



Managing Operational Risk

Through the Credit Crisis

Misys and HCL
Extend Alliance
Integrate CapitalStream
and Loan IQ

Interview
Richard Cummings,
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FRSGlobal
Expands
To India, Japan and
Australia

MISYS AND HCL EXTEND ALLIANCE

Integrate CapitalStream and Loan IQ

HCL Technologies and Misys have announced their plans to integrate their respective commercial loan solutions, CapitalStream and Loan IQ, to provide an end-to-end loan solution for wholesale and commercial banks. HCL and Misys had entered into a strategic partnership in October 2007, under which the two companies had agreed to work together in South East Asia. Misys had become the preferred banking partner for HCL, and the two companies were to jointly market banking, treasury and capital market solutions of Misys in India, Malaysia and Singapore. They also agreed to work together to upgrade Misys customers from Midas and Opics to MidasPlus and OpicsPlus.

In February 2008, HCL acquired Capital Stream; a US based firm specialising in providing lending and straight through processing (STP) solutions to commercial banks and finance companies in North America, including prospecting and sales, credit analysis, due diligence, documentation and portfolio monitoring. In November 2008, Misys and HCL agreed to extend their strategic partnership to the Americas, Europe and the rest of the Asia Pacific region.

Within the terms of the new alliance, Misys and HCL will also grant each other licences to distribute the other party's product and refer banking customers to each other to ensure optimal service to the wholesale banking sector. HCL CapitalStream Origination solution will be fully integrated into Misys Loan IQ portfolio where it has a working

brand name of Misys Loan Origination. However, HCL CapitalStream will still sell the product to its customers under the HCL CapitalStream Origination moniker. 'This is not a merger or acquisition, rather Misys is licensing the product for resale and distribution and it works both ways. Banks can buy both solutions from both Misys and HCL CapitalStream,' says Prabhakar Saxena, general manager, sales and distribution, India, Misys Treasury & Capital Markets. 'This is a global agreement which will service India and a number of other markets in Asia such as China, Hong Kong and Vietnam,' he adds.

What benefits will accrue to Misys from this integration (to integrate CapitalStream with Loan IQ)? 'This deal strengthens Misys' position as the leading provider of STP solutions for commercial lending operations,' responds Saxena. 'During the financial crisis it has become increasingly important for banks to ensure commercial loan transactions and outstandings are automated where possible and that information is passed seamlessly from the front-office to the back-office and then to senior management. Adding HCL CapitalStream's front-office loan origination expertise will mean that when liquidity returns to the market, we can help financial institutions generate loans, collect payments and manage the risk in the most effective way,' he explains. Misys Loan IQ is used by 13 of the top 20 syndicated loan book runners globally accounting for over one-third of the world's syndicated loans. It has a strong functionality for loan syndication

and secondary loan trading in the front-office and loan servicing and risk management in the back-office, compliance and limits monitoring, reporting, and analytics. 'Adding front-office loan origination functionality is really the last piece of the puzzle in creating a comprehensive front-to-back office offering for banks in India and globally,' says Saxena. He agrees that 'there are some overlapping features in the two solutions and that both are positioned as providers of STP solutions,' but says that 'partnering opens up to new opportunities to both firms and ultimately, it will help more financial institutions have access to the most advanced commercial loan management software in the world'.

Commenting on the future of the market for commercial lending in the next two years, Saxena observes that 'accessing liquidity and managing liquidity is obviously a critical issue within current market conditions, but in the long-term, the trend is towards a more integrated approach for commercial lending' 'This means leveraging STP systems and processes to manage all aspects of loan lifecycles,' he stresses.

Here are the excerpts of an email interview with Kevin Riegelsberger, senior vice president and head of the HCL CapitalStream Lending Group exclusively with CRO:

CRO: What were the reasons for HCL to extend its alliance with Misys to integrate CapitalStream with Loan IQ?

Kevin: CapitalStream is one of the leading origination, credit and straight through processing (STP) platforms for commercial lending, while Loan IQ is that for commercial loan servicing, syndication and trading. By combining and integrating these two industry-leading products, HCL and Misys have a complete commercial lending automation solution that is functionally superior to other offerings in the market. Both companies believe this strategic combination will increase market share by offering clients best-of-breed products with robust integration backed by this close partnership of two successful technology firms.

CRO: Have the findings of your survey influenced the decision to form this alliance?

Kevin: Yes, the survey indicates that 60 percent of banks in North America are looking for implementing or upgrading their STP capabilities in the next 2 years. The critical best practices, most planned for implementation over the next 2 years, are improving STP, integrated origination systems, and booking loans electronically. These are all areas addressed with the combined solution. We also see similar trends internationally.

CRO: Which geographies does this alliance plan to address in the short-term?

Kevin: Our focus is on North America, Europe and Asia where both companies have a strong presence.

