Accenture Credit Services
Benchmarking Study 2014:
Origination in Corporate Credit

High performance. Delivered.
Five Defining Areas for Differentiated Corporate Credit Origination

Market dynamics—at the forefront of which are digital technology and more stringent regulations—are putting pressure on banks to either deliver more compelling credit services to small- and medium-sized enterprises (SMEs) and large corporations, or risk losing these high-revenue customers to digitally-powered new players. Protecting their turf requires banks to create more efficient and effective ways to extend corporate credit within acceptable risk limits. Origination, comprising up to 75 percent of the corporate credit cost base and typically conducted by manual processing, presents a near-term and fruitful opportunity for lenders to improve efficiency, build customer relevance and grow profitability.

In this report, we use findings from our recent Credit Services Benchmarking Study to discuss five defining areas that differentiate corporate credit origination for banks to consider.
In 2013, the total European banking revenue pool stood at 871 billion euros. Of this total, nearly 192 billion or 22 percent, came from corporate credit (figure 1) with more than three-quarters of that figure representing the SME segment. A quick comparison of the proportion of revenue from "Current Accounts" and "Mortgages", 15 and 13 percent respectively, immediately highlights the importance of the corporate credit revenue stream—one that banks want and need to protect.

Thanks to the banking and government debt crisis, corporate credit is a tougher business. Lenders now deal with record low interest rates, low GDP growth and more stringent regulation. As a result, volume growth since the 2008 crisis has been markedly slower across Europe (figure 2)—a trend which may continue into the future. With corporate credit revenue expected to grow at only four percent each year, the segment will account for two percentage points less than today on total banking revenues with a 20 percent share in 2020 as shown in figure 1.

In this context, corporate lenders face several challenges from different angles. External to the Corporate Credit industry, digital technologies (mobile, cloud, social and analytics) are creating new business models that put pressure on IT architectures and outpace a lenders' capacity to adopt. On the competitive side, digital technology is enabling new and inventive entrants to threaten traditional strongholds and future business profitability of veteran lenders. For example, innovative social lending, peer-to-peer crowdfunding and flash loans platforms (such as Funding Circle, OnDeck, Kickstarter, Syndicate Room and others) offer SMEs faster, more convenient and more feasible paths to credit at competitive rates compared to traditional lenders. Global crowdfunding volume could reach $17 billion by 2015, according to researchers at Tabb Group.1

**FIGURE 1. Corporate credit revenues**

**Banking Revenues Pool**

(Europe, Bn€)

<table>
<thead>
<tr>
<th>Segment</th>
<th>2013</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate credit</td>
<td>22%</td>
<td>20%</td>
</tr>
<tr>
<td>Current Accounts</td>
<td>15%</td>
<td>14%</td>
</tr>
<tr>
<td>Mortgage</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>SME Banking*</td>
<td>12%</td>
<td>15%</td>
</tr>
<tr>
<td>Transaction banking</td>
<td>11%</td>
<td>8%</td>
</tr>
<tr>
<td>Consumer finance</td>
<td>9%</td>
<td>7%</td>
</tr>
<tr>
<td>Investments &amp; Insurance</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Markets</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Retail Payments</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

*SME lending excluded

Source: Accenture Research Banking Revenues Model

**FIGURE 2. Trends in corporate credit**

Influencers of corporate credit change
Also, online, non-bank players—think Amazon and Paypal—now offer corporate credit facilities to their merchant clients which further threatens the role of veteran players. At the same time, more stringent capital requirements and a tsunami of new regulations are directing financial assets away from where they would preferably be spent—in the pursuit of new business, absorbing financial sources from the origination of new business. Customer demand for corporate banking is emerging with increased use of specialty products, support to internationalization and digital banking interfaces, and online loan applications.

From the inside, corporate lenders are pressed by internal operational challenges affecting customer satisfaction and attrition. Primary among these challenges are sales ineffectiveness due to heavy administrative loads, operating inefficiencies resulting from high levels of manual processing, poor risk management due to the lack of data integrity and persistent legacy technology limiting straight-through processing. Addressing these challenges is paramount for improving efficiency and restoring profitability.

While the influencers of corporate credit change impact all areas of the corporate credit value chain, origination is more exposed than other areas.
Origination covers core revenue-related functions—customer acquisition, product management, sales, credit assessment and fulfilment. It represents up to 75 percent of the corporate credit cost base, giving lenders more opportunities than in other business areas to increase margins and profitability. For example, excessive levels of manual document handling persist between banks and third-parties in corporate credit processing. More than ten handoffs with processing times of twenty or more days are common, making the origination process not only time consuming, and inefficient for lenders, but it also contributes to a poor customer experience.

In the first half of 2014, Accenture Credit Services conducted a benchmark study to examine the corporate credit origination processes at a number of leading European banks to identify emerging operating models and best practices. The study surveyed 13 top banks (9 Tier I and 4 Tier II) in Europe and assessed five focus areas in determining key differentiators in corporate credit origination:

1. Corporate segmentation and policies
2. Credit products
3. Credit organization and processes
4. Credit risk
5. Credit decision

**Corporate Segmentation & Policies**

By correctly identifying and aggregating a market segment, banks can offer a more targeted approach when serving customers, which not only improves revenues but also reduces the risk of credit default.

