

Automation & Innovation

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Achieving Operational Efficiency in Leasing

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I have been involved with technology and software in the financial services industry for over just 30 years now, but it is only in the last year or so have that I been more closely involved in the leasing industry.

What I would like to share with you today are what I think have been significant transformations in finance markets, to explore whether we can learn from those changes – and more generally from what is happening today.

What I hope to show you is there are common themes across all sectors of finance and to see how they relate and I will cover an example in the small middle ticket market, where an organisation that embraced change has seen a significant business benefit from doing so.

We can then take a look at how technology helped them achieve that change – and how it has been extended throughout the entire live cycle of a contract from introduction to administration.

While in many respects I appreciate this is just one segment of the leasing industry, I hope that you will see how some of the ideas might be used across other sectors.

Finance Markets in Transformation

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Can the Leasing Industry learn
from the Finance Industry?



My opening question is therefore can the leasing industry learn from ongoing changes across the finance industry and to help me illustrate my thoughts I would like to look at four major changes.

Event Changes in Finance Markets

- UK Capital Markets > 'Big Bang'
- Retail Banking > Internet Banking
- Insurance > Online Quotation
- Lloyds Insurance Market > Market Reforms

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The effect of Big Bang in the UK Capital Markets

The take-off of Retail Internet Banking

The impact of the web on Personal Lines Insurance and the ongoing reforms within the Lloyds Insurance Market

UK Capital Markets

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- London 'big bang' 27th October 1986
- A seismic event that changed the 'City'
- Started an unprecedented investment in technology



If we take a look at big bang it fundamentally changed the way in which the London Stock Market worked – we went from an environment that saw people racing around an open floor to one where by people communicated by telephone and two or three computer screens.

We went from a fairly conservative investment banking community to one that became multi-national and one that very quickly saw global consolidation on a scale otherwise not imagined by the older city gentlemen.

It changed London as a financial centre forever and started an unprecedented spend on technology and software. For those of us lucky enough to be around at the time, I can say it was a great and profitable experience.

We saw an environment where the entire transaction cycle became automated and the term 'straight through processing' came of age.

It led to programme trades that had no human intervention, although we were left with a salutary reminder in 87, as computers embarked on a frenzied sell programme that total automation without appropriate safeguards is not the best way forward.

However the stock market transformation would have been possible had technology not developed to support that change and equally had it not increased speed of response and scalability.

Internet Banking

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- Internet Banking Starts 1997
- Explosive Growth – One Year later
- Increasing levels of acceptance and adoption
- Driven by banks and consumers



Some 10 years after big bang we saw the start of internet banking and in just one year, we saw an unprecedented increase in the number of banks offering these facilities.

Today we see increasing levels of acceptance and adoption and some forecasts suggest that in the next 7 years, 2 out of every 3 individuals will be running their bank accounts in this way.

It is interesting that this transformation is driven by both consumer and provider. The banks have achieved lower costs and better client retention. Few of us it would appear change our internet banking provider perhaps because we enjoy 24 by 7 convenience and a higher rate of interest on current accounts.

Again technology enabled this transformation but it needed vision and innovation to deploy it

On-Line Insurance

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- Similar to Banking, technology enables change
- 55% all retail business now direct
- 85% all commercial business is brokered



When we look at insurance we see a similar proposition where the introduction of on-line quotation systems made a big impact on personal lines. Technology enabled this change and here again it works for both consumer and provider. But unlike internet banking, the use of online quotations has been slower to take-off. In the early days on-line forms often resembled their paper counterparts and it has taken some time shift the emphasis to streamlining questions to match the product, whether this is travel, household or motor.

Web based technology has also lowered the cost of market entry and today we can see branded insurers who only have an online presence and compete with the traditional brokers and companies. Commercial insurance by contrast has been much slower to adopt new technology and in part this is due to its more complex nature.

What is emerging today however is a real willingness between all commercial insurance parties to establish common standards for electronic communication. We are now seeing cooperation between software houses and insurance providers with the creation of a general insurance broker portal. This is enabling brokers standardised access to insurers for comparative quotes using agreed XML message formats.

Perhaps the closest example of this in the leasing industry is premium finance where high volumes of business are processed electronically from broker to funder using the brokers own software. It's a good example of automation and innovation and one that we'll come back when we look at Asset Finance.

My 4th significant financial event is occurring right now. Lloyds Insurance market – an institution renown for paper, people and cumbersome processes. It is embarking on a radical change programme where the goal is to completely move to electronic trading within 3 years. A heady mission, so what's driving this change?

