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Debt Business.

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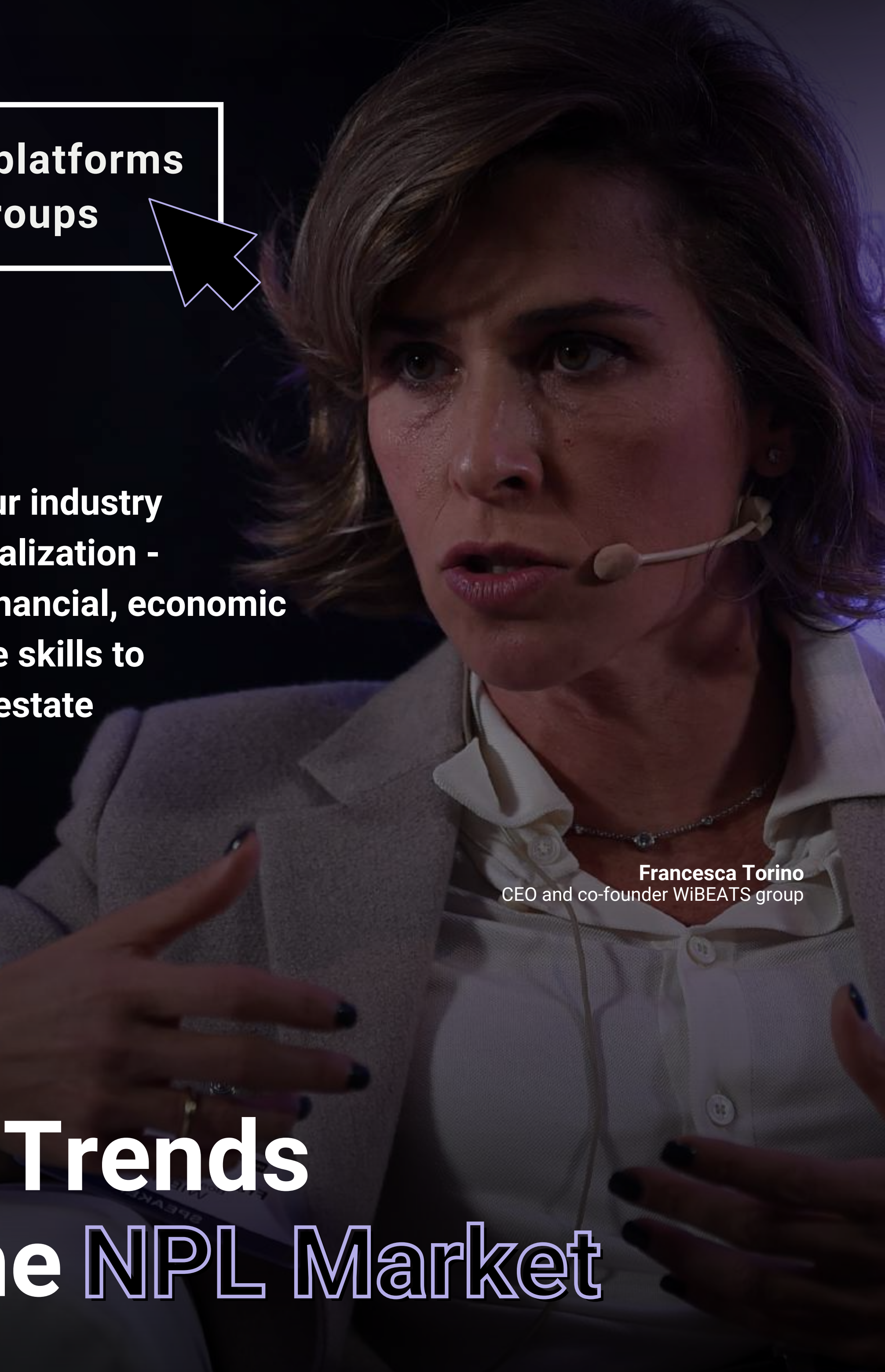
Digital NPL trading platforms attract new buyer groups



WIBEATS

> A **key factor** in our industry consists of specialization - encompassing financial, economic and due diligence skills to expertise in real estate

