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Commercial Loan Origination: Evaluating Vendors That Hone the Tip of the Spear

This excerpt provided compliments of this Best-in-Class vendor:

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INTRODUCTION

These are peculiar times for FIs that lend money to businesses, in general, and banks, in particular. Driving the strange circumstances are low interest rates and an oversupply of capital, both resulting in profit margins for business-lending units that are typically razor thin and sometimes negative. But business lending is far more than a profit center, as it often forms the tip of an FI's spear: The activity is so valued by corporate clients that it forms an entry into a business from which an FI, often a bank, can cross-sell far more profitable services, such as treasury management, payments, corporate cards, derivatives, and wealth management. But before all that terrific cross-selling can happen, commercial loans must be originated, and therein lies the rub, as CLO requires the completion of many complex tasks involving financial analysis, deal structuring, proposal writing, proposal distribution, and the acquisition of approvals by credit authorities. It's an activity that, in the absence of automation, gives rise to processes that are costly, labor intensive, loss inducing, and—most importantly—off-putting to borrowers.

So intent are banks on improving the efficiency of their commercial lending lines of business that the market for related automation is, to say the least, intense. Available to lenders seeking to automate are 17 capabilities from 16 vendors. This Impact Report explores some of the key trends within the CLO market and examines the ways in which technology is evolving to address new market needs and challenges. This report is useful to managers of business-lending operations, both mid-level and senior, interested in learning why their peers are adopting CLO and, in particular, the competitive, cost-based, regulatory, and technological business requirements they seek to fulfill in their embrace of automation. This report, in its presentation of comparisons of vendors, will also be useful to senior lending line-of-business managers seeking to automate, or improve the existing state of automation, of their business-lending operations.

METHODOLOGY

Leveraging the Aite Matrix, a proprietary Aite Group vendor assessment framework, this Impact Report evaluates the overall competitive position of each vendor, focusing on vendor stability, client strength, product features, and client services. Participating vendors were required to complete a detailed product request for information (RFI) composed of both qualitative and quantitative questions, conduct a minimum 60-minute product demo, and provide active client references.

In addition to evaluating vendors that automate CLO, this Impact Report examines the state of the market for systems that automate CLO by leveraging a variety of data sources. Among these are data obtained by Aite Group in the course of completing its Aite Matrix methodology, conversations between the author and users of CLO systems, briefings on systems in the market, and demonstrations of these systems. Supporting these data sources is the author's completion of two prior evaluations of vendors in this space and his 13-year career as a commercial lender between 1992 and 2005.

THE PLAYERS

This section presents comparative data and profiles for the individual vendors that participated in the Aite Impact Matrix evaluation. This is by no means an exhaustive list of vendors, and firms looking to undergo a vendor selection process should conduct initial due diligence prior to assembling a list of vendors appropriate for their own unique needs. Table A presents basic vendor information for the participating solutions.

Table A: Evaluated Vendors

Firm	Headquarters	Year founded	Target market	Sample clients
Abrigo	Austin, Texas	2019	Traditional lenders with less than US$5 billion in assets	Ulster Bank, Webster Bank, Camden National
Axefinance	Amsterdam	2004	Banks with between US$20 billion and US$200 billion in the Middle East and Africa	Société Générale, Développement International Desjardins, Bangkok Bank Limited, Al Rajhi Bank, Banque Internationale de Luxembourg, First Abu Dhabi Bank
Baker Hill	Carmel, Indiana	1983	Lenders with assets ranging from US$250 million to more than US$100 billion	References provided privately
Finastra—Fusion CreditQuest	London	2017	Credit unions, community banks, and other traditional lending institutions based in the U.S. with less than US$10 billion in assets	References provided privately
Finastra—Fusion CME	London	2017	Tier-0 to Tier-2 FIs	References provided privately
FIS	Jacksonville, Florida	1968	Banks of all sizes in all geographies	N/A
Global Wave Group	Aliso Viejo, California	2007	North American lenders with between US$1 billion and US$600 billion in assets	References provided privately
Intellect Design	Chennai, India	2014	Europe, the Asia-Pacific, India, the Middle East, and Africa	Privately available upon request

Firm	Headquarters	Year founded	Target market	Sample clients
Jack Henry	Monett, Missouri	1976	Banks, credit unions, alternative lenders, finance companies, and other lending FIs	References provided privately
Kuliza	Bangalore, India	2006	Business lenders of all sizes in the Asia-Pacific	References provided privately
Linedata	Paris	1998	Tier-1 to Tier-3 banks	Bank of Montreal, UMB, First Bank
Moody's Analytics	New York	2008	All business lenders ranging from community banks to large multinational banks	Chong Hing Bank, Bank United
nCino	Wilmington, North Carolina	2012	All geographies, all lender sizes	Gulf Coast Bank, SunTrust Bank, Santander UK
Newgen Software Inc.	McLean, Virginia	1992	Traditional banks and credit unions of all sizes	References provided privately
Nucleus Software	Noida, India	1986	The Asia-Pacific, Australia, the Middle East, Africa, Europe, and the U.S.	L&T Finance, Bank of Queensland, HDFC Bank
Oracle	Redwood Shores, California	1977	Lending FIs of all sizes	N/A
Q2	Austin, Texas	2004	North America, EMEA, and the Asia-Pacific	References provided privately

Source: Vendors

THE MARKET

Among the banking industry's oldest lines of business, the booking of loans to businesses has challenges related to speed, scale, regulation, and the customer experience—of both borrowing customers and internal lending-process participants. All of these challenges are fueling lending institutions' appetites for automation (Table B).

