

SOFTWARE PROVIDERS KEEP UP WITH DEMANDS

THE SECURED LENDER'S SENIOR EDITOR SPOKE WITH SEVERAL SOFTWARE PROVIDERS TO THE INDUSTRY TO HEAR THEIR TAKE ON TRENDS, TECHNOLOGY ADVANCEMENTS, FINTECH AND THEIR CLIENTS' NEEDS.

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What are the hottest trends for technology for ABL? What technological advances have been happening?

SMITH: In terms of technology in ABL, at HPD we're looking at the case for data science or 'big data'. Through data science, we ask what can be mined from all the information that's sitting on an ABL platform. Specifically, what kind of measures can be used to retain clients, control risk, save them money and support business growth? Additionally, because we operate in over 50 countries, we're seeing a real global trend around the theme of data extraction. Getting information directly out of the clients' accounting systems is becoming increasingly important, especially when put it into the context of factoring and FinTech. A huge part of the FinTech strategy is to get up close and personal with your clients' accounting systems.

QUINN: I would say to Tony's point the big data aspect and having flexibility to pull and process that data in an automated fashion is more and more important. We have some clients that are currently running full automation,

everything from the prospecting of new clients through the operations through collections. Everything is being done through technology through the ability to tie into external systems, processing that information, and also performing transactions through our web portal. Our clients are providing this portal on the front end to their customers and also rely on the back-end workflow and process execution engines to process transactions in an automated fashion so that operations personnel can manage by exception. The core focus seems to utilize technology to increase efficiency, remain compliant, increase revenues and reduce costs.

LEE: Yes, I totally agree that big data, analytics, modeling, all of that is key and continues to grow in importance. There's so much information now that it'll take more effort to choose the right information that can actually help with lending decisions and to help manage risk. So, there is work around that to refine it, to make the data intelligent.

I also want to add on to Billy's point, around automation and talk about cloud-based systems and infrastructure. We're seeing it continue to mature with vendors like Amazon AWS and Microsoft Azure competing to optimize it at lower costs. As a result, we're seeing new entrants because the cloud systems take away the hassles and pains of managing the software,

and setting up the infrastructure. All of that really lowers the barriers and costs for a variety of players to come into the space, and this is changing the market dynamics.

I would add that with FinTech and all of the online lending marketplaces that have come about, it's changing the customer experience, too. Customers are going to be more demanding and are going to expect more from their lenders through better online experiences and improved conveniences. Lenders can also take advantage of the instantaneous feedback loop that is possible online to improve what they offer to customers. Technology is raising the bar. The experience for the customer is going to have to improve and a lot of players are working to do this.

MCKINNEY: I certainly agree with everything that's been said. We're seeing the need to bring automation and efficiency to the entire process. And I think Billy kind of touched on this, but it's not only the servicing; it's the finding of the prospects, the converting them to clients, the onboarding and ongoing servicing. It's the entire thing. And it's bringing to bear any type of automation and efficiency that will drive down the cost of lending and improve the borrowing service.

Also, specific to big data and the analytics, there is the true valuation of collateral. Some of the newest lending collaterals are collaterals that have

specific types of risk associated with them. So building new and improved ways of providing the proper valuation for those collaterals is becoming paramount.

How do you stay on top of market trends?

SMITH: There are trends in the lending industry and technology trends; the latter is what I will mostly cover. First and foremost, we listen to our clients and the challenges they are facing, and we work closely with them to help them overcome these challenges. We also attend a lot of industry events, not just ABL, but alternative lending, FinTech, and trade associations around the world.

However, I'd say, most importantly, we employ the right people - staff who are curious to develop and who keep on top of current trends through reading, working closely with our clients and attending training courses.

And with our international footprint, we are able to apply thought processes and strategies in one part of the world and bring it to another. A good example would be in Scandinavia, where they don't do invoicing and payment processing, as we know it; everything is digital. This extraordinarily efficient way of doing business is something we'd like to see replicated around the world.

QUINN: I would second Tony's comments. It's particularly important to listen to clients both across the world and domestically. Some of our FinTech clients are looking to us for advice on how traditional lending is done. In addition, our traditional client lenders come to us for advice. As I think everyone's aware, they're keeping an eye on what our FinTech clients are doing. Our traditional clients are asking, 'How do we keep abreast of what's going on in the technology market?'

We also attend webinars, conferences, and review market news on a daily basis. But also to Tony's point, in having the appropriate business ex-

perts internally, both domestically and global, we can bring new ideas across our client base and also implement that in our software as a standard feature. This also includes listening to other providers to the commercial finance industry such as credit insurers and collections clients.

LEE: I would say the same thing and also stress that working with, and attending different types of tradeshows not directly related to ABL, gives you insight into what the trends are and what can happen in the future.