Francesca Torino
CEO and co-founder WiBEATS group

Key Tech Trends Moving the NPL Market

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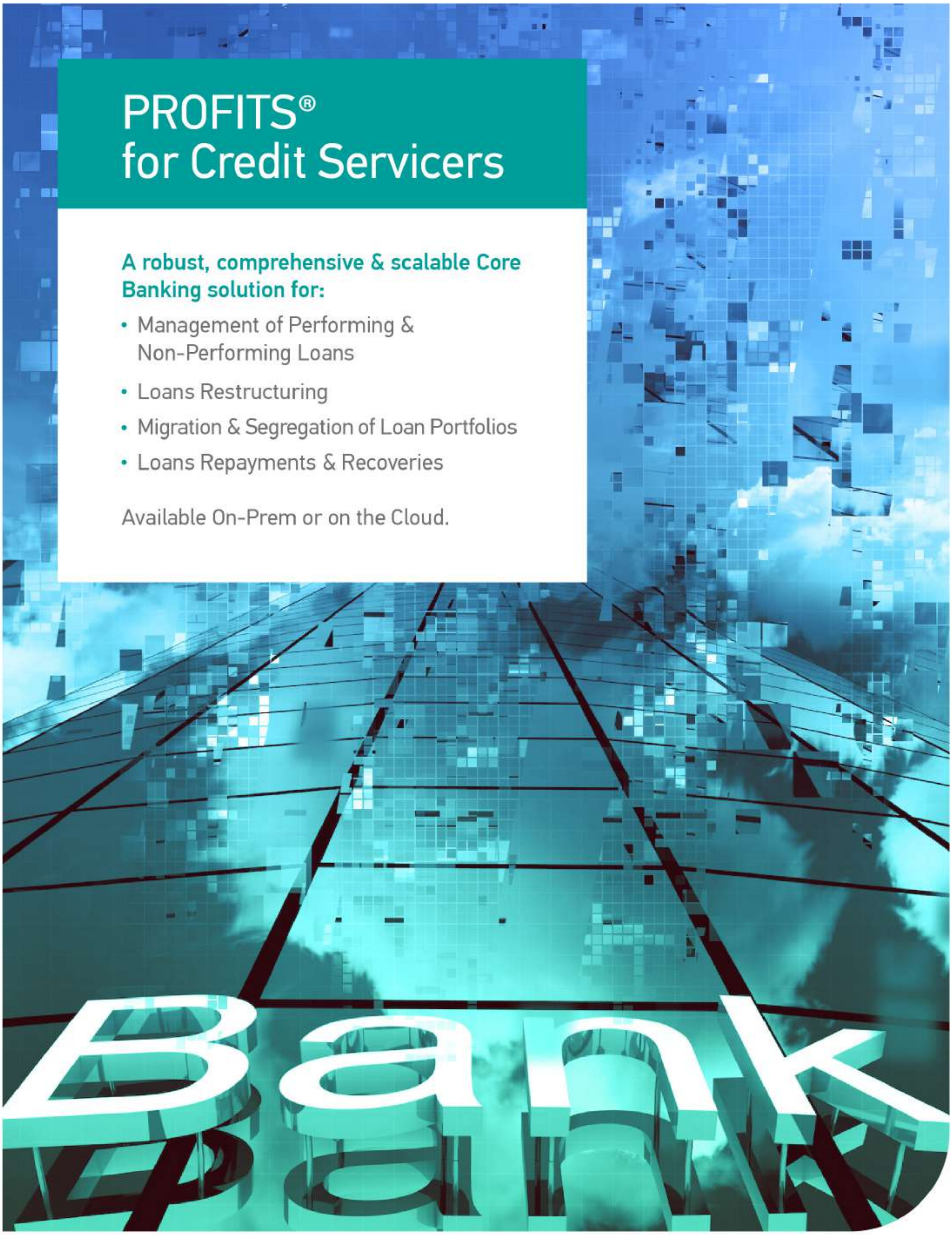

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Digital non-performing loan trading platforms in Europe

Accelerators of the transformation of secondary NPL markets

After the global financial crisis NPL ratios in Europe were at their peak - and that's why regulators put a great emphasize on the topic, e.g., by introducing minimum provisioning levels and stricter definitions of NPL impairment. To avoid high provisioning costs banks were pressed to start actively managing their NPL stocks with NPL transactions taking place at higher frequencies and also smaller sizes. The regulatory pressure but also the impact of NPL stocks on the banks' profitability and ability to lend in general encouraged financial institutions to intensify the application of various on- and off-balance sheet tools for the reduction of NPL levels.

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Amongst others these solutions included and still include the internal workout and potential restructuring of NPLs by the originating financial institute, the involvement of an external specialized servicing platform, the synthetic or true sale via a securitization structure (potentially with the involvement of a third-party servicer), the set up of an asset management company or the outright sale of the portfolio to an investor.

Digital NPL trading platforms provide the technical infrastructure that allows sellers of NPL portfolios to directly or indirectly market and sell spot and/or forward flow transactions to interested buyers via the internet - they are marketplaces for the still rather illiquid asset class of NPLs. Dependent on the specific platform an outright sale as well as synthetic or true sale securitizations are supported. Therefore, digital trading platforms can be an important piece in the tool kit of a bank's NPL management strategy. But even more: these platforms accelerate the development of an efficient and transparent secondary market and reduce the wide bid-ask spreads that have been observed traditionally. Platforms address the current key frictions in the NPL market which have been identified and pointed out by the ECB: information asymmetries between buyers and sellers, high transaction costs, limited number of buyers capable of going for big size transactions.

But how exactly do transaction platforms address these shortcomings of traditional NPL markets? What are the benefits for buyers, sellers and servicers utilizing these platforms?

Digital NPL trading platforms support the whole deal life cycle - taking out the complexity of the transactions, allowing for faster processing and closure of deals - resulting in significant cost savings:

From a technical point of view a digital trading platform

- manages onboarding of buyers, sellers and servicers: digital NDA signatures & KYC checks
- provides a data interface to the sellers allowing for easy data upload
- takes care of standardizing and cleaning of data
- exposes high level information in a marketplace and detailed information in a data room (for buyers and potentially servicers)
- provides marketing to a targeted audience, e.g., via the online marketplace and email campaigns
- runs an auction process to allow for trading of the NPL portfolio
- takes care of all transaction documents
- electronically manages the relationship and communication between buyer, seller and servicer

This provides benefits to buyers and sellers alike. Sellers benefit from support in data collection, data room management, protection of sensitive data, portfolio segmentation/structuring and deal preparation, access to a large number of potential investors and dealing with legal contracts. Buyers get access to a wide range of transactions, they are supported in the legal and financial due diligence, in the quality assessment and the valuation of the portfolio.

Providing flexible data interfaces and allowing sellers to deliver data in arbitrary formats, complementing it with physical files, using artificial intelligence to extract additional data points from such files, enhancing the data and converting it into standard formats such as the EBA data templates allows digital platforms to show portfolios to potential buyers in always the same format. It is all about standardization. This tremendously reduces the workload of investors compared to traditional Excel based assessments of the data. Historically there have been at least as many different loan data tape templates as there have been selling banks - with platforms it is all about organizing, aggregating and simplifying the data, overcoming the lack of clean and complete data to finally make it easier for the buyer to come up with an informed investment decision. And as a convenient side effect these large volumes of data can be shared easily and securely via the transaction platforms.

