

Accelerating SME finance through same day lending decisions

Delivered best in class Loan Origination solution powered by Pega



Key drivers

- The Australian Prudential Regulation Authority (APRA) conducted stress testing of all Authorised Deposit-taking Institutions (ADI) in 2017 to test resilience of the Australian banking system
- One of the key action points that emerged from the stress testing exercise was to make the credit appraisal of Corporate, Institutional Banking & Markets unit of various leading banks in Australia foolproof and auditable, considering factors such as **Exposure At Default (EAD) and Loss Given Default (LGD)**
- LGD was captured largely off-system, leading to data quality and process inconsistency. The existing format was user-dependent, and posed an operational risk/challenge



Program objective

Deliver best in class business banking origination and servicing applications to enable accurate determination of the risk involved in lending and provide instantaneous credit decisions

About the client

The client is one of the leading banks in APAC. The bank has introduced several initiatives to be “better” for small businesses such as

- **Revamp lending systems**
- **Enable instant lending decisions**
- Waiver of business banking fees/charges.



Business challenges

- Delay in time to decision due to lack of integrated view of information during credit appraisal
- Existing loan process was manually intensive, resulting in increased scope for human error
- Mandate from the regulator to automate the entire credit workflow to retain Advanced IRB accreditation
- User dependent LGD/EAD calculation resulting in lack of auditability and operational risk
- Limited scope for data-driven credit decision and lack of integrated workflow in the lending system
- No internal single source of truth for reporting and analytics.



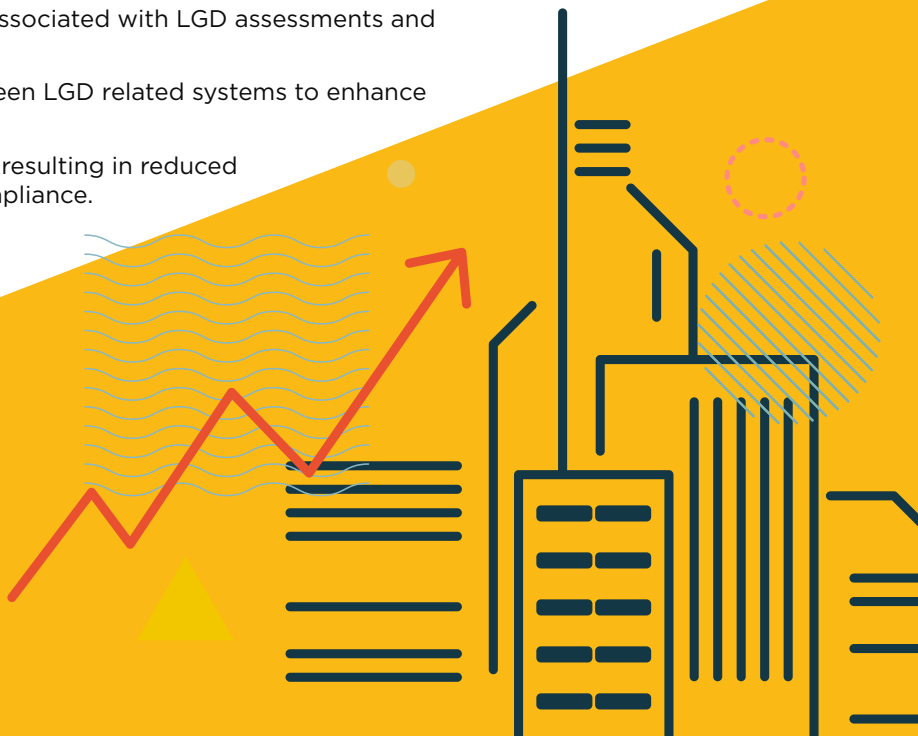
Solution objectives

- **Retain AIRB (Advanced Internal Rating Based approach) status** for Regulatory Capital calculation
- Enhance analytics, modeling and lending decisions through improved data
- **Address data quality issues** impacting capital calculations
- Ensure a robust and flexible system driven capability to meet future regulatory changes.



Benefits to the client

- Provided a **single unified view of customer, facilities, PD ratings, LGD and EAD** values for loan origination
- Improved process efficiency through **reduced re-keying and manual data entry**
- Identified and **remediated data quality issues** for sustainable data-driven decisioning
- Reduced rework and manual adjustments associated with LGD assessments and reporting
- Simplified and automated interaction between LGD related systems to enhance process efficiency and drive adoption
- **Automated LGD calculation and reporting** resulting in reduced operational risk and achieve regulatory compliance.





HCL solution

A scalable Pega solution was built on the Enterprise Pega Platform with two key components

- **Robust Pega Workflow solution** for LGD calculation through completely re-defining the target state architecture by replacing the EUC tools and manual calculations
- Pega Decision Engine to **fully automate Secured Lending Margin (SLM) and LGD calculation**

Salient features of the Pega Platform based solution are

- **Complex calculation logic:** LGD calculation considering 80+ complex business rules/scenarios (e.g. partial/full cross collateral) and real time integration to retrieve facility, PD and counterparty details
- **Seamless Integration To:**
 - Enable clear linkage between customers, facilities, collateral and the calculations used to determine LGD from BRE (Business Rule Engine)
 - Collateral Management System (CMS) to automate the collateral allocation rules and uplift collateral data quality
 - Internal reporting and analytics tool for automated reporting thereby limiting the usage of CSV files for storage and corresponding manual reports
- **Process Automation:** Improved validation of data and system rules to improve LGD accuracy and reporting
- **Business Rules Automation:**
 - Demonstrate lineage of non-retail LGD values
 - Common rules engine for Institutional banking, corporate banking and private banking division for LGD calculation
 - Automated calculation for LGD and Credit Exposure Policy



Other prominent features

- Pega based LGD UI application designed specifically for IB&M (Institutional Banking and Market business unit) to cater for commercial and business facilities
 - Act as a **single reference repository** linking customers, collaterals, facilities and ratings
 - Improved facility to collateral mapping via rest API's to enhance data quality
 - Provide **event-driven decisioning capabilities** as well as provision for manual override of LGD values
- Automated data feeds for credit note
- **Enhanced data availability** in the analytics platform for model validation and reporting



How HCL can help?

With more than 30+ years of experience and 80+ implementation in the lending space, HCL has been the strategic partner for banks and financial institutions in lending transformation programs across multiple geographies. Leveraging strategic partnership with Pega, HCL has helped top 20 banks across the globe to accelerate digital adoption and drive business outcome led initiatives.



HCL

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