will be those with positive cash flows.”

Not surprisingly, Davis of IDS said customers also are questioning which technology vendors will survive the shakeout, which has a direct impact on the transaction platforms and applications they may be considering.

“We hear concerns about staying power,” he said. “With many of the software providers that recently entered or exited this market, CIOs in particular are wondering who will be around in a couple of years. We think the best guarantee that a provider will last is its tenure and leadership in the market.”

**The inevitable upswing.** From cost cutting and improving operational efficiencies to smarter portfolio management and providing better customer service, finance companies have faced plenty of challenges in the current market shadowed by the poor global economy.

The upside to this situation is that some lease and loan providers are tackling these operational challenges head-on now, while there is the capacity from both a resource and time perspective to do so. The ultimate goal is better to position finance companies for when busi-