Equally important to the presentation of clean underlying loan data are analytics calculated by platforms to provide even more transparency: analytics on single loan and aggregate levels as well as dicing and slicing of these analytics along various categories to give a deep insight into the structure and risk of the portfolio. This also includes tools to support client efforts in coming up with a fair price for a NPL portfolio. Typically various valuation models are supported: bottom up as well as top down ones, e.g., based on general statistical data and/or historical data from benchmark portfolios and/or fair value approaches. Most importantly the workout strategy and servicing costs of the specific servicer are included in any valuation model. Stress tests complement the analysis and ensure that the pricing is such that target internal rate of returns can be achieved even under adverse market conditions.

All these building blocks - documents, data, analytics including pricing and stress tests - are essential for the credit and investment risk assessment and a proper deal due diligence in general. In case of a positive outcome of the investor's due diligence platforms allow to enter a bid as part of an auction process. Dependent on the preference of the seller a specific bidding method can be chosen, a minimum price can be set and the universe of investors can be defined that is allowed to take part in the auction at all. After completion of the the auction process and in preparation for the closing of the transaction based on legal tech the platform provides all the relevant contracts which can be signed electronically - legal standardization helps to avoid unnecessarily high legal costs. Post-sale documents are made available to buyers, sellers and servicers online as well. All involved parties always have access to the identical set of documents and data in a centralized data room to minimize compliance and execution risk.

Digital NPL trading platforms attract new buyer groups

NPLs can play an important role in investors' portfolios as a high return and diversifying asset class, especially in today's low rates environment. However, so far the barriers of entry to the NPL market have been quite high. Significant costs for time and labour intensive due diligence processes, lack of internal loan servicing capacity and expertise, difficulties in assessing the value of impaired assets in general as well as complications in the booking of and dealing with loan portfolios are just some of the many challenges investors are still facing today.

Sophisticated digital NPL trading platforms address these challenges and help new players - beyond the big credit and hedge funds - to enter the market:

- costs for due diligence are minimal as data, analytics and valuation models ‚come for free'
- if investors do not have in-house loan servicing expertise the platforms can offer a selection of suitable onboarded external servicers to choose from (or the investor brings in an already known servicer of trust) to become part of the transaction as minority co-investor and take care of the servicing of the NPL portfolio on behalf of the investor going forward, portfolios are not only traded ‚as they are' but can be offered in a serviced format as well
- investments are not only possible as an out right portfolio sale but also in securitized formats involving internal or external SPV structures to also attract potential buyers who can only invest in security but not loan format directly
- platforms are very cost efficient and therefore can support even transactions with small nominal amounts making it attractive to investor types with less dry powder available

Digital NPL trading platforms lead to a fairer pricing

Platforms efficiently connect sellers with a high number of potential buyers, manage the communication between the two groups and enable a proper auction process typically achieving a fairer price compared to a manual and more traditional sales process reducing the wide bid-ask spreads observed in the market. Having a big number of investors taking part in the auction process makes it simply more competitive.

Also, the price that can be achieved is highly correlated to the quality of the underlying data. Missing data points and other information usually mean a higher investment risk and therefore a more discounted price. Digital platforms ensure transparency and a high data quality before putting portfolios up for sale in order to optimize the price that can be achieved by the seller.

A third important aspect is the structuring of the portfolio. Sophisticated platforms allow for dicing and slicing of a heterogenous portfolio in homogenous sub-portfolios. Selling off the homogeneous sub-portfolios to specialized buyers can sometimes achieve better prices than just selling off a heterogeneous portfolio to one buyer.

Digital NPL trading platforms open up new market opportunities to the servicer community

Advanced platforms, e.g., such as wideStreet, go beyond just connecting buyers and sellers - they connect buyers, sellers and NPL servicers. Traditional NPL buyers have had internal servicing capacity or at least established strong partnerships with external servicers. Sophisticated platforms have access to a wide servicer community - and therefore do not only support trading NPL portfolios but serviced portfolios as well - ideally also in securitized formats. Via these platforms servicers can offer their servicing capabilities to interested buyers. They can provide quote recommendations taking into account the specific work out strategies and servicing costs. This way the trading platform is not only a market place for NPL portfolios but for work out services as well. Typically the servicer would be asked for skin in the game, i.e. to co-invest with a minority stake, e.g., taking on its own books at least 5%-10% of the traded NPL exposure.

Even a portfolio that is highly diversified across countries & loan types can be offered in such a serviced format - the platform structures the portfolio in sub-portfolios and matches each sub-portfolio to a specialized servicer via the global network of onboarded partners. Platforms aim to give access to the best servicer in each region and for each asset class. For the success of the platform it is key to identify the out-performers and flexibly work with them rather than relying on just a small number of partners.

On the other hand many servicers are active as buyers in the NPL market but sometimes cannot or do not want to buy the whole NPL portfolio themselves. Platforms can provide co-investors creating a win win situation for both:

- the servicer gets the servicing mandate & collection fees and has exposure to x% of the portfolio and therefore skin in the game
- the investor gets access to the remaining 100% - x% of the portfolio and ideally has got access to a high quality servicer

Servicers can easily generate more business by getting access to the originator and investor universe on digital platforms - including old and new investor types - and above all can utilize the modern technology. This is becoming more and more important: in 2019 and 2020 there has been significant loan servicer consolidation across Europe mainly driven by regulation, increased competition and development of the market in general. The ones who want to survive have to open up to new business models and partners and/or grow across regions and asset classes.

Digital NPL trading platforms can handle small and even single name transactions

Traditionally buyers such as credit funds were interested in big granular portfolios only. With the very cost efficient platforms it has become much easier to trade small portfolios or even single names. This has also attracted new comers to the market. New comers from new regions such as East Asia, Dubai or Brasil and also new client segments such as family offices and others. For sellers this is a very positive development: being able to put some price pressure on the old buyers and not having to wait to sell until having ramped up a big portfolio but disposing small NPL portfolios on a regular basis increases the profitability and allows to constantly reduce capital costs.