Would you say finding the right people is pretty easy to do it or is it hard to find the right fit?

McKINNEY: Well, there are two major types of people in our group that we've hired. First, there are those from the industry itself, and they know the business. That is extremely important, as Billy emphasized, because they know the challenges, and they've sat in the lenders' chairs. They know what it's like to have a bad deal.

Second, there are the technical people. And that is so important, because as long as they're inquisitive, as long they're willing to stretch their wings and keep current on technology, you can join the two types together and come up with interesting alternatives to standard business challenges.

I think Tony makes a very good point, when he talked about the need for openness and integrating new systems in the challenge of cyber security. The skills required are very diverse, so you now need people who are both versed in the industry, and the market, and people who are specialized in cyber security and specific technologies.

QUINN: In regards to finding people in the marketplace, as we saw with some recent international commercial finance standards convergence, people need to be more open-minded. The market is changing so they need to be flexible and inquisitive enough

to keep their minds open to different products. I think the convergence of commercial financiers and industry standards shows that the industry is changing, where there needs to be a multi-product approach. If approached from an open-minded point of view, people can be found. Specific product experience will always be important, and the right business and technology experts can be found through looking in the appropriate channels.

How quickly does the technology change in this field?

SMITH: I recently had lunch with someone involved in trade associations, and we kind of wrung our hands about exactly that point. It can't change fast enough in my mind. In other words, you see an opportunity and you want to get it done, yesterday. However, if you throw 5 or 50 programmers at it, you're not, necessarily, going to get a better outcome sooner. You're eventually going to get a quality outcome, but how fast you can do it is always a challenge when it comes to developing code. Also key is deciding what the right new thing is so you prevent wasting time and money.

McKINNEY: The technology changes fairly rapidly. I think there's also the matter of acceptance and perhaps that's what Tony's getting at--that sometimes you adopt a technology and bring it to market, but the market doesn't adopt it, so it's not quite successful. Maybe it's ahead of its time. Certainly those of us who do business in multiple countries know that, especially in banking, various regions are light years ahead of others. It's not that the technology is not there. It's just the technology is not utilized or accepted, so it's not a universal solution.

QUINN: We see a lot of the actual resistance to change; although, from a business level in traditional lending, they're seeing FinTech providers pop up. We see a lot of resistance to that

change unless it's absolutely forced at the appropriate level within the organization. Typically, this is at a senior management business level. Technology is changing rapidly but the business mindset is not, in a lot of cases. So the technology is there, the features are there in a lot of cases, but it takes a while to adapt from a process perspective.

LEE: In terms of how fast technologies change, there are improvements occurring all the time but actual change is driven by market factors, whether from client's customers, competitors, or management within the organization. Staying on top of the industry technology trends, looking at where the industry open standards are going, as well as what some of the big movers and shakers are involved with, can provide good insight into whether technologies will last or not.

SMITH: Banks and non-bank finance providers need to be careful when choosing new technology. As a rule, they want someone else to take the plunge with the latest thing. If the new technology proves to be safe and worth the investment, that is when we see our prospects and clients move.

LEE: Yes, and I think they're just more comfortable with the status quo; they just don't want the change in certain cases.

SMITH: Well, but they are banks and there's a reason why they're banks in that they are, as a rule, staid organizations, and sometimes they need to be more careful.

QUINN: Yes, what we're seeing is the FinTech clients that we've spoken to, from the very beginning, said, 'We can do all of this through complete and 100 percent automation.' What we're seeing is that it's kind of becoming an "in between" in regards to automation. FinTechs are already growing their back office because they realize

what banks have been doing for many years has been tried and trusted and proven. They are starting to see that true end-to-end full automation is not as viable as initially thought. However, the banks are being forced in many ways to change, to come closer to what the FinTechs are doing. So we think it's more of an in-between scenario of newer and existing technologies and mindsets that will ultimately prevail.

What are your clients needing or requesting and how are you responding?

SMITH: One platform that manages everything. They don't want a factoring platform and a separate ABL platform with their supply chain finance business on another system and the floor planning operation on yet another. So that involves flexibility and being able to fit different lending styles onto the same system.

I think they also want to know that their software company is investing in their own software. Software developers should bring to the market things that we thought of in our own back room. We must be truly a solutions provider. Lastly, I think our factoring clients need help rising to the challenge of FinTech. Many of the tools that have been mentioned previously will help them become more responsive and able to meet the funding requirements with the standards that are now being set by these new players in the marketplace.

QUINN: I would absolutely agree, especially on the multi-product offering. Clients are even starting to offer new prospects some initial questions through our portal and then proposing different financing products to these prospects automatically. All of this is done through an alignment with what's going on in the general world through web-based portals. Also we're seeing they're requesting more mobile application functionality so clients' customers and partners can log in and perform transactions over

a mobile device. This includes transactions such as checking the state of their accounts, pulling reports and making payments. We're seeing our client requests align more with what's happening in general around web-based tools.

