A Case for a Single Loan Origination System for Core Banking Products

This paper discusses the development of a comprehensive and flexible loan origination system (LOS) that can be readily and seamlessly interfaced with a core banking system to cater to the bank’s end-to-end transaction processing.

Executive Summary

Loan processing is among the most complex of a financial institution’s operations. A loan origination system (LOS) is developed specially to support banks and other financial institutions’ loan application processing needs. It employs workflow technology to control and monitor the various steps in loan processing and uses digital imaging technology to reduce the delays and inefficiencies associated with paper documents.

There is a need for a comprehensive LOS that enables the financial institution to process multiple loan types through a single LOS – effectively serving as a single point of origination.

An ideal LOS should:

- Have a structured workflow for automatic routing of applications for different loan products.
- Support multiple loan products and loan types.
- Support different origination channels.
- Easily interface with different external systems.
- Provide internal credit checking, credit scoring and compliance checking.
- Maintain all the application details and provide status updates as and when required.
- Support document imaging and archiving for various loan application-related documents.

Benefits of an LOS

Typically, when a loan application is approved, the loan servicing is initiated in the core banking system deployed within the bank or financial institution. The core banking system takes care of the entire loan servicing process, which includes generating the disbursement and payment schedules, interest computations, posting the accounting entries, etc. However, the application processing workflow (which varies by loan product offerings) is not typically supported by the core banking system.

An LOS therefore becomes a crucial bridge providing the automated workflow for capturing and processing the customer’s loan application until the loan is booked in the back-end system. Some of the benefits of deploying an LOS that is
interfaced with the core banking system are listed below:

- Provides a single integrated, Web-enabled product that caters to all the workflow requirements of the bank or financial institution.
- Allows the client to configure and customize the application workflows according to their needs.
- A single origination system for all loan products allows the bank to maintain all the loan application data in a single location. Thus, each department of the bank can operate autonomously if desired but can also access all the data for cross-selling, tracking and reporting.
- Provides an in-built document management system for capturing and maintaining the list of documents required for processing loans.

An LOS ensures compliance as all loan stipulations and loan covenants can be easily tracked and the default parameters are applied based on the built-in business rules. This also reduces manual reviews of loan applications.

**Disparate LOS Across Products**

Currently, most banks and financial institutions use multiple LOS catering to different departments within the institution.

Figure 1 depicts multiple origination systems involved in processing different types of credit applications in a bank. Post processing, once the application is approved, these systems are interfaced with the core banking system to create a loan account for further servicing and maintenance.

Instead of having these multiple LOS working in silos, the current need is to utilise any single LOS which is developed such that it caters to the origination requirements across all departments.

In a world that is becoming more automated, interconnected and intelligent by the day, IT leaders know that it is time to take a new approach to lending. The current systems are unsustainable and will have to be replaced by more powerful technology. What is needed is a stronger core banking system with an in-built LOS.

**Customers Seek a Single Vendor Providing an Effective End-to-end Loan Solution**

We have observed that when there are too many vendors, there is often fragmentation and the IT landscape becomes complex. The resultant disorder and inertia poses a tough challenge for business and IT leaders at banks and financial institutions. Additional effort is needed to mobilize a diverse set of people and stakeholders including multiple vendors. Business leaders are discovering that they can no longer “cost cut” their way into market dominance and are expressing renewed interest in thoughtful, well-planned improvements to the systems that support lending operations. This accentuates the

**Multiple LOS and Core Banking System Interaction**

![Multiple LOS and Core Banking System Interaction Diagram](image)
need for core banking solution vendors to provide a loan origination workflow in addition to the loan servicing modules provided within the core banking product.

**Benefits of Consolidation**

- Single vendor consolidation will lead to improved customer care through an intelligent, customized end-to-end loan solution.
- A single loan processing solution will allow banks to reduce credit and operational risk through access to (and monitoring of) a complete, timely and accurate view of customer information and analysis, together with the enforcement of corporate and regulatory rules and processes within the lending cycle.
- A consolidated system will provide a complete 360-degree view of the customer right from the loan application processing stage.
- Banks can optimize their operational efficiency with straight through processing (STP) and process improvement via a single loan processing solution.
- Banks will be able to cost-effectively create an agile infrastructure that can grow and change in response to market forces.
- Banks can save on license fees for software that is replicated by the core banking system. Also, the system vendor can earn additional revenue as and when the product vendor implements the product at various clients.
- An integrated solution eliminates or reduces the need for interfaces and also reduces staffing requirements as fewer systems need to be managed.
- An integrated solution enables the bank to exercise better control over the solutions provider since it does not have to deal with multiple stakeholders.