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Digital NPL trading platforms can help to create a more liquid secondary NPL market

Digital platforms have the capacity of providing trading opportunities to a large number of sellers and buyers on a frequent basis. Being able to also process small tickets will increas market activities massively. Providing a marketplace not only to banks but investors who want to sell on portfolios they have acquired from banks before or who want to dispose residual portfolios after a certain time also will make the market more liquid.

The support of securitization also makes it easier to create fungible products that can be traded into a broader investor base. And as a security it can be easily booked by custodians of more traditional institutional or semi institutional investor groups.

Finally by offering a proper marketplace with bids and offers and potentially daily trading activities platforms play their important part in the creation of a liquid secondary market.

The success of digital NPL trading platforms will depend on a cultural change

With transaction volumes in Europe of roughly EUR 80 bn in 2020 and an expected volume of roughly EUR 100 bn in 2021 the last two years did not live up to the expectations of the NPL industry at all. As the first wave of the pandemic spread throughout Europe NPL activity almost came to a halt. Most of the transactions in 2020 took place in the second half towardsthe end of the year. With the success of global vaccination programs the world is gradually and slowly moving towards a post Covid world now. Markets are expecting a new wave of NPL sales driven by the removal of Governmental support programs and moratoria. Given the many benefits of digital NPL trading platforms and the potential near-term increased NPL trading activity does it mean that platforms will be able to grow their share above average? Not necessarily. What is needed is a cultural shift. NPL management has always been a highly confidential and sensitive issue for financial institutions. The success of platforms will fully depend on banks developing trust. And trust will certainly come with successful transactions beneficial to all parties involved. Regulators also play a crucial role: with their desire for transparency and a more efficient secondary NPL market there might be no way to avoid digital marketplaces in the future. They are certainly prepared to play their crucial role in deleveraging European banks already now and even more going forward.

About wideStreet GmbH:

wideStreet is one of the most sophisticated fully digital European NPL trading platforms supporting

- sellers with data preparation, data room management, NPL portfolio marketing, access to a broad investor base, auctioning NPL portfolios & managing transaction documentation
- buyers with data, analytics, pricing models, access to NPL investment opportunities and servicers
- servicers with access to data, marketing their servicing capabilities and identifying potential co-investors

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CEO of wideStreet GmbH

About the author:

Dr. Bernd Schmid is CEO of wideStreet GmbH, a pan-European fully digital trading platform for UTP and NPL portfolios connecting buyers, sellers and the servicer community. He is an experienced Managing Director with a demonstrated history of working in senior sales and business development roles in the financial services industry including companies such as UBS Investment Bank, Allianz Group and Fitch Ratings. Bernd holds a PhD in Economics as well as Bachelor and Master degrees in Mathematics and Operations Research. He is the author of several books and articles focusing on credit and fixed income topics.

The Future of NPL Trading

wideStreet overcomes limitations of the current NPL market and takes NPL trading to a new level by offering a cross-jurisdictional, multilateral marketplace for UTP and NPLs open to sellers, buyers, and loan servicers.

Innovative

wideStreet combines latest legal and fintech innovations and fully digitizes the trading process

Transparent

wideStreet collects, validates, and enhances loan data for the sell-side providing analytics and transparency to the buy-side while ensuring compliance with the EBA loan data standards

Smart

wideStreet provides smart solutions for regulatory-driven loan trades in the banking sector

Setting New Standards: Customized NPL, "High Quality Service Made in Italy"

Italy among the European Countries has a long history with Non-Performing Loans (NPLs). As the Italian market was strongly affected by the financial crisis in 2008, advisors and/or asset management companies had time to restructure themselves to support investors and banks, to handle the enormous volume of new NPLs. Long before the outbreak of the pandemic, the Italian market of servicing companies thus had sufficient time to engineer processes, develop appropriate technologies and manage their administration to best meet these challenges.
Indeed, the Italian NPLs servicing market in the last years became more and more competitive and challenging, also because investors started to specialise much more in selecting non-performing portfolios. At the same time, servicers had to become verticalized in asset class to meet the investors needs and expectations in terms of know-how and specialisation.

Today, servicers are aware that a main pillar is to invest in technologies to support the fast-growing stock of NPLs. Through the optimisation of information flow among multidisciplinary stakeholders, involved in operational processes, it is possible to collect complex data encompassing different perspectives. The aim is not just to be able to capture complex data more quickly and to process it in a targeted manner, but also to make workflows more efficient by simplifying them. There is a clear awareness that investment in innovative technology is needed to accelerate the ongoing process of adaptation, but in our opinion it is still not enough.

A key factor in our industry also consists in specialization. In the past, NPL portfolios managed by servicers were much more diversified – also because the investors were buying several types of asset classes and mostly focused on multi-asset strategies. As a result of the crisis, investors focused on a specific investment strategy. Consequently, service providers also began to focus more and more on a specific asset class. This enabled them to adapt their management, processes, and technologies in the most successful way to support national and international investors. On another note, Banks also needed to be supported by specialised advisors and experts in asset class to evaluate and manage their stocks in the most efficient and value-enhancer way.

A third major point, which will become even more important in the future, is human capital. The human capital, in addition to sophisticated technologies, is essential for the development of in-depth services. To become a specialised servicer requires a complex organizational set of skills and know-how covered by the entire team members from financial, economic, and legal due diligence knowledge to expertise in the real estate sector.

We strongly believe that there is a big opportunity for the Italian NPL servicing market to raise the market standard: instead of a massive standardization of services – a massive customization.