LEE: I would agree with that. That's one of the top requests. Lenders are having to be more creative about how they structure their deals, and they need a platform that can accommodate the different ways they're structuring their deals. They want to be able to switch deals between different asset classes within one single system, and have a lot of flexibility. It also helps to lower the training effort for their internal staff to not have to work through multiple systems. So, that's some of the biggest things that we're hearing.

We're also hearing that these lenders are looking for ways to differentiate as things get more competitive. Being able to do some customization and tailoring a system that is unique to a given lender gives them an edge and a differentiation.

McKINNEY: I think it's absolutely correct that they have to find new and better ways to say 'yes' without taking on additional risk. So this is a good thing, actually, in the industry--that borrowers are able to look at lenders with the online systems that are available now. And that lenders are able to work across products...they're not compartmentalized as they once were. Lenders can look at the borrowers and put together a deal that makes sense with the appropriate risk.

The other thing I would add is that lenders are no longer willing to use disparate systems and repetitively key data from one place to another. So interoperability and integration are definitely in demand. This is especially true when there are third-party information systems or other anything required for safely delivering these products.

An established system is a large investment, but thousands of tech startups are looking at ways to make existing technology obsolete. Which are the emerging new technologies that keep you up at night?

SMITH: Anything that helps our clients to improve their customers' experience, such as onboarding tools. Also, we pay a great deal of attention to controlling risk and improving efficiencies and profitability. HPD is also investigating developments like Bitcoin and other radical changes in how transactions are settled. Finally, how we can help our clients leverage all the information that they have in their databases to support business growth and better manage risk.

LEE: What's continuing to blur the line are the tablets and the mobile devices, and being able to display the application across all those devices in a way that is very user-friendly and accessible anywhere for the customer. Also, automation tools to help clients analyze their data and that can provide valuable insight quickly.

QUINN: Well, we have a few FinTech clients, so we work with them on new technologies and what's going on in the FinTech world. But we also discuss with our traditional clients on an ongoing basis with them and say, 'You know, if we see a technology out there that they can benefit from, we'll look at it.' We don't necessarily look at it as a threat. We look at it as a potential collaboration and partnership. I think it's key to keep our technology flexible enough to interact with any new technology that gets introduced. In this way, if Codix can't offer the functionality for some reason, at least our software can interact with it.

The one technology we're keeping an eye on is the block chain technologies and how that's going to impact the industry. As of today, that's still under discussion and debate, on how that's going to impact as it's going through proof of concepts.

SMITH: Block chain is being very closely watched, and not just in this industry. Bitcoin and other new tools have the potential to be truly disruptive when it comes to how money moves.

How do you balance the need for systems to be able to be open and connect with other customer systems, with the rising tide of cyber-crime?

LEE: You need to stay vigilant and utilize the most robust industry standard security protocols along with safe and sound data management practices.

Most new systems today support modern messaging and web services architectures. It's important for any software vendor to stick with highly vetted and widely used industry open standards where possible. We support Secured Web Services. Our system maintains high interoperability with external systems without sacrificing security.

QUINN: As a software provider, we strive to provide the most open flexible and open integration points. This includes manual uploads through web portals and file drops, through full automation like computer-to-computer transfers. We handle both full administration of client servers and a hybrid model where clients handle administration duties, but we usually have ongoing conversations with clients on the following:

- Making sure network level security is appropriate (secure VPN's firewalls, DMZs, IDSs, etc.)
- Operating system, database, and related software patching levels are kept up to date
- Codix's application is kept up with any security updates, continuous OWASP testing on external facing application
- Appropriate application authentication mechanisms to help avoid phishing (e.g., two-factor authentication)
- Highest encryption levels to prevent sniffing.

An important aspect with connecting with customer systems is there needs to be involvement from the customer, in addition to the commercial financier. It's important that the endpoint on the customer side is also secure, so teamwork with customers is key. We always work with our clients to make sure security is foremost, while maintaining the usability and ability to connect with other customer systems.

Any final thoughts?

QUINN: I would just mention the importance and ability of having multiple sources of information and having a single system. What we're also seeing is our clients, whether it's to retain clients or to gain new clients, are sometimes forced to offer new products through their commercial finance platform. So, in the supply chain finance world, which a lot of people refer to as reverse factoring, we're seeing clients actually take in purchase order information, shipping information and also receivable information. They then offer purchase order finance backed by a more secure receivable finance offering, for example. They can also use technology to match and reconcile all of the information received to add another layer of de-risking the financial transaction. So, they're offering products that they typically would not have offered. **TSL**

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