Lloyds of London



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Historically an institution
dependent on paper, people
and manual processes

Established a radical reform
programme for Electronic trading
by 2010



Lloyds Insurance Market

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- Underwriters say managing the cycle is the challenge
- Market Reform Group commits to change: Jan 2007
- New Industry led developments
 - Insurers Market Repository
 - Electronic Trading Hubs



There is a widely held vision that the Lloyds market must change and that better management of the process cycle from quote to administration is key to this change.

Sceptics would say Lloyds has been talking about this for years and so one might rightly question whether anything will actually happen.

There are however some innovative ideas in the making. One concept is that of an insurance market repository where all parties involved on a particular contract can access all documentation and most importantly – there is only ONE current version of each. So different parties such as underwriters and lawyers can work on documents, spreadsheets and so on knowing that firstly it is the most current version and secondly that only one them can change a document at any one time. One might envisage this to be quite useful in the big ticket segment.

The second new development is the recent introduction by Xchanging who are the primary outsource service provider for Lloyds. It is the Electronic Trading Hub where placement, contract amendments, accounting and claims can be routed between trading partners using agreed XML message formats defined by ACCORD, their industry body.

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Are there common themes across
the Finance industry?



So lost of change and transformation across different finance sectors and the question is, are there any common themes here.

Common Themes in Transformations

- Increased Speed of Response & Scalability
- Automation of the Transaction Cycle
- Internet and Web become major sales channels
- Collaborative Reform between trading partners
- Barriers to market entry are lowered
- Competition for business increases

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We saw speed of response and scalability in capital markets, straight through processing across the entire transaction life cycle and the internet becoming a channel of choice for retail banking and personal lines insurance.

Within commercial insurance we can potentially see some interesting parallels with the leasing industry in terms of quotations and proposals, document management and contract administration and the whole area around 'collaborative trading'.

Without doubt the advent of the web has lowered the barriers to market entry across all finance markets and we have seen a strong competitive increase in web-only providers in retail internet banking and personal lines insurance.

Finance Industry and Leasing

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Finance Concepts

Small Ticket Asset Finance



One might ask how does all this relates to the leading industry, if indeed it does.
I'd like to share with you an example of an organisation in the small ticket market.

Small Ticket Asset Finance

- New Market Entrant in May 2006
- Operating with Broker Sales Channel
- Strong Emphasis on Client Service
- 30% all business 'Auto-Decisioned'
 - Transaction Cycles less than 2 minutes
 - Automated Acceptance Rate greater than 60%
 - All Documentation in one place
- Business underwritten exceeds planned targets

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Here we have a new market entrant operating through a broker sales channel with a strong emphasis on client service. Their vision was that standard volume business such as IT and office equipment could be 'auto-decisioned', meaning they would define the underwriting rules and where a proposal fulfilled that criteria it would be auto underwritten, substantially reducing turn around times and improving acceptance rates.

In the first full year of operation 30% of all business was auto-decisioned within less than a 2 minute cycle time including the online credit search. Acceptance rates are now north of 60%.

By their own acknowledgement they have surpassed the business targets and are delighted with the systems they put in place to support automation and innovation.

And Who is this Success?



“Our new systems have exceeded expectations in every way, increasing operational efficiencies and creating the platform to achieve significant business growth in today’s competitive market.”

Phil Ross – Asset Finance



The company is Investec and the division within their Capital Markets operation is Asset Finance

I think their quote says it all

Small Middle Ticket Opportunity

- Automation & Innovation
 - 'Straight-through-processing
 - 'Auto-Decision'
 - Self Service (Business Partners)
 - Customer Relationship Management
- Introducers, Vendors and Captives

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If we go behind the scenes how did they achieve their goal?

To borrow the term from capital markets, straight through processing using EDI messaging between the broker and the company allowed them to automate the entire transaction cycle from origination to contract management.