Therefore, there is an intensive challenge to attract talents and invest in their ongoing development, as well as specialization to develop and deliver the entire value chain. After all, you cannot build such complex organizations without a strong technical and financial background to be able to successful support NPLs buyers and sellers. In this unusual historical period, medium to small servicers have a great opportunity to adapt themselves faster than the big ones - who must carry out heavy organisational re-engineering and cultural changes.
Instead, fast, flexible, and adaptive servicer's organizational models will become the market leaders thanks to an integrated investment approach: distinctive processes, unique technologies, and human capital.

In the next few months, after the end of the debt moratorium, Italian banks will be overwhelmed by small and medium corporate NPLs, which were the most affected by the lockdowns and outbreak of the Corona virus. We strongly believe that there is a big opportunity for the Italian NPL servicing market to raise the market standard: instead of a massive standardization of services – a massive customization. Italy is known worldwide for handmade products and high quality goods. Our goal is to bring the "Italian style and culture" into the servicing industry, distinguishing ourselves by "high quality service Made in Italy".

WIBEATS is one of the very last Italian Asset Management and Loan Service groups, highly specialised in the selection, evaluation, management, and sale of performing and non-performing real estate portfolios. The Group's mission is to support Banks and real estate owners in the management and/or disposal of their portfolios, and to assist national and international institutional investors in expanding into the Italian real estate market, thanks to its organisation and award-winning know-how in managing complex real estate assets.

Today the companies that are part of the WIBEATS Group are:

WIBITA an asset manager specialized in debt servicing. WIBITA carries out its activities on behalf of Institutional Investors, International Investment funds and Italian Banks providing due diligence and underwriting services in the context of sale processes of non-performing portfolios. The corporate track record in the real estate management field is over € 8 / bil under management between performing and distressed assets. In the field of debt servicing, the company has its own legal team, a spin-off of the previous professional experience, specialized in negotiation and judicial and extrajudicial credit recovery, with a track record of over € 1.8 / bil managed over the last 8 years. WIBITA is RICS Certified.

BFORMS an asset & engineering management company founded in 2009 by a team of managers with over 30 years of experience. BFORMS engineers service and management of entire real estate portfolios nationwide. BFORMS quickly positioned itself on the real estate market as a multi-awarded innovative company, whose unique skills are recognized by major banking and investment groups, among which are Unicredit GROUP, Unicredit Credit Management, Coima SGR, Equiter Intesa Sanpaolo, etc. BFORMS is RICS Certified.

WiMOVE a specialised real estate brokerage company, whose mission is to create a unique platform to manage a National network of 140 highly motivated professionals. WiMOVE promotes and sells assets all over Italy. WiMOVE is a tech-driven asset trading platform that serves selected clients.

EXECUTIVE BIO

Francesca Torino

CEO and co-founder, WiBEATS group, Italy

Francesca Torino ® CEO and co-founder of WiBEATS group and BForms, Board Member of WIBITA ® specialized in Asset Management. Francesca is the CEO and co-founder of WiBEATS group and BForms, Board Member of WIBITA. Francesca works mainly with foreign investors interest to invest in the Italian real-estate distressed and not distressed market. More than 15 years of experience in valuations, fund raising, real estate project development, facility management, business planning and strategic advisory. • She occupied executive positions in Real Estate Companies in Italy, Austria and Kingdom of Saudi Arabia. • Degree in International Business, Nottingham Trent University, London. Professional certificate at New York University, CIMA master course London.

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- "Average" ranking as a commercial real estate special servicer in Spain

BANK OF GREECE EUROSYSTEM

IThe Bank of Greece awarded HipoGes Hellas with the NPL Servicing License.
The NPL Servicing License allows HipoGes to provide NPL management services in Greece, in addition to the wide range of Real Estate services.

RICS

HipoGes is a firm regulated by RICS. HipoGes is evaluated periodically to ensure the Compliance with the Institution standards to maintain the certificate.
HipoGes is the first servicer in Portugal to have a department/firm regulated by RICS.

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The Company's accounts are subject to compliance with International Financial Reporting Standards (IFRS) endorsed by the European Union.
The STC vehicle created by HipoGes Iberia (Ares Lusitani) is based in the Portuguese market and therefore complies with all the legal, fiscal and reporting requirements from CMVM

Debt Business.

KEY TECH TRENDS MOVING THE NPL MARKET

AUTHOR
Gifford S. West, Managing Director, Alpine Tremont

2022 Technology Priorities for the NPL Industry

The NPL industry learned a great deal during the Great Financial Crisis (GFC).While there is no consensus as to when the Next Financial Crisis (NFC) will hit Europe, there is agreement that it is approaching and it is likely to be as big. The logistics of NPL deals has fundamentally changed since the GFC.Factoring in the three largest changes, buyside and sellside firms would be well advised to focus their technology investments in 2022 on three areas:

- Sophisticated pricing analytics
- Frictionless onboarding capabilities
- Technology enabled recovery strategies

How The NPL Landscape Has Changed Since the GFC

The three changes to NPL deal logistics most relevant to technology investment are:

- First order due diligence preparation has become a commodity
- Platforms (proprietary or third party) have become ubiquitous
- Data protection and consumer rights rules have been tightened and the fines increased.

Due Diligence Preparation Is Now A Commodity

During the GFC (and before that, during the German NPL crisis) advisors and the largest buyers gained competitive advantage by having armies of analysts that could pour through thousands of pages of documents, prepare datatapes, tie assets listed to real properties, estimate the value of those properties, and then discount that value back factoring in court backlogs and sales periods.Documents had typically been scanned early in the exercise and collating data across unaligned IT platforms was more art than science. Every aspect of the process was labor intensive calling for individuals with specialized skills.

While there will still be exceptions, most banks learned from the GFC and have been digitizing their documentation and cross referencing their databases.Similarly, the EBA and ECB have been applying pressure on banks to be able to generate accurate NPL datatapes on a standard timetable in an agreed industry format.

