

# Digitise to Harmonise

In recent years we have observed a steady convergence in the practices of the global loan markets. However the documenting of loan arrangements and use of technology to administer the loans remains largely subject to jurisdictions' requirements. Technological solutions across and within jurisdictions have remained siloed, lacking the interoperability needed to fully reap the benefits of digitisation.

Global institutions generally run loan servicing at a regional and/or country level, as opposed to having a global approach, owing in part to jurisdictional differences in loan agreements and in part due to technological differences and the cost associated with streamlining practices. To maximise efficiency, simplified, streamlined processes are required at a global level, enabling streamlined processes for loan servicing, with a single standard prevailing across jurisdictions.

Raw data has the ability to be digested by any proposed standard and that is where the fundamental benefit of digitisation lies. We shall explore the concept of a standardised data set in this article.

## An Interoperable Future

'Banks are often rife with manual data entry process, cumbersome checks and controls, use of legacy systems, poor levels of automation, inefficient responses to regulatory requirements and reconciliations of positions between agents' and lenders' ledger systems'<sup>1</sup>.

Tackling this issue can appear daunting from both a cost and time management perspective. In addition, it can be difficult to know which direction to take as the interdependence of the syndicated loan market requires that a market majority sign up to any one platform for true benefits to be realised.

However, this issue can be addressed by vendors embracing an interoperable future, a future enabled by digitisation. All platforms can consume raw data. If platforms were therefore to transmit messages digitally, they should all be capable of speaking with one another. This would allow banks to invest in streamlined systems which best suit their needs, knowing the system will be able to communicate digitally with those of their peers and, as a result, increase efficiency not only within institutions, but throughout the loan market more broadly.



## Data Consumption – A Minimum Standard

In order for platforms to consume data, a standardised data set needs to be agreed upon. Whilst standardisation is not a new concept for the loan market, despite the loan product itself being non-standard, the primary focus to date has been on the standardisation of documentation. However, to create greater transparency and interoperability that will facilitate straight-through processing, the focus needs to turn towards the creation of a standard data set.

To realise this vision of an interoperable, more efficient ecosystem, vendors have already embraced Application Programming Interfaces (APIs), which require a standard set of data elements to be available for both the publication and consumption of data. To further enable digitisation of the syndicated loans market, participants must agree what a standard loan market data set will look like.

Harmonisation of approach is critical in this respect, and it is for the market to once again come together to solve, as it previously has during the transfer to risk-free-rates, during the covid-19 pandemic and as it is right now in cementing a collaborative approach to sustainability finance.

The loan market need not start from scratch in creating this data set. This process was first started over 20 years ago when the Financial products Markup Language (FpML) was created. However, the heavy cost of implementation meant that most organisations did not fully adopt this process. Technology has since evolved, and we are now in a position to embrace the digital future. FpML has given us a great starting point from which to define a standard data set, but we need to continue to adapt this schema as we look to globalise our market.

## Final Thoughts

Cost, both in terms of time and money, is always a primary concern when it comes to transformation. However, the increased adoption of cloud-based technology offers the opportunity to minimise costs of infrastructure and facilitates access to new and existing technology to a wider range of market participants. Coupled with interoperable processes and systems, permitted by digitisation, market participants should be able to select from a range of technological solutions, choosing the option best suited for their needs.

From increased collaboration and faster transaction execution to more efficient data and information exchanges between parties, digitisation of the lending ecosystem can bring significant benefits to the lending community. This not only appeals to the growing market of digitally native borrowers, but also to employees, as technology takes care of the mundane allowing them to focus on more complex, value-added activities. Furthermore, improvements in information exchange and the availability of data instantaneously should greatly reduce compliance and regulatory risk.

Digitisation is not a future concept, it is already in operation and being readily used by other financial markets. It is therefore for syndicated loan participants to decide if they wish to take advantage of the benefits on offer and to collectively take the actions necessary to achieve this.

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