Table B: The Market

Market trends	Market implications
Competitive demands for speed and scale	With the demand for credit by commercial and industrial (C&I) entities having increased in the years following the global financial crisis (GFC), lenders need to reduce the length of time required to field lending opportunities, underwrite them, and document them. Although an enabler of customer responsiveness, speed is also an enabler of scale. After all, the faster underwriters and relationship managers can process deals, the more deals they can process in a given period. Such an increase in throughput means lenders can grow portfolios without increasing headcount—a benefit of automation typically sought by senior management and referred to as scale.
Customer demands for a digital experience	Used to the simplicity and speed of services such as Uber, Pandora, and Amazon, principals and decision-makers of banks' commercial borrowers are seeking similar levels of convenience when conducting borrowing transactions.
Process-participant demands for a digital experience	Banks' participants in the lending process have also come to demand more convenient and digitized processes for tasks they complete across the loan life cycle. Among these participants are lenders, underwriters, line-of-business managers, credit authorities, and back-office personnel.
Regulatory demands	An alphabet soup of regulatory regimes requires banks to document and justify, with a high level of granularity, all of their risks and decisions. Among these regulatory bodies are DFAST, ALLL, and CECL.

Source: Aite Group

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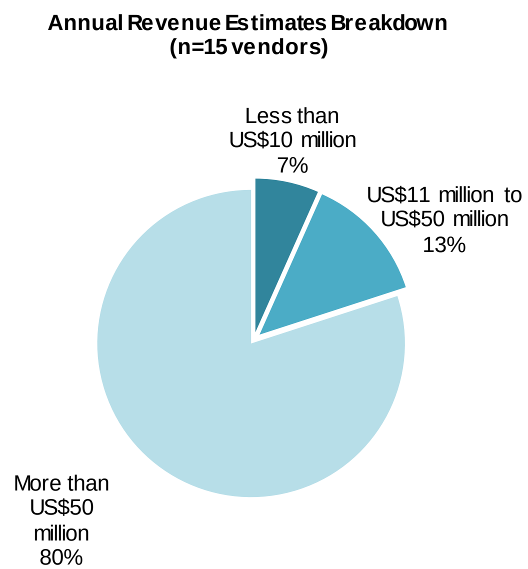
KEY STATISTICS

This section provides information and analysis on key market statistics as well as projected IT spending related to the vendor market. Accurate interpretation of the data within this section, as well as the vendor profiles later in the report, requires some clarification of how Aite Group obtained data about the examined vendors' installed bases. Many of the examined vendors offer their CLO customers multiple projects in association with CLO, such as capabilities for spreading, reporting, and analytics. Within the RFI used by Aite Group to gather industry data from the vendors, the respondents were required to consider a borrowing FI to be within its "installed base" if the vendor had at least 75% of that business-lending FI's annual spend on CLO. In addition to preventing potential conflation of reported installed bases, this resulted in a conservative estimate of the overall installed base of the industry.

ANNUAL REVENUE ESTIMATES ANALYSIS

Vendors providing CLO capabilities tend to be large, when measured by total revenue (Figure 1). Only 7% have less than US$10 million in revenue, and 13% have between US$11 million and US$50 million in revenue. These conditions are favorable for lending FIs seeking a vendor with deep pockets with which to fund the pricey research and development (R&D) programs required for building out an extensive API ecosystem or highly digitalized borrower-facing capabilities.

Figure 1: Annual Revenue Estimates Breakdown

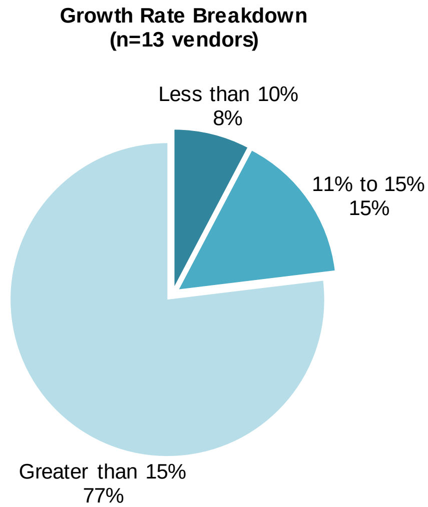


Source: Vendors

GROWTH RATE ANALYSIS

Servicing the CLO automation market are vendors that tend to have strong growth rates (Figure 2). In fact, 92% have growth rates in excess of 10%, indicating that lending FIs seeking automation have a variety of vendors to choose from that can satisfy members of vendor selection teams and examine vendors not only for their features and functionality but also for their financial stability.