**Challenges in Developing an Integrated LOS**

While it is desirable that a single vendor offer both LOS and loan-processing services, it is challenging for a core banking vendor to offer both solutions simultaneously:

- **Existing backlog of requirements:** Core banking includes a vast array of banking functionalities that change on a daily basis. This leaves the vendor with an ever-expanding list of enhancements that need to be developed for the core banking product to meet market requirements. This backlog of requirements leaves the vendor with limited resources to develop an LOS that can cater to the generic application processing workflows and can be readily interfaced with the flagship core banking solution.
- **Competition and investment influenced by market competition:** There is keen competition in the core banking market given that there are multiple vendors offering competitive products. Figure 2 is a snapshot of core banking vendors that are active currently.

With so many competitors plying their clients with enhanced versions of their products, vendors are under pressure to invest not just in product enhancements but also in marketing and sales initiatives. This leaves them with limited budget and resources to invest in building an LOS that interfaces with their core banking solution (CBS).

**Global Core Banking Vendors**

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<tr>
<th>North America</th>
<th>Europe</th>
<th>Asia Pacific</th>
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<tbody>
<tr>
<td>CSC (Hogan Systems)</td>
<td>Budgeting and Financial Planning</td>
<td>i-flex</td>
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<tr>
<td>Fidelity Information Services</td>
<td>Alnova</td>
<td>Infosys</td>
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<td>Fiserv</td>
<td>ERI</td>
<td>Polaris</td>
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<td>Jack Henry</td>
<td>Financial Objects</td>
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Figure 2
Existing product roadmap and bandwidth issues: Each core banking product has a roadmap for further growth in modules and functionalities over a period of time. Vendors have to progressively invest money and other resources to follow the roadmap, which hampers investments in LOS development.

Leveraging Partner Skills
Leading core banking system vendors are primarily manufacturers of complex software rather than system integrators from consulting firms. They are measured and rewarded according to the number of software licenses they sell, which form the basis of their long-term revenue streams. Vendors’ activities are therefore focused on sales and performance rather than strategic consulting, implementation and integration services. Hence, these CBS vendors form strategic alliances with system integrators (SI) to deliver industry-best end-to-end solutions.

These SI partners provide a multitude of professional services including business process consulting, system integration, custom application development and content development and other consulting and implementation expertise. Their services can also be used to develop an in-house loan origination front-end system focusing on best practices in addition to flexibility, ease of use and adaptability.

The LOS should be built with features that provide a high level of user parameterization to cover the financing requirements across various geographical regions and allow organizations who use it to create new products and services and bring them to market very quickly.

The key benefits of leveraging SI partner skills include:

- **Extensive domain resource pool:** The SI partners have a large pool of resources with...
rich banking industry experience and a deep understanding of how the business is executed within different banks and regions. The resultant banking industry knowledge can be leveraged while developing the LOS.

- **CBS expertise:** The SI partners typically have multiple resources with hands-on experience in several core banking products such as Flexcube, Finacle, Silverlake SIBS, etc. This gives them a unique perspective on the core banking marketplace and an insight into how banks can optimize their engagement to ensure that their return on investment is assured.

- **LOS experience:** In addition, the SI partner will also have experience working on different loan origination systems. This knowledge can be leveraged for developing the LOS for the core banking system.

- **Efficient program management:** The SI partner will have highly experienced program and project management personnel as well as international business and technical domain consultants.

- **Bandwidth availability:** Sufficient bandwidth and skilled resources will enable the SI partner to focus on developing a comprehensive and flexible LOS that can be readily interfaced with T24 and also with other core banking platforms.

**Conclusion**

An LOS that is seamlessly integrated with the core banking solution is becoming a critical requirement for banks. However, for the CBS vendor, building such an LOS involves several challenges. These challenges can be overcome through partnering with system integrators and leveraging their strengths.

**About the Authors**

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