This journey is far from over, but the days of a truckload of documents being sent for bulk scanning and then manual reviewed are over. Similarly, tying documents to datatapes, while still a challenge, is now often a core competence of many sellers or automated using software.

From the buyside perspective, freely available tools have removed the barriers for even the smallest firms to conduct a first assessment of a portfolio and offer an indicative bid.

Google Street View offers possibly not the most immediately fresh photos but can give an initial view of properties, land registries in most countries have been automated, and on-line residential real estate brokerage servicers provide estimates of value for a fraction of the cost of a BPO.

Competitive advantage can no longer be guaranteed by having the largest pool of feet in country. Buyers will compete on what they can do with due diligence material not whether they can collect it.

Platforms Are Here To Stay

DebtX was the only internationally operating NPL platform during the GFC, but many of the largest transactions were conducted 'off market' using a more traditional corporate finance M&A model. In this model, a finite number of known buyers were contacted and a multi-bilateral negotiations were conducted. The process was opaque by design, bespoke to every transaction, and allowed the greatest negotiation flexibility for buy-side and sell-side to close a transaction.

While DebtX remains the oldest and largest platform, since the GFC dozens of smaller competitors have been formed in Europe focusing either on specific countries, asset types, auction types, or revenue models. Supporting the platform movement, the European Commission is actively discussing a number of different models to give greater transparency to NPL transactions.

The majority of transactions during the NFC will be conducted through platforms that will increase competition and transparency either before, during, or after the transaction. Buyers with large war chests can not afford to assume that access to dealflow will be as heavily restricted going forward. Pressure to open the doors to the NPL buyers club in Europe is extreme and there will be many more players.

Data Protection and Consumer Rights Have Become A Mission Critical Priority

Technology has advanced almost as fast as the concerns of its impact on the individual.Cloud computing was a concept during the GFC as were many other now common technologies. The repercussions of evolving technology practices on NPL transactions are widespread. While the NPL industry has always acted within the guide rails of national and EC regulations regarding data protection and consumer rights, the repercussions for getting it wrong have become far more significant. Brexit has thrown additional complexity onto the issue. Put at its simplest, many industry executives neither knew what a server was nor where theirs were located during the GFC, none can afford that luxury now.

Sophisticated Pricing Models Will Be Key To Winning Profitable Deals

The only outcome worse than losing a deal is winning it at too high a price. The commoditization of due diligence material means that all players will start with the same high quality data. Feet on the street will still give insight, but its value has been diminished.

Buyside firms should invest in pricing analytics that leverage proprietary internal data as well as purchased third party data. Funds that have existing portfolios from the GFC should make investments in AI/machine learning software to tune their pricing assumptions.Increasing budget should be allocated to examining third party offerings related to sophisticated modeling and data capabilities for visualization and quantifying price and risk. Those funds that have large multi-jurisdictional experience should continue to codify the many hunches and 'rules of thumbs' that are used in an adhoc manner. Software developed for other industries have broad application to these efforts.

If a sophisticated pricing model during the GFC was 'a really big spreadsheet,' expect the pricing models of the NFC to be statistical models that only a PhD truly understands.

Where NPL Players Should Invest in 2022

Surveying these changes, we predict that buyside and sellside firms will be making the following technology bets in 2022:

- Sophisticated analytics technology to improve pricing
- Frictionless off-boarding and on-boarding technology to reduce cost and compliance risk
- Technology enabled recovery strategies to speed recoveries and reduce compliance risk

Frictionless Off-Boarding and On-Boarding Technology Will Be Key to Avoiding GDPR/Compliance Fines

In the era of the GFC, off-boarding/on-boarding was labor intensive and delayed the implementation of recovery strategies. With the digitization of due diligence material, in theory, the process can be more automated and streamlined. Balancing this good news is the cost of errors in the process related to GDPR and consumer rights has suddenly gotten far more expensive. Both buy-side and sell-side firms need to invest in process management tools and security technology so that the transfer of data minimizes risk of GDPR and/or consumer legislation violations. Investment made wisely in these areas today will save the cost of big fines later..

Technology Driven Recovery Strategies Will Drive IRR But Also Fines

Possibly the most exciting and potentially risky area of investment is the use of new technologies in the recovery process. Psychometric analysis, AI, machine learning, channel preference targeting, and other technologies have been developed and deployed by market innovators. At the same time, consumer rights groups are moving to restrict how lenders can interact with borrowers. Recovery groups can not afford to ignore these innovations: the improvement in IRR is real and potentially substantially. But the implementation of these technologies needs to be conducted within a framework that will protect the organization from reputational risk and fines.

Prior to investing in new technologies, recovery groups need to have a comprehensive grasp on the shifting landscape of loan recoveries. Technology investment then needs to be made within this framework.

The Time For Thoughtful Technology Investment Is When the Market Is Quiet

The first half of 2022 is likely to be quiet. But a rapidly approaching time is coming when the government will have to start removing COVID relief measures and banks will have to start collecting deferred interest and principal payments. Many loans will immediately become non-performing. Banks workout groups are understaffed, bank regulators want NPLs quickly addressed, and senior management will once again consider loan sales.

Now is the time for both the buy-side and sell-side to make their technology investments towards improving returns when these loans need to be sold.

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INTRASOFT INTERNATIONAL

TECHNOLOGY VISIONS

FOR CREDIT SERVING INSTITUTIONS

Author

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INTRASOFT International

The Reality

We stand on the edge of a technological revolution that remodels the way we live, work, produce, as well as relate to one another. In this scale, scope, and complexity, this transformation is unlike anything we have experienced before, bringing in front of us new technologies, new methods, and new challenges, that build new realities and systems, in which we are called to evolve.

