

What Leasing Industry Executives Want Most... *Integration as Top Priority*

When over 200 equipment and commercial finance executives were asked to rank their top operational issues, they answered in a resounding unison — help us get all the information we need to successfully complete the deal. With so much information required in leasing deals spread across so many stand-alone systems, it's no wonder that the industry is demanding better integration.

BY MIKE PENNELL

When over 200 equipment and commercial finance executives were asked to rank their top operational issues, they answered in unison — help us get all the information we need to successfully complete the deal. Equipment finance and leasing is one of the most information intensive financial products requiring an incredible amount of data about the client, vendor, asset, structure, pricing, contracts, and much more. To complete even a simple transaction requires information from many different sources and documents from both inside and outside the finance provider.

On a positive note, almost all of this information is already stored electronically somewhere in an internal system, vendor system, credit bureau, spreadsheet or a file on someone's computer system. Unfortunately, information is spread out across all of these separate systems and locations which are not tied together. Most often this information must be located manually, printed and re-entered into another system. With so much information required and so little accessible, it is no wonder the industry is demanding better integration.

Is Integration Really That Critical?

Given the economic problems and highly scrutinized regulatory environment over the past few years, is integration really that critical of a problem? The 2003 Commercial and Equipment Finance survey sponsored by CapitalStream and Blackwell Consulting asked over 200 executives in North America what their top three business challenges were. The top three categories of responses were:

- Business Growth: 44 percent of respondents mention the need to grow their business and effectively support this growth with improved systems and processes.
- Process Improvement: 35 percent of respondents mention problems with processing efficiency and controls. Credit is mentioned most frequently as the functional area that needs improvement.
- Systems Integration: 29 percent of respondents mention the need for better systems and automation. Improved integration is mentioned most frequently by respondents and is clearly the top priority.

Even with the drop off in business and concern over credit quality, systems integration was included in the top three priorities by almost a third of all respondents. Overall processing efficiency with a focus on credit underwriting was the second highest priority. These findings are consistent with other commercial finance sectors. In the 2004 Small Business Lending survey, nearly half (48%) of the respondents put systems integration as a top three priority item, and in the 2004 Mid-Market Lending survey almost a third (31%) put systems integration as a top three priority item. So while the commercial finance industry is still very concerned about getting more business, they are also keenly aware that this sluggish economy will recover and they need to be prepared with more integrated and efficient business processes and systems.

Top Operational Issues

So let's take a closer look at the specific functions and processes the industry needs to integrate to achieve the greatest impact. According to the 2003 Commercial and Equipment Finance survey, the most critical operational issues were:

- Ensure all required information is collected and entered correctly prior to booking the deal
- Eliminate duplicate data entry and errors
- Improve the efficiency of the front office in originating new transactions

Clearly the industry is having difficulty collecting information without re-entering it time and time again. The errors, omissions, manpower cost and delays that result from manual and redundant data entry are having a significant impact on the efficiency of originating new transactions.

Interestingly, these same issues are re-iterated across different business units in commercial finance. The top ranked issue is the same in the 2004 Small Business Lending survey indicating that small ticket transactions appear to be where missing and incorrect information is most troublesome. In the 2004 Mid-Market Lending Survey, eliminating duplicate data entry was one of the top three issues, indicating that larger transactions are where the volume of information and diversity of systems

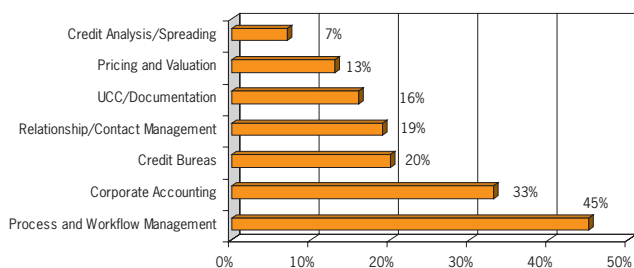
demands the greatest amount of manual re-entry. Overall, commercial finance organizations are struggling to integrate the information necessary to originate and process transactions quickly and efficiently.

Responding with Technology

While organizational structures and internal politics have certainly created barriers to integration, the number one barrier has been a limited flow of information between systems and functions. The problem is that different stand-alone systems are being used by sales, credit, documentation, and accounting to manage their particular piece of the puzzle.

While larger banks have integrated some of these systems, most equipment lessors and lenders have neither the time nor the resources necessary to tie their systems together (See Figure 1). According to the Equipment Finance survey, systems are implemented stand-alone over 80 percent of the time. This problem is exacerbated by consolidation in the industry as financial institutions inherit more teams and more systems through mergers and acquisitions.

Figure 1: System Integration

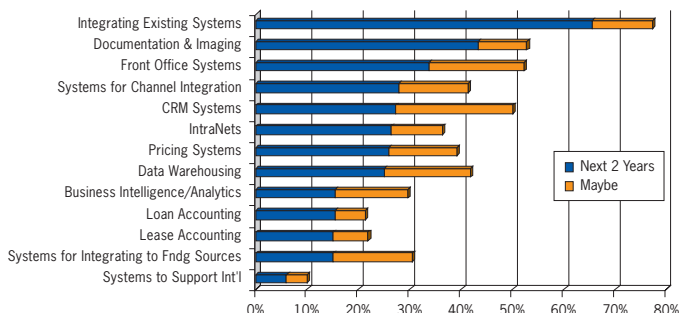


Graph shows the percentage of respondents that indicated whether each system is integrated with their other commercial finance systems so that there is no need to re-enter data. This graph indicates that the vast majority of systems are implemented stand-alone and require duplicate data entry.