Figure 2: Growth Rate Breakdown



Source: Vendors

In its examination of the market for CLO automation, Aite Group has identified a sweet spot within the bank market at which vendors might best target their efforts. Characterizing banks in this sweet spot are the following:

- **Technological maturity:** Adoption of CLO automation, though not a sea change by any means, requires significant changes in practices, workflows, and culture. Analogous here is the embrace of customer relationship management (CRM), which became broadly adopted in the business world in the early 2000s. And among these were many banks. Such banks, having gotten through this transition with their commercial lending population, should be among the first targets for CLO vendors, since their cultures seem already capable of taking on technological change.

- **Aggression:** Among the banks Aite Group talks to about their CLO deployments, most say that they adopted CLO in order to grow at scale and compete more effectively against larger competitors. It is this competitive spirit that CLO salespeople should seek to identify among their prospects. Possession of this attitude will mean that the lender understands the business case, not understood by all, that supports CLO adoption.

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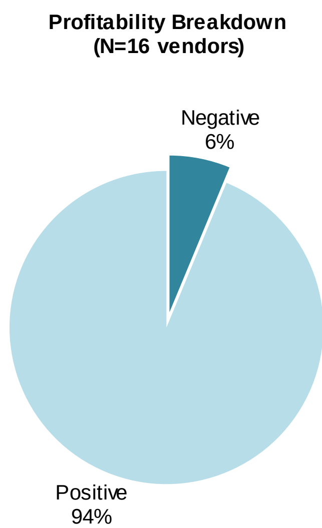
- **Acquisitiveness:** Although growth can be achieved organically and with automation, it can also be achieved with acquisition. Indeed, a moderate rate of consolidation can be seen among banks with assets between US$5 billion and US$30 billion. But with acquisitions come operational discord. After all, varying across the acquired lines of business are cultures, strategies, processes, and systems. While it's hard to have harmony of cultures and strategies, uniformity of lending processes and systems can be achieved as the result of CLO standardization across all the acquired lines of business. In fact, in the relationship between acquisitiveness and system standardization can be seen a virtuous circle. The more CLO is standardized, the easier organizational integration is after an acquisition. And the more CLO is standardized, the more acquisitive a bank can be, knowing that integration will be easier.
- **Size:** Banks with between US$3 billion and US$16 billion in assets in America number 218 institutions. And it is among these moderately small banks that there is sufficient size for both financing of CLO budget and the likelihood for a desire to grow and thrive as the result of aggressive goals for organic growth or acquisition.

PROFITABILITY ANALYSIS

Among the examined vendors, all but one were profitable (Figure 3), indicating that, for most users, their vendors have a strong financial position—an important characteristic within a vendor stability analysis—and a significant source of funds for R&D.

Figure 3: Vendor Profitability



Source: Vendors

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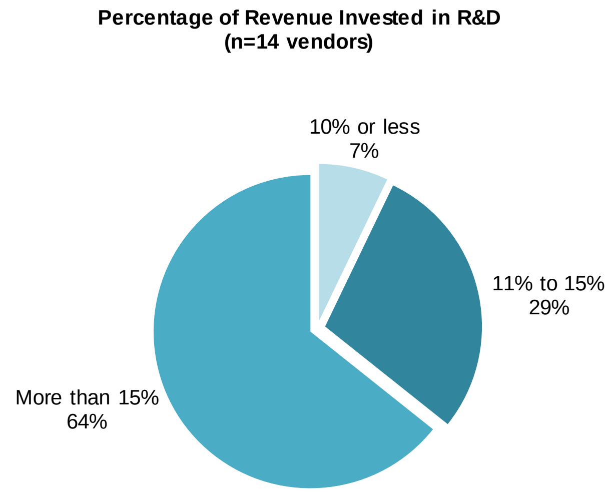
R&D INVESTMENT ANALYSIS

Important to business-lending FIs that seek to automate is that the vendors with whom they partner are not only large and profitable but are also dedicating resources to R&D that can fuel steady improvements in a capability's usability and capacity for digitalization. Such budgets appear strong among the examined vendors, with 64% investing in excess of 15% of revenue and 29% investing between 11% and 15% (Figure 4); the remainder invest less.

Figure 4: Percentage of Revenue Invested in R&D

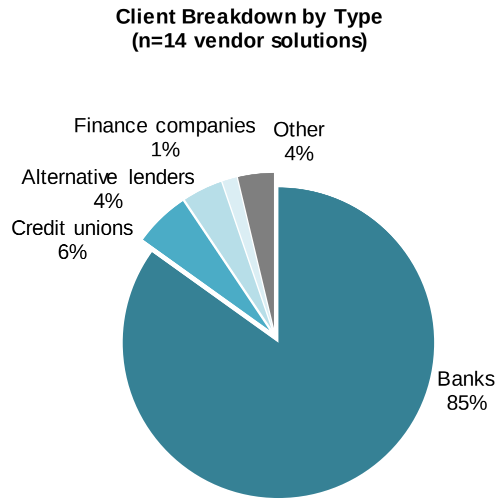


Source: Vendors

CLIENT BREAKDOWN BY TYPE

Although the universe of FI types lending to businesses is diverse and composed of traditional banks, finance companies, alternative lenders, and credit unions, expenditures on CLO automation are driven largely by banks, which constitute 85% of the examined vendors' installed bases (Figure 5).