The ongoing revolution in technology, systems architecture, and digital services, as well as the occasional rising crisis (Covid-19) are changing Banking & Finance services rapidly, accelerating innovation in various ways. Credit Servicers couldn't escape from the hit of this wave, being affected in the processing of Performing & Non-Performing Loans, in three ways:

- Segregation and social distancing have led to a much greater adoption of digital engagement by their customers and have evolved the way that Credit Servicers must respond to meet the needs of these customers.
- Operations and processes must base on automation, not requiring human to human interaction as happened previously, since availability and volumes of data have grown enormously and demand fast and efficient ways to manage and process.
- The time is now. The response to technology evolution must be horizontal, integrated, and comprehensive, involving all participants within such organizations, with clear vision and strategy for the next step.

The Challenge

IT technology is rapidly changing Banking & Finance services, and the Credit Servicers industry cannot be unaffected. Dealing with changes fast is very important. But when organizations are trying to move too fast; they are usually struggling to realize and explain how things will be done differently in the future. Not to mention 'efficiently'!
Of course, the lack of flexible IT solutions is obvious, meaning that 'how easy it is for a Core Banking System optimized for Credit Servicers to adapt, or be adapted, to meet future requirements and changes that will inevitably occur? The need also to have something in place quickly, without needing a lot of development and integration effort is here as well.

Regarding the Credit Services case though, the change could easily start and evolve as follows:

- **Starting Point Definition -** It seems that a cross-functional assessment of their current systems in regards to their effectiveness and needed effort, needs to transform and maintain them and can be the mainstream task, since the definition of their operation is already there.
- **Business Models, Operational Processes, Customer Experience -** All these three pillars are the key elements to ensure future-proof success and resilience, if technology and digital transformation succeed to remake internal and external processes to become more efficient and effective.

The Method

The idea is to use technology and digital transformation not just to replicate existing services in a digital form, but to utilize them to transform these services into significantly better ones, affecting drastically to the better the existing business models, operating processes, and customer experiences, as well as to create new ones.

How could Credit Servicers do that?

Beyond the Technology Buzzwords

Buzzwords thrive in technology, because they are used too much as stenography when all parties involved in discussions, presentations, speeches, articles, must have a common understanding of the concepts they represent, since big concepts can be packed into just a few words, just to express something or to make an impact.

When talking about technology and digital transformation across the Credit Servicing concept though, we can easily go beyond these buzzwords, describing specific proposals, such as:

1) Adoption of Universal, Open Standards for Architecture

Big challenges such as demanding customer servicing models, rapid changing IT landscapes, disruptive innovations in technology that bring in front new applications and services, as well changing legislation, raise the need for fast and frictionless exposure and consuming of services. Credit Servicers need to be able to make use of third – party applications and solutions on a short time basis, and with minimal integration effort. The advantage of adopting region agnostic, technology agnostic, universal and standardized architecture, and APIs (check out the BIAN standard and models), which at the same time define and standardize specific business domains, is super relevant. No more obstacles and effort to connect the external environment of the bank with the internal.

2) Cloudification

All the research coming from all the top cloud providers suggest that the Banking & Finance Institutions in 2030 will look and be very different from today, having adopted cloud strategies for their core and near-core system needs. The rate of cloud adoption from Banking & Finance Institutions differs among European countries, however Credit Servicers, having a slower 'cloud – digestive' approach, might like to consider embracing either a 'core-augmentation approach', or a 'core – migration approach'. A core-augmentation approach promotes the development of a cloud overlay above of their core banking platform to expose and consume APIs, enabling modern user experiences for customers and employees, as well as improved back – office workflows and experiences. Moreover, a core – migration approach promotes the migration of on – premises data centers to the cloud, utilizing a combination of moving an application (and its associated data) to a cloud platform (without redesigning the application), together with targeted refactoring. Instead of these two approached, the goal could be – of course – the total core replacement.

3) Artificial Intelligence

Let's not talk about science fiction functions and services, but just how to synchronize a Credit Servicer through better integration of business units, sharing data, driving integrated and fast decisions, moving more quickly to predict and meet customer needs, as well as to modernize outdated operations. Key questions such as 'what is likely to happen?' and 'what should we do?' must be on focus. Artificial Intelligence and Machine Learning can help by leveraging advance data modeling techniques, taking advantage of Big Data, through AI – driven segmentation on customers and loans, fast customer profiling, RFM modelling, and by processing AI – driven automation to constantly build and propose loan restructuring plans per lists of customers and loans, run daily on the background. AI – driven workflow automation can be utilized to capture and organize documentation, by advanced character recognition using machine learning algorithms, and rule – based predictive modeling.

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TRANSPARENCY

in private securitisations as a prerequisite to promote the Secondary Market of NPEs in the EU

Tsibanoulis & Partners LAW FIRM

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I. General remarks

Establishing an appropriate legal and regulatory environment in the EU facilitates the development of high-quality securitisation markets across Europe. Over the past years, securitisation markets have undergone important legislative and regulatory developments, both at the national and European level. The importance of a well-functioning European securitisation market became clearer following the global financial crisis and the sovereign debt crisis, which brought along a dramatic increase of NPEs in some European countries. The global financial crisis and ensuing recessions have left a number of European banks experiencing high levels of NPEs, with significant adverse impacts on their profitability and their ability to lend to businesses, including to SMEs. The high level of NPEs has recently acquired even greater importance, in view of the need to tackle the severe economic shock caused by the COVID-19 pandemic. NPEs constitute a drag on economic activity, especially for countries that mainly rely on bank financing, as is the case in the euro area countries, such as Greece.