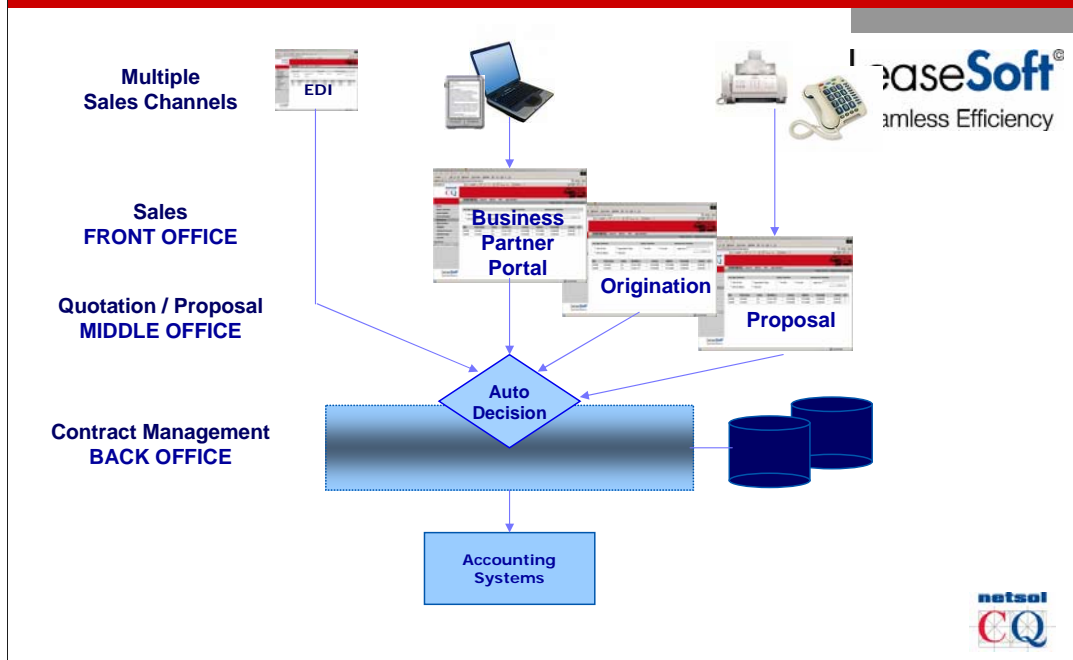
Where standard underwriting rules apply, no human intervention is required and the business simply flows through the auto-decision engine and online credit checks to activation, document production, and management. Where business is referred more underwriting time is now available to improve the referral process.

For introducers and brokers there are self service capabilities for proposal tracking and client enquiry at all points in the transaction cycle.

And by maintaining a single view of all outbound and inbound documentation, there is then the basis of a CRM system that works.

I have described how this collaborative trading works between brokers and funders, but the principles could equally apply to vendor programmes and in some ways to captives

Automated Business Model



Pictorially, the systems topology looks like this.

We can have an EDI link from the Introducer's own system, we can have a business partner portal for origination, proposal tracking management, and we can accept the traditional fax and phone call.

Multiple sales channels feeding into an auto-decision engine with secure contract management and interfaces to accounting systems

If we take a brief look at the key components in this topology, we have a business partner portal, an auto-decision engine, document management and the usual back end contract management system.

Business Partner Portal

- Brand Personalisation
 - Introducer, Vendor or Captive
 - Division (Plant & Machinery, IT Equipment)
- Functionality
 - Gateway to and from business partners
- Security
 - Bank approved
- Single Database structure for entire transaction cycle

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Brand personalisation - here we have the opportunity to brand the portal in any way we choose, ultimately for every user, for whom we can define the style, the menu they see and the data they can access and amend. All controlled by role and responsibility security levels. This ensures they can only access the data for which they have permission.

And all driven from a single database structure

Integrated Proposal & CRM

- Auto Decision
 - Rules based automatic underwriting
 - Automation targeted at standard volume business
 - Workflow based underwriting queues

- Document and Customer Management
 - Proposal document branding, multiple document sets
 - All supporting inbound and outbound documentation
 - Indexed by Customer, Agreement & Asset

- Multiple views Customers, Agreements & Assets

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The next 3 components are auto decision and document and customer management.

The auto decision engine provides the rules based underwriting and is fully programmable. Its purpose is to automate where possible the underwriting process and together with the online credit check to accept, refer or decline the proposal.

Document management follows the same branding principles introduced in the Portal and offers multiple document sets based on user defined routing.

All documents whether outbound or inbound are indexed by customer, agreement and asset thereafter offering the opportunity to select multiple views of the customer data

So what are the customer benefits?

Collaborative Service Benefits

- **Introducers, Vendors and Captives**
 - High touch personal service and low touch process
 - Faster consistent decisions (rules & historical analysis)
 - Process transparency from origination to contract
 - Access real time management information
- **Funders**
 - Promote Brand Awareness
 - Straight-through-processing for standard volume business
 - Underwriters focused on non-standard or referred proposals
 - Visibility across transaction life cycles
 - Access all inbound and outbound documentation in one place
 - Moving to less than 1 minute EDI links for introducers
 - Integrated back office environment

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Not by any means an exhaustive list but we are creating a collaborative trading environment for the benefit of all involved.