Figure 5: Client Breakdown by Type



Source: Vendors

CLIENT BREAKDOWN BY REGION

Although business lending occurs across all geographies, its automation is concentrated somewhat tightly in North America (Figure 6). Notwithstanding the large number of deals in this market, discussed elsewhere in this report, and the size of the collective vendors' in the U.S., this market—with 15 providers—can readily be seen to be intensely competitive, a phenomenon beneficial to business-lending FIs intent on automation. In this geographic concentration of vendors' installed bases and overall efforts are four important insights:

- **Potential margin compression:** With so many deals and vendors in the North American market, competition among such a large number of vendors could result in compression of both revenue and margins.
- **Room to move:** Despite the concentration of the global CLO installed base in North America, opportunities remain. The estimated installed base of the examined vendors in total, when compared to the known number of banks in North America—approximately 5,000—indicates an estimated market penetration rate of just 50%, with the vast majority of growth potential among the smallest banks.
- **Technology validation:** In the market conditions in the North American market can be seen conditions—strong growth among the examined vendors and a penetration rate of approximately 50%—that validate the potential for the examined technology to deliver benefits to adopters. Among these are cost reduction, faster deal turnarounds, and a more governed lending environment with more reporting and analytics. Such benefits, once achieved, cause lenders to keep automation in place. Additionally, found by Aite Group to be propagating across the industry is an embrace of the benefits of automation, or at least an understanding of them. This

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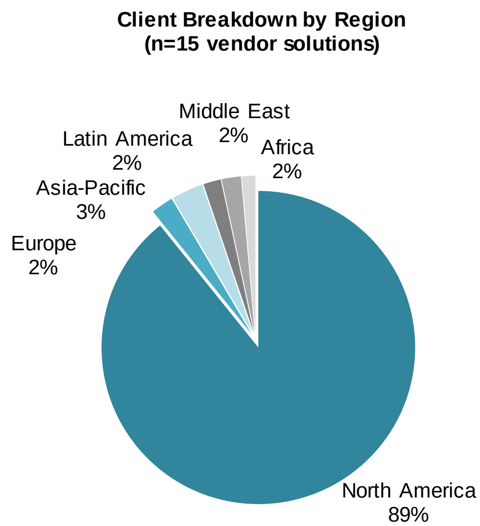
was the result of technologically savvy commercial lenders job-hopping from one institution to another, and a general sharing of knowledge of deployments, their success rates, and outcomes—as commercial lenders tend to be a well-networked tribe and tend to readily exchange gossip about their institutions.

- **Potential competitive (dis)advantage:** In North America are approximately 5,000 banks with assets of between US$100 million and US$10 billion. Among such banks, approximately 2,500 are reported to be within the installed bases of the examined vendors. Given the approximately 50% market penetration by the vendors, there appears to be a technological divide. Among the have-nots in this divide are banks with poorly automated CLO processes that are error prone, slow, and labor intensive, and that are ceding competitive advantage to the haves that use CLO automation to govern their loan origination, automate rote tasks, and improve the productivity of loan officers and underwriters who are able to spend more time fielding and closing lending opportunities.

Figure 6: Client Breakdown by Region

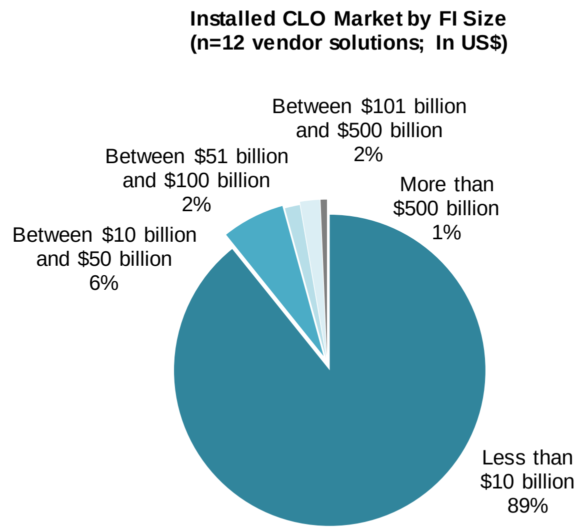


Source: Vendors

CLIENT BREAKDOWN BY SIZE

Matching the demographics of the business-lending FI market in which most credit providers are relatively small, the vast majority of lending FIs that have adopted CLO automation have less than US$10 billion in assets (Figure 7).