Not surprisingly, the most popular IT initiative over the next two years is to integrate existing systems (See Figure 2). Almost 80 percent of survey respondents indicate that either they will be or might be undertaking an integration initiative. Systems to support partner/channel integration are planned or possible at over 40% of those surveyed. Integrating existing systems was also the top IT priority in both the Small Business Lending survey and the Mid-Market Lending survey reinforcing the importance of integration across commercial finance. IT has listened to the business needs and has aligned its priorities to address the top issue.

Figure 2: Top IT Initiatives

Percentage of respondents implementing various IT projects in the next two years.



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Impact on Performance

The focus on integration is not a new initiative. It has been an issue and a focus area for some time, especially at the larger financial institutions. Some of the leading equipment finance providers tout fully integrated systems that link vendor/dealer portals seamlessly through sales,

credit, documentation, booking, servicing, disposition and remarketing. With such a focus on integration, there should be some noticeable improvement in performance and efficiency across the industry.

According to the 2003 ELA Survey of Industry Activity (SIA), between 2001 and 2002 overall efficiency increased by 9% indicating that these investments are paying off. Figure 3 presents the processing efficiency improvement broken down by functional area.

Figure 3

FUNCTION	CHANGE
Overall	.9%
Servicing/Remarketing/Accounting	.128%
Booking	.41%
Sales	.23%
Credit	-.6%

(Based on changes in assets per FTE and new/net business per FTE from the 2003 and 2002 SIA)

Significant improvements have been made in servicing, remarketing, accounting and booking. These back office and middle office functions have been a focus of integration and automation and these results are indicating a good return on the investment. Sales results have also improved, though not as pronounced.

Credit is the only area that has not improved. This is partly to do with the decline in business volume from 2001 to 2002. However, other areas were able to improve efficiency significantly during the same period and same decline in business. Given the numerous credit bureaus, analysis tools, third party and internal systems, the credit function offers the greatest opportunity to further improve performance through integration.

Making an Impact on Credit

According to the 2003 Commercial and Equipment Finance survey, the top issue in the credit function is to automatically integrate credit information to eliminate re-entry of data. It is insightful that this issue rated higher than controlling risk or reducing default rates. With a few highly publicized exceptions, the credit process has worked well across the industry to effectively manage risk. However, the process accounts for over 60% of the time it takes to respond to a customer.

Looking at the time required for credit review there is significant variance between survey respondents (See Figure 4). For example, the time required for credit approval for small ticket transactions ranges from immediate to one day for the top 25 percent of respondents (on the left side of the chart), whereas the slowest 25 percent of respondents (on the right side of the chart) require from five days to one and a half months. Similarly mid-ticket responses range from less than one hour up to three days for the top 25 percent of respondents while the slowest 25 percent of respondents require from 10 days to two months. This is quite a variance even accounting for different equipment, industries and transaction types. The top institutions can approve transactions much more quickly resulting in a significant competitive advantage by providing customers with financing more quickly.

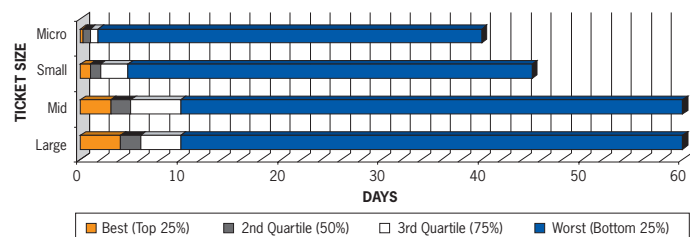
Integrating Credit Information

One of the primary reasons for the difference in response times is the level of integration of credit systems and information. In most cases credit bureaus are used as stand-alone services and are not integrated with current customer or credit analysis systems. Sixty percent of respondents pull bureau reports manually, and only 20 percent store the bureau information in an electronic format. As a result, information is printed and stored in a file folder that is not available to analysis tools. Furthermore, credit analysis and spreading tools are implemented stand-alone over 93% of the time. Manual review and re-keying are the norm across

the industry, increasing errors, lengthening processing time and delaying credit decisions.

The primary challenge facing the credit organization is how to integrate credit information sources and credit analysis tools with process management systems to accelerate credit decisioning. Better integration improves efficiency and reduces review times while process management maintains consistency to control risk. Various software vendors provide integrated front office automation systems offering a complete credit management framework to access third-party credit information sources and integrate that information with internal customer, exposure and asset data. As an example, FinanceCenter from CapitalStream can systematically link, integrate and analyze information and route it through an automated credit underwriting process to ensure the right people review each transaction with the information they need to make quicker, more informed decisions.

Figure 4: Credit Review Times



The graph shows the wide variance in credit review times between respondents according to ticket size. Each color band shows the number of days required from quote acceptance to credit approval segmented from the best/shortest times to the worst/longest times broken down in quartiles. The best quartile shows the time required for the fastest 25 percent of respondents. The worst quartile shows the time required for the slowest 25 percent of respondents.

Integration for Competitive Advantage

Integration is a top priority for industry leaders. These leaders have tied systems, information and teams together to eliminate redundant data entry, approve small ticket financing instantly, and facilitate real time collaboration on larger transactions to fulfill in days rather than weeks or months. Seamless integration has led to significant gains in efficiency with fewer people processing more transactions in less time.

According to the 2003 State of the Industry Report from the Equipment Leasing and Finance Foundation, "As the generic leasing product becomes more commoditized, operational efficiency will become a competitive advantage." Leaders are using integration, responsiveness and efficiency to both gain and protect their leadership positions. If this is not on the top of your IT priority list, it might be time to reprioritize. **m**

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The 2003 Commercial & Equipment Finance Survey, 2004 Small Business Lending Survey, and 2004 Mid-Market Lending Survey reports can each be requested from CapitalStream by sending an email with your name, company name and telephone number to survey@capitalstream.com or call 866-779-4733 and ask for a Market Research Specialist.