CRO: How will the alliance manage the overlapping functionalities of the two solutions (Loan IQ and CapitalStream)?

Kevin: Interestingly there are very few overlapping functionalities as CapitalStream has always been designed to complement existing loan servicing platforms. In the very few areas that do overlap like covenant monitoring and settlement, the customer will be able to choose which system to use.

CRO: Are the two products complementary to each other?

Kevin: Very much so. The combined platform serves all the needs of commercial lenders whereas separately each product needs to rely on the bank to have or build other systems.

CRO: How does this alliance benefit HCL CapitalStream customers?

Kevin: Some of our customers still have internally developed loan servicing platform or are considering changing servicing platforms. These banks will now be able to consider the combined platform that is fully integrated with CapitalStream and supported by HCL. We are already actively engaged with some HCL customers who are considering the Loan IQ platform.

CRO: Which new customers have been added By CapitalStream since its acquisition by HCL in February 2008?

Kevin: Several banks have selected CapitalStream during that time including American AgCredit and Canadian Western Bank. In addition, many of our current customers have extended the use of the platform to other business lines. The greatest impact has been on our pipeline which has grown dramatically since this



Biography

Kevin Riegelsberger is the senior vice president and global head of the Financial Services Products Business Group at HCL Technologies. Prior to HCL's acquisition of CapitalStream in 2008, Riegelsberger was the CEO of CapitalStream.

Riegelsberger has track record of 25 years of leading technology organisations. Before joining CapitalStream, he founded a financial and ERP software application provider company, Platinum Software (now known as Epicor). During his 15-year tenure at Platinum the company grew from a 7-person startup to a publicly traded company with nearly \$300 million in revenue. At Platinum, he held various senior level executive positions in operations, sales, channel development and technology development. He was responsible for all international operations with approximately \$100 million in revenue and 350 employees located in all major international markets.

acquisition. Given our 9 to 12 month sales cycle, these accounts are just now starting to close with the first wave of those accounts likely to close this quarter.

CRO: How do you view the market for commercial lending in the next 2 years?

Kevin: Certainly, the credit crisis has forced some banks to re-evaluate their portfolios and increase their credit and lending standards. We have witnessed a

pulling back of commercial credit overall. The most significant issue is the creditworthiness of businesses during recession. It is difficult to predict future financial performance or value their current assets. This increases conservatism and decreases the willingness to lend which in turn limits the size of commitment banks are willing to make. Obviously this will squeeze the lending market. However, there will be winners and losers and many banks are seeing this as an

opportunity to take business away from the weaker competitors. The winners are putting systems in place to make sure their credit policies are adhered to and ensure that they lend money to those that warrant it rather than just pulling back completely. Margins are increasing so the business is very lucrative for new loans. Hence we see some winners and they are investing in technology and process improvement. That should mean our business will remain sound. ■

HSBC IMPLEMENTS AUTHENTIFY OOBA SOLUTION

Hong Kong and Shanghai Banking Corporation (HSBC) has deployed Authentify's Out of Band Authentication (OOBA) services to protect online and remote transactions from fraud. The Authentify solution works by connecting directly with a user running a web session in real-time via an automated telephone call. 'It plays back transaction details to the user so he or she can verify them, and thus stops man-in-the-browser attacks and other advanced e-crimes,' says Todd Pauli, marketing director, Authentify. The solution uses a second network for authentication (mobile or landline telephone network) so that even if someone has all the correct information to commit fraud he still cannot spoof the authentication process. 'It is completely configurable to handle both simple verifications using a confirmation code or one-time password and also the more advanced techniques such as authentication using voice biometrics; and provides a

detailed audit record for each transaction, including any voice recordings that may be part of the application,' informs Pauli. It layers with security mechanisms that banks already have in place and uses technology based on something their users already own and know how to use.

Authentify's OOBA solution is customised for each bank, both in the features implemented and the branded voice prompts used during the automated phone call. Having an XML-based architecture, the solution layers easily into existing platforms and security measures and is capable of straightforward integrations. 'A bank simply passes to Authentify an encrypted XML message containing the phone number to be called,' says Pauli and adds that 'there are no special database requirements'. We do not retain any identifiable customer data on the bank's behalf, he explains.

Chicago-headquartered Authentify

has offices in the US and Hong Kong making authentication phone calls to over 150 countries using multiple languages. In the next two to three years, 'We see our business continuing to grow in the major financial and e-commerce centres of the world including the UK, US, India, and several locations throughout Asia,' says Pauli. Users of the OOBA services include companies in financial and e-commerce spaces, and a number of large corporations that use the software for corporate identity and access management. 'We work with clients to customise the application to meet specific security requirements,' says Pauli.

Pauli declines to comment on the selection process followed by HSBC and the details of implementation citing respect for the client's privacy. 'The implementation at HSBC is already complete and transactions are being processed on HSBC's behalf,' he informs. ■