Figure 7: Client Breakdown by Size

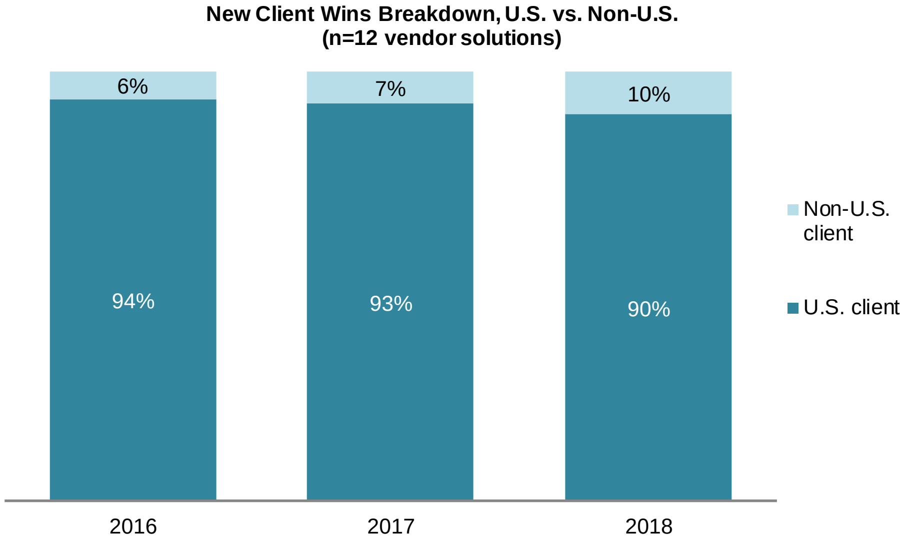


Source: Vendors

WHERE THE NEW WINS ARE

Although the installed base of CLO deployments is concentrated strongly in the U.S., institutions from outside the U.S. are driving a small but increasing portion of global new-deal volume (Figure 8). Aite Group estimates that among the many lending institutions in North America with assets of less than US$10 billion, the adoption rate is only 50%. Going forward, although the share of new deals arising outside the U.S. is expected to increase, total global new-deal volume is expected to remain strong.

Figure 8: New Client Wins Breakdown, U.S. vs. Non-U.S.

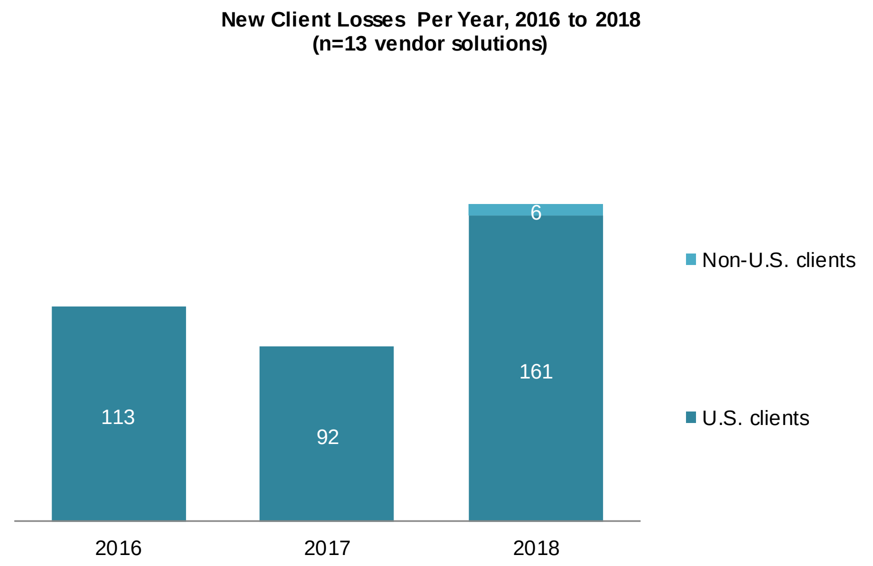


Source: Vendors

CLIENT TURNOVER INCREASINGLY CHARACTERIZES THE U.S. MARKET

Business-lending FIs, apparently mature in their embrace, adoption, and utilization of CLO technology, have begun assessing their existing deployments of off-the-shelf systems and, somewhat frequently, replacing those vendors with new systems more to their liking (Figure 9). The volume of new losses has been significant in each of the last three years—the vast majority of which were in the U.S.

Figure 9: New Client Losses Over the Last 12 Months

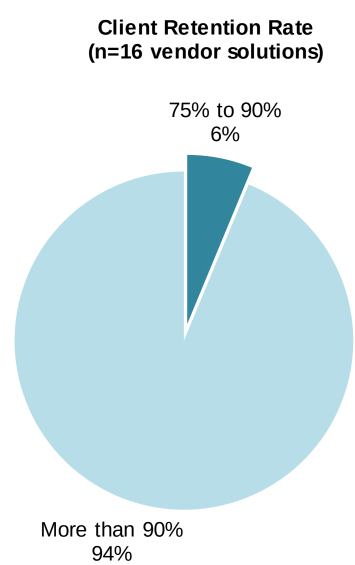


Source: Vendors

ANNUAL CLIENT RETENTION RATE

Also indicative of some churn within the installed base of the examined vendors is that some vendors, although a small percentage, indicate they have churn of between 75% and 90% (Figure 10). This metric also points to a culture among business-lending FIs characterized by increasing sophistication in their use of CLO and a willingness to change vendors in order to better meet their business requirements for this technology.