II. The proposed new EU Directive

Alongside the Securitisation Regulation (EU) 2017/2402 (SECR), laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation (completed by the relevant Commission implementing acts, DelReg (EU) 2020/1224 and ImplReg (EU) 2020/1225), the proposed Directive on credit servicers, credit purchasers and the recovery of collateral of March 2018 (currently in its final phase, pending adoption) aims at stimulating demand for NPEs. The new proposed Directive aims at developing a competitive and integrated European market for credit purchasers and credit servicers, through their regulation, so as to widen the investor base for EU securitisations and, thus, creating the prerequisites for a secondary market for NPEs. Facilitating the expansion of loan servicers across borders would enable them to tap scale economies, compete for cross-border business and provide their services at more competitive prices to non-bank NPL investors. The Greek legal framework on securitisations (Law 3156/2003), dating back to 2003, has been complemented and enriched by Law 4354/2015, which already entails a vast spectrum of the regulatory requirements entailed in the proposed Directive.

III. The secondary securitisation market and the need for transparency

Any well-functioning secondary market is based on liquidity and tradability. A legal framework on the secondary securitisation market should therefore create the market prerequisites for the initial investor to sell the securitisation product. It is a commonplace that such secondary market, in order to be able to offer fair prices, requires transparency. Transparency in the securitisation market is linked to the ability of investors to exercise due diligence on the assets, by assessing the creditworthiness of a given securitisation instrument and, thus, the quality of the assets.

Prior to holding a securitisation position, investors carry out a due diligence assessment, which enables to assess the risks associated with their contemplated investment (Article 5 (2) SECR). Said due diligence assessment is based on the information that the originator, the sponsor and the securitisation special purpose entity (SSPE) make available to the (potential) investor (Article 7 par. 1 of the SECR, complemented by Commission Delegated Regulation (EU) 2020/1224 supplementing Regulation (EU) 2017/2402 with regard to regulatory technical standards specifying the information and the details of a securitisation to be made available by the originator, sponsor and SSPE ("DelReg (EU) 2020/1224) and Commission Implementing Regulation (EU) 2020/1225 laying down implementing technical standards with regard to the format and standardised templates for making available the information and details of a securitisation by the originator, sponsor and SSPE ("ImplReg (EU) 2020/1225").

IV. Private securitisations and the secondary securitisation market

Enhancing market transparency by creating a comprehensive framework under which (potential) investors will have access to all relevant information over the entire life of the securitised assets is particularly complicated for private securitisations. This becomes even more apparent in the case of Greece, as Law 3156/2003 only allows securitisations through private placement, which means that Greek originators can only transfer NPLs within the framework of the so-called "private securitisations".

Direct contact between the originator, on the one hand, and the investors, on the other hand, so that the latter receive the information necessary to perform their due diligence, is nearly impossible in a secondary market. Expecting or requesting potential investors in the secondary market to conduct their own due diligence tremendously increases transaction costs and renders the securitisation market inefficient and less attractive.

V. Transparency requirements according to the SECR

Article 7 par. 2 third subpar. of the SECR exempts private securitisations from the obligation to disclose detailed information about the transaction through a securitisation repository. Private securitisations, however, continue to be subject to significant transparency requirements, set out in Article 7 par. 1 SECR and DelReg (EU) 2020/1224 and ImplReg (EU) 2020/1225.

Therefore, a framework to ensure appropriate, sufficient and proportionate information for the due diligence purposes of investors in the secondary market, seems to be essential even for private securitisations. In any case, the transparency requirement is imposed for both public and private securitisations, since, in accordance with Article 29 SECR, competent authorities have to supervise the compliance with the transparency requirements for all securitisations.

VI. The necessary equilibrium

Thus, the main issue is to achieve a balance between transparency and confidentiality as regards private securitisations also taking into account the associated costs: how extensive and structured should this information be in the case of private securitisations, for a potential investor to easily and at a low cost form an opinion as to the quality of securitised assets considering, at the same time, that some of this information may be confidential?

As regards the supervision of the transparency requirements, this is performed in different ways across competent authorities, which does not create a level playing field and negatively impacts the data quality for private securitisations. Such fragmentation in the market should be tackled and legal certainty should be achieved for reporting entities of private securitisations.

Less information needs to be balanced against the need to ensure adequate supervision of private transactions, which requires access to sufficient information on the part of supervisors but also of the potential investors.

Costs of disclosing securitisation information and the factors that impact on such costs should be assessed and weighted against the benefits of a transparent NPLs market. Current size, liquidity, and structure of NPLs secondary markets in the EU are obstacles to the management and resolution of NPEs. A well-functioning, high level legal environment, allowing for transparency in the market, plays an integral role in the restructuring of NPLs secondary markets.

VII. The Commission's goals

This is among the issues the European Commission seeks to address via its Consultation on the functioning of the EU securitisation framework (launched in July 2021). The Commission is interested in whether the exemption provided under the third subparagraph of Article 7 par. 2 of the SECR gives rise to a disproportionate number of private securitisations or if market participants structure securitisations as private securitisations in order to circumvent the disclosure obligations through securitisation repositories (cf. Article 46(c) and (d) of the SECR).

The Commission further addressed the question whether the current regime enables supervisors and (potential) investors to access sufficient and proportionate information on private securitisations, particularly considering that (potential) investors need to be able to meet the applicable due diligence requirements. Through the Consultation, the Commission seeks to identify whether the available information should be more granular (i.e. include loan-level data), whether it should cover all asset classes and all maturities, as well as if there is any missing, unnecessary, or useless information.

Finally, the Commission seeks to address the question whether the definition of "private securitisation" needs to be adjusted. It is noted that the Joint Committees' report on the implementation and functioning of the Securitisation Regulation (published on 17 May 2021) criticised the definition as being too broad and called for a more precise legal definition, allowing to clearly identify private securitisations that should comply with the transparency requirements. The Joint Committee's report also stated that information reported for those private securitisations should be made available through a securitisation repository to ensure the supervision of the compliance with said transparency requirements.

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