As expected, segmentation policies at Tier I banks are more mature than those at Tier II banks. Tier I banks use a range of tools to enable segmentation with proprietary and spreadsheet-based tools being more popular than packaged solutions as shown in figure 3.

Most Tier I banks in our study—70 percent—adopt segmentation approaches that extend beyond basic demographic dimensions. They implement additional profiling dimensions, such as client risk, client profitability, client wallet share and client potential. They also use key client profiling dimensions to tailor service models to each client segment or cluster.

Tier I banks also have segment-specific credit policies for the segments in which they operate; generally SME, corporate and institutional clients. Some put in place additional credit policies for certain credit products, such as trade and leveraged finance. Some Tier I banks are embracing a "segment of one" approach, combined with differentiated service models for each customer segment, making it an emerging best practice in market segmentation. For example, one Tier I European bank distinguishes its institutional clients across five service levels (Premium, Platinum, Gold, Silver and Bronze) while categorizing its corporate customers across three service levels (Gold, Silver and Bronze).

**FIGURE 3. Tools bank respondents use to enable market segmentation**

<table>
<thead>
<tr>
<th>Type of Tool</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proprietary tools</td>
<td>42%</td>
</tr>
<tr>
<td>Spreadsheet-based tools</td>
<td>42%</td>
</tr>
<tr>
<td>Packaged solutions*</td>
<td>18%</td>
</tr>
</tbody>
</table>

*Examples from the panel: SAS, Siebel BI
Source: Accenture Corporate Credit Origination Benchmark Study of Top European Banks, 2014
**Credit Products**

Knowing how to bundle products and where best to sell them improves sales efficiency and cross-sell effectiveness. While more than 65 percent of banks surveyed tailor their product offerings to customer segments, use custom tools for client needs and market insight assessment, product bundling capabilities for upselling and cross-selling credit products with non-credit products remain highly underutilized. Our analysis reveals only leading Tier I banks have automated product bundling capabilities and use sophisticated tools to tailor bank products and solutions to customer needs and bank goals. The majority of the banks only recently established a unified product catalog with a single point of access for policies, features, standard pricing and exception pricing. However, only half of banks have a tool that automatically updates all source platforms across the bank. Without this level of functionality, sales staff are unable to manage product bundling, campaigns and pricing through a single front-end application.

In drawing up credit terms and conditions for SMEs, 90 percent of the banks we surveyed use standardized products to speed up deal origination. Credit terms and conditions for corporate customers are generally tailored, which reflects the higher share of complex products and requirements that are open for additional negotiations; credit terms and conditions for large corporate customers are always tailored (figure 4).

Tier I banks rely on specialized credit analysts to support customer segments that use more sophisticated products, such as trade finance, project finance and structured finance. Such analysts also assist with sophisticated front-end applications that enable effective product bundling. Both of these situations help to drive cross-selling and increase share of wallet.

**Credit Organization and Processes**

Organizational layers for risk management, credit analysis and relationship management roles are highly dependent on the overall operational model of corporate business. Adapting the operational model with decentralized credit analysis and centralized risk management is key.

More than 58 percent of bank survey respondents, both Tier I and Tier II, stated that on-line application capabilities for corporate loans are still uncommon.

Relationship managers are taking on much more responsibility in servicing the SME segment, including evaluating and monitoring simple collateral. More than half of the respondents indicated a high level of maturity in managing customer data, using CRM tools for data input.

**Risk management at most of the largest banks is a centralized function with established modeling centers and risk laboratories. This concentrates the risk modeling expertise across all risk types. Identification of early warning signals is performed by relationship managers who make the process more efficient, thanks to their proximity to the customer.**

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**FIGURE 4. Segment structure of bank credit terms and conditions (T/C)**

Q. Does your bank use tailored or standardized credit terms and conditions?

<table>
<thead>
<tr>
<th>For SME</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tailored T/C</td>
<td>10%</td>
</tr>
<tr>
<td>Standardized T/C</td>
<td>90%</td>
</tr>
</tbody>
</table>

- The rest offer tailored terms and conditions for some complex products to SME clients (i.e. Trade Finance)
- Absolute majority of respondents use standardized conditions for SME

<table>
<thead>
<tr>
<th>For Corporate</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tailored T/C</td>
<td>60%</td>
</tr>
<tr>
<td>Standardized T/C</td>
<td>40%</td>
</tr>
</tbody>
</table>

- More than a half of respondents use tailored conditions for Corporates
- The rest offer both customized and standardized offerings depending on lending amount or type of product (most banks provide tailored conditions for Project Finance, Asset Finance and Structured Finance)

<table>
<thead>
<tr>
<th>For Large Corporates, FI</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tailored T/C</td>
<td>100%</td>
</tr>
<tr>
<td>Standardized T/C</td>
<td>0%</td>
</tr>
</tbody>
</table>