Figure 10: Client Retention Rate

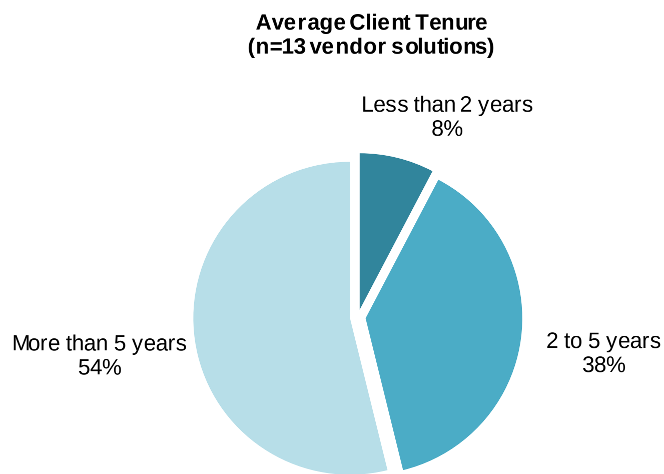


Source: Vendors

AVERAGE CLIENT TENURE

Characterizing the industry is a moderately low average client tenure. Forty-six percent of vendors report average client tenure of five years or less (Figure 11). Going forward, the entry into the market by new players can be expected to exert downward pressure on average client tenure as these new entrants take prospects and existing customers away from established players.

Figure 11: Average Client Tenure

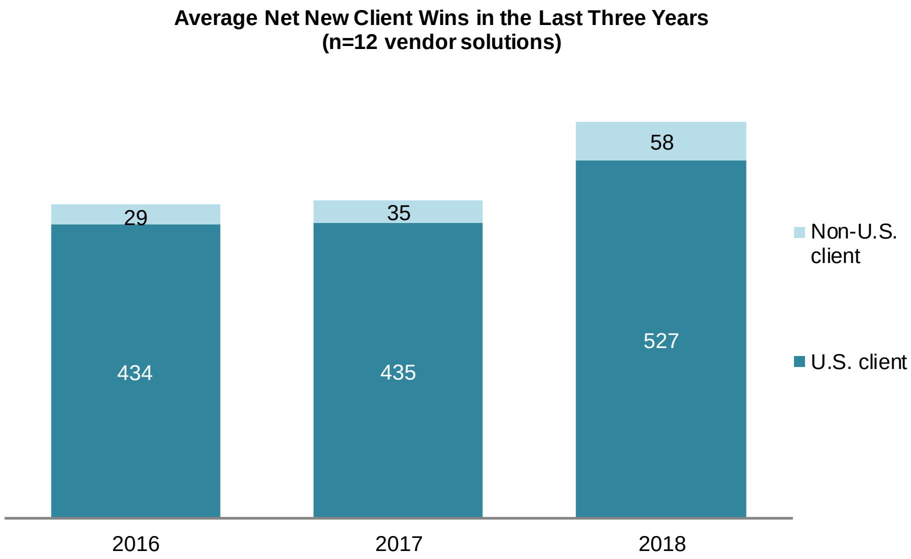


Source: Vendors

AVERAGE NET NEW CLIENT WINS

In the growth of the examined vendors' average net new client win statistics can readily be seen a market in which adoption promoters are handily outweighing inhibitors (Figure 12). This statistic increased from just below 500 net new wins for 2017 to just under 600 for 2018.

Figure 12: Average Net New Client Wins in the Last Three Years

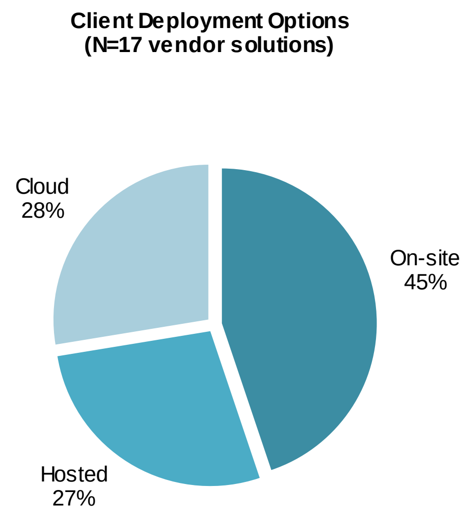


Source: Vendors

DEPLOYMENT OPTIONS ANALYSIS

Conversations with decision-makers at business-lending FIs indicate that these institutions, although often regulated lenders with technologically conservative cultures, have come to embrace the cloud as a mode for obtaining—and paying for—their CLO automation. Appealing about the cloud to lending FIs are the increased frequency and ease of upgrades from which they can obtain new features and functionality, the avoidance of the many burdens arising from the hardware required of an on-premises deployment, and the ability to tightly scale a deployment's costs with its volume of users, transactions, or assets. With this last point comes the ability to ramp costs with benefits—a significant benefit when making the internal case for the adoption of automation. With many business-lending FIs still preferring to have their deployments residing on premises or hosted on their vendor's servers, vendors continue to offer clients all deployment options (Figure 13).