Going back to our example in the commercial insurance market one might ask that if the leasing industry were to adopt standard messaging templates between all parties, what would be the benefits of easier systems integration?

Is there a role for the idea of market repositories with a single view on contracts and what merits might lay behind the concept of an electronic trading hub?

What ever automation and innovation comes into play let me draw us back to the theme of operational efficiency in leasing

Efficiency and Competitiveness

- Lower Cost of Sale through better processes
- Higher level of Customer Service
- Increased Competitiveness

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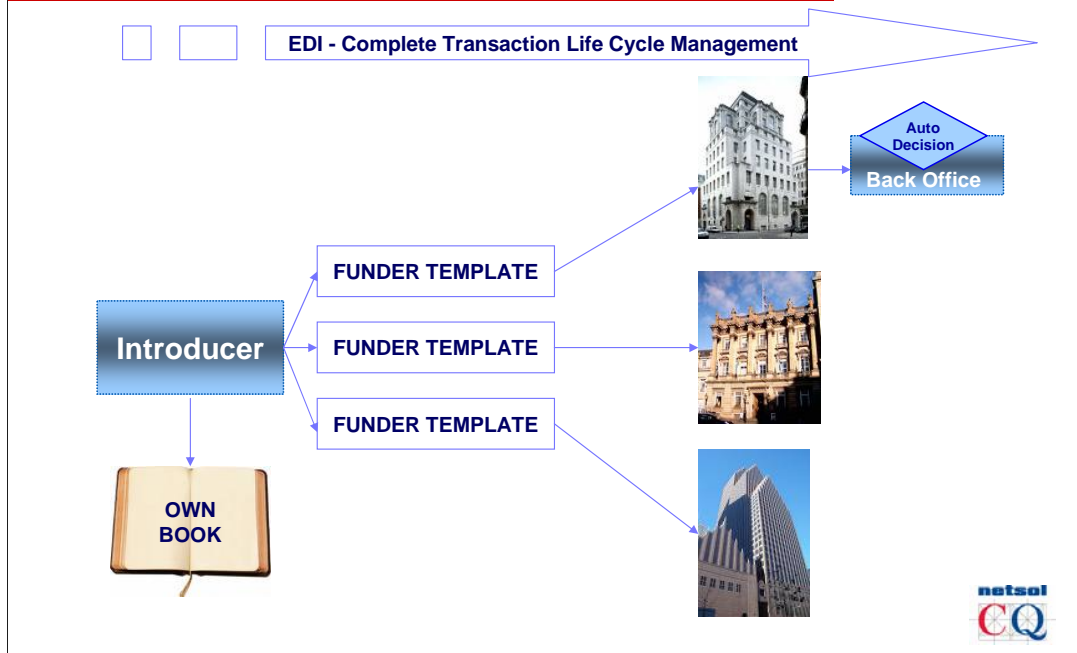
We can see reduced costs through better processes and higher levels of automation within a secure framework of business systems

We can see higher levels of customer service with a single unified view of all related data and with this we have the opportunity to better manage the customer base.

As with the Investec example earlier we can also see that technology, applied correctly, enables one to be more competitive and to offer better service levels.

The automation of standard processes and an innovative approach to the market can sustain high growth rates and better margins and fulfil the business vision.

Extending Collaboration



But taking operational efficiency a step further, I would suggest there remains much scope for extending the collaborative trading model.

In the example here we can see EDI being used through funder templates to interact with funders and in parallel the opportunity for introducers to build their own portfolio.

From the level of market interest in this concept and drawing on some of the ideas for standard XML message types one can see how this type of innovation could become popular.

Automation & Innovation in Leasing

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Can the Leasing Industry learn
from the Finance Industry?

....YES



In seeking to answer my original question I hope I have shown just a few ideas that would encourage you to answer YES to the question and would leave you with some closing hints on looking an automation and innovation

Next?

- Vision dictates business going forward
- Technology enables change & transformation
- Identify key business processes
- Consider solutions outside current thinking
- Select technology solutions to match
- Right size software and solutions

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What next then?

Consider the business vision and think of technology as the enabler. Big bang, internet banking and the ongoing changes in the commercial insurance market were and are not being driven by technology

Technology enables change based on a vision of how one can use it

Look at the key processes where improvements really will make a difference and think outside of the box

Select technology to match the vision and don't burden the organisation with solutions that are either too overweight for the purpose or too lightweight to meet the vision



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Thank You

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Thank you for your time and I hope I have given you a different perspective on automation and innovation in the Leasing industry