- Both Large Corporates and FI get lending on tailored conditions only

Source: Accenture Corporate Credit Origination Benchmark Study of Top European Banks, 2014
Figure 5. Credit origination process by segment and process steps

<table>
<thead>
<tr>
<th>First line of defense</th>
<th>SME</th>
<th>Corporates</th>
<th>FI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client data collection/inputting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deal structuring</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collateral assessment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit rating calculation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit rating confirmation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limits control</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Draft credit decision pre-approval</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Accenture Corporate Credit Origination Benchmark Study of Top European Banks, 2014
Credit Risks

Correctly working out and allocating the creditworthiness of customer segments and individual companies is essential for banks to achieve a sustainable risk exposure.

Nearly 70 percent of the banks we surveyed use the Basel II Internal Ratings Based Approach (IRB-A) for capital calculations (figure 6). However, banks (typically Tier II) that currently use a standardized approach for certain instruments or countries where IRB-A is not yet implemented, may find shifting to an IRB-A approach will have negative consequences for a portfolio of poor credit quality. Also, some banks still do not have credit risk-sensitive exposure limits for customers, an oversight which makes credit granting for certain categories of customers more risky.

Most banks wisely calculate and use risk-weighted assets (RWA) per Basel II for credit decisions. Doing so better reflects capital absorption and places the responsibility for calculating RWA within the risk management function. Almost 60 percent of banks have automated tools for conducting segment-specific rating assessments and making pre-trade limit checks.

At most banks (Tier I and Tier II), credit analysts are responsible for the credit rating calculation. Yet, credit analysts operate under different departments across banks, either within an independent Credit Department (half of banks); within a risk department (one-third of banks); or as part of a business department (17 percent) as shown in figure 7.

In leading banks, assessment of SME customers’ creditworthiness is primarily an automated process with limited involvement or interference by experts (figure 8). Automation provides faster, "hands off" responses which saves money for the bank and time for the customer. Banks should review and revise credit ratings on a regular basis, during standard monitoring procedures and pre-deal customer qualification. They should also use limits on risk-sensitive metrics, such as on economic capital, which allows tighter control of capital absorption and risk exposure.
Credit Decisions

Making sure that the right financial indicators are considered by the correct credit authorities within the right authority levels is essential when assessing credit-worthiness of customers and deals. Disagreement among credit committee members is an important reason for credit decision reassessment.

At 70 percent of the banks we surveyed, the levels of authority of the credit decision makers do not depend on risk-sensitive criteria. As shown in figure 9, 60 percent of banks list “Exposure Limit” as the main factor in defining authority for their credit decision body followed by “credit risk rating” and “segment”.

The majority of banks (67 percent) delegate credit decisions, within set parameters, to regional offices. Corporate and FI decisions are more generally handled at headquarters rather than regional offices. Similarly, face-to-face meetings are reserved for Credit Committees.

More than 70 percent of banks use a structured, paper-based list of conditions in presenting potential borrower information for credit decision. Some Tier I Banks generate their structure electronically with summary of key findings.

Leading banks use both probability-sensitive risk and financial indicators in making credit decisions. Profitability analysis, including the implementation of advance Life Time value instruments, is a key financial criterion for credit decision purposes. Most common credit risk ratios used in making credit decisions for SME and corporate customers include internal credit rating, LGD, RWA and liquidity ratios. Most Tier I banks also use complex, automated Limits Managements systems. Leading banks also link their credit decision authority levels to risk-sensitive measures, such as ratings and RWA.
Conclusion

It is no surprise that across the five key corporate credit origination differentiators examined in this report, Tier I banks generally have higher maturity levels than Tier II banks assessed. Leading banks use a multilayer profiling approach to corporate segmentation which allows them to address needs specifics to a customer which, in turn, improves their efficiency and reduces their cost to serve. Additionally, the same banks have enhanced product management and bundling capabilities which strengthen their ability to tailor their product lines to specific customer segments.

Leading banks have developed credit origination processes differentiated by customer segment as well as quite standardized and automated processes; this is predominantly the case for their SME customers. Tier I banks, to bolster their credit risk measures, have built strong risk-based pricing and credit limit control mechanisms while also implementing Basel II compliant internal rating models and risk-adjusted performance metrics for credit decision and portfolio management purposes. In terms of credit decisions, leading banks link their credit decision authority levels to risk-sensitive measures (such as ratings, RWA), which allows for a far more nuanced and accurate profiling ability. Banks, by implementing more strict multilayered profiling and segmentation processes stand to benefit from sustainable returns that drive long-term profits in this important sector of financing.

Accenture Credit Services can support corporate lenders to:
1. Develop advanced segmentation models
2. Automate product bundling capabilities
3. Decentralize credit analysis and centralize risk management
4. Automate creditworthiness assessment for SME
5. Assess credit decision authority levels
About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 305,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$30.0 billion for the fiscal year ended Aug. 31, 2014. Its home page is www.accenture.com.

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