Figure 13: Deployment Options

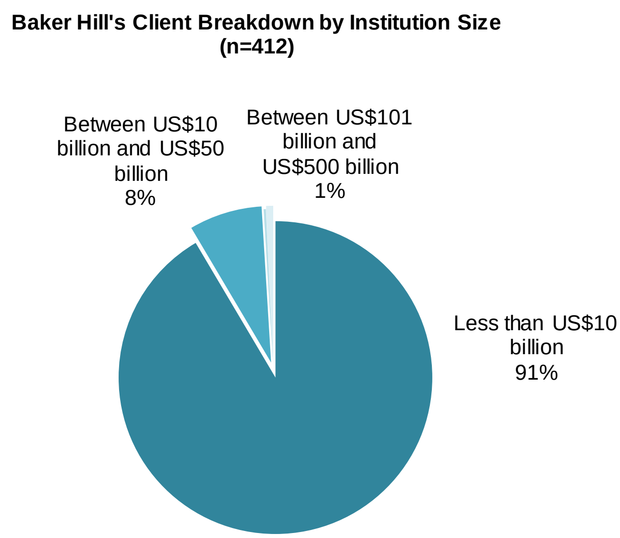


Source: Vendors

BAKER HILL

Positioning itself as a provider of capabilities for loan origination, risk management, and business intelligence, Baker Hill is focused on banks with up to US$100 billion in assets. Differentiating this vendor from its rivals is its ownership history. Baker Hill was owned by Experian from 2005 until 2015, when it was acquired by The Riverside Company, a private equity company, which then combined Baker Hill's capabilities with those of DMA, a provider of business intelligence and smart-data analytics technology for the financial industry and a portfolio company of The Riverside Company. Baker Hill's client base is composed of 412 banks and credit unions located in North America. While this vendor has some larger banks as clients, its installed base is composed mostly of smaller institutions (Figure 14).

Figure 14: Baker Hill's Client Breakdown by Institution Size



Source: Baker Hill

Recently significant for this vendor has been a migration of its customer base from a variety of separately licensed CLO capabilities supported by Baker Hill's Advisor platform and the Baker Hill Originations Solution to Baker Hill NextGen, a capability on which this vendor consolidated all of its CLO features and functionality.

Although the Advisor and Originations platform will not be sunsetted and will remain available to existing users, all CLO-related R&D and new capability creation will be developed for Baker Hill NextGen and will be unavailable on Advisor. Approximately 25% of Advisor users have migrated to Baker Hill NextGen; an additional 25% are planning to do so in the next six months. All new CLO customers utilize Baker Hill NextGen.

AITE GROUP'S TAKE

Strong about Baker Hill is its ability to deliver on the vast majority of commercial lending business requirements across the loan life cycle, including CECL and digitalization, with the only

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capability gap formed by an absence of support for multiple languages and support for receivables factoring. Attractive about Baker Hill to small banks will be its breadth of functionality closely related to lending, primarily core commercial, small business, and, to a lesser degree, retail banking. After all, the more resident such tools are within a vendor offering, the easier it is to serve up integrations that achieve automation, such as auto-filled fields that are bookmarked to data fields in the core. Broadening the scope of this vendor's reach will be its recently inked partnership with Fiserv, under which this core system vendor with several thousand clients will cross-sell Baker Hill CLO capabilities to its core system clients seeking to bring more automation to loan origination. Also helpful to small institutions with resource-constrained compliance departments will be Baker Hill's CECL solution, launched in Q1 2019, which alleviates the need to step out of the Baker Hill offering to conform to this challenging new accounting rule.

BASIC FIRM AND PRODUCT INFORMATION

- **Headquarters**: Carmel, Indiana
- **Founded in:** 1983
- **Number of employees**: 202
- **Ownership**: Owned by The Riverside Company
- **Key financial information**: Unavailable due to private ownership
- **Key products and services**:
    - Core commercial lending
    - Pricing and profitability
    - CECL
    - Portfolio risk management
    - Analytics
- **Target customer base**: All banks and credit unions with assets ranging from US$250 million to more than US$100 billion
- **Number of clients**: 412
- **Average client tenure:** 13 years
- **Global footprint**: Installed base resides entirely in North America
- **Implementation options**: Multitenant SaaS only
- **Pricing structure**: Based on tiers with a component of license and services

KEY FEATURES AND FUNCTIONALITY BASED ON PRODUCT DEMO

- **Industry-specific CECL score cards:** Within Baker Hill's strong CECL capability is the ability to generate scorecards—even at the client or loan level—customized for the industry in which it resides; for example, NOI is the focus for CRE portfolios. Among other specialized score cards are those related to FICO SBSS and Experian Intelliscore Plus for small-business lending as well as FICO ARM for consumer and business owner lending.

- **Robust profitability analysis:** Resident within Baker Hill NextGen and highly configurable is a relatively rich pricing model that has as default outputs return on equity (ROE), risk-adjusted return on equity (RAROC), and economic value added (EVA)—all calculable at levels that include client, individual commitment, deal (which would be composed of several commitments), and relationship group (which would involve multiple borrowers).
- **Instant collaboration alerts:** Although it might sound like a small detail, helpful to banks intent on improving collaboration will be a "ringing bell" icon on users' Baker Hill NextGen consoles that wobbles to indicate that a fellow stakeholder in a process has initiated a communication of moderate urgency. The icon continues to wobble periodically until clicked upon, revealing the communication and likely next steps. Helpful about this is the ability to drive communications, potentially lost in email, to users' attention so that they can prioritize. This feature, for example, can alert an underwriter to pause work on a new deal in order to respond to the receipt of final edits or conditions precedent on a deal that requires funding within hours or days.
- **Integration with SMBs' accounting systems:** As a result of its partnership with Validis, Baker Hill provides API-enabled integrations that permit business-lending FIs to peek into the bookkeeping records of borrowing SMBs within applications such as Sage 50 and QuickBooks. Beneficial to lenders here will be the granularity and recency of financial data accessed and the elimination of workflows related to financial statement ingestion and spreading.

TOP THREE STRATEGIC PRODUCT INITIATIVES OVER LAST THREE YEARS

- CECL integration, including leveraging the introduction of automated risk ratings and risk pricing
- CRM-agnostic middleware integration to support Salesforce, Microsoft Dynamics, and other cloud-based CRM solutions
- Streamlining and enhancing the automated capturing of tax return and financial information for financial analysis

TOP THREE STRATEGIC PRODUCT INITIATIVES IN THE NEXT 12 TO 18 MONTHS

- Enhanced business rule logic for more robust decisioning and handling of risk
- Integrations for SBA lending and Uniform Commercial Code (UCC) filings
- E-signature functionality

- Digitalization of the loan life cycle, extending from targeted loan opportunity fielding to pricing optimization

Table C displays the vendor's strengths and weaknesses.

Table C: Key Strengths and Challenges—Baker Hill

Strengths	Challenges
Large installed base from which to build institutional knowledge and capabilities	Recent disruption of customer base with migration to Baker Hill NextGen
Long average client tenure	Reliance on revenue from crowded U.S. market
Growth opportunity in recently inked Fiserv agreement	

Source: Aite Group

AITE MATRIX EVALUATION

This section will break down the individual Aite Matrix components, drawing out the vendors that are strong in each area and how they are differentiated in the market.

THE AITE MATRIX COMPONENTS ANALYSIS

Figure 15 overviews how each vendor scored in the various areas of importance. Each vendor is rated, in part, based on its own data provided when responding to the RFI distributed by Aite Group as well as on product demos and follow-up discussions as part of the Aite Matrix process. Ratings are also driven by the reference customers of the examined vendors to support a multidimensional rating.

Figure 15: Aite Matrix Components Analysis by Heat Map

Vendors	Vendor stability	Client strength	Client service	Product features
	90%	83%	98%	89%
	83%	81%	89%	84%
	83%	60%	77%	89%
	86%	93%	88%	95%
	94%	91%	70%	77%
	94%	85%	84%	86%
	90%	82%	81%	78%
	85%	80%	73%	84%
Baker Hill	78%	94%	89%	92%
	80%	66%	60%	62%
	90%	74%	60%	74%
	88%	88%	81%	86%
	84%	85%	79%	81%
	97%	94%	71%	87%
	90%	88%	79%	83%

Legend:

BEST IN CLASS

91% - 100%

81% - 90%

65% - 80%

INCUMBENT/ EMERGING

< 65%

Source: Vendors, Aite Group

VENDOR STABILITY

The vendor stability component evaluates the overall strength of the vendors in terms of financial stability, management reputation, risk management, and global presence. This component determines whether a given vendor has the basic foundation to compete and sustain its overall market presence.

CLIENT STRENGTH

The client strength component focuses on the number and diversity of the vendor’s customers, the vendor’s reputation among the clients, and overall customer turnover. This component measures whether a given vendor has a strong foundation of clients and a robust client pipeline to sustain its growth trajectory.

CLIENT SERVICE

The client services component evaluates the pricing structure and its various attributes as well as the comprehensive nature of the vendor's client support and service infrastructure. This component measures whether the vendor provides robust service and support to provide real value to the clients.

Leading in client service with a nearly perfect score is Baker Hill. Baker Hill edges out many of its peers in areas that include reference clients' takes on this vendor's ability to deliver on promises, customers' take on service and support, and cost of service and maintenance.

PRODUCT FEATURES

The product features component analyzes the key features and functionality of vendor solutions and services, including implementation options, user experience, and the strength of the future product roadmap. This component measures whether the vendor offers enough key features and functionality to remain competitive.

Baker Hill excels in this category because of the breadth of its delivered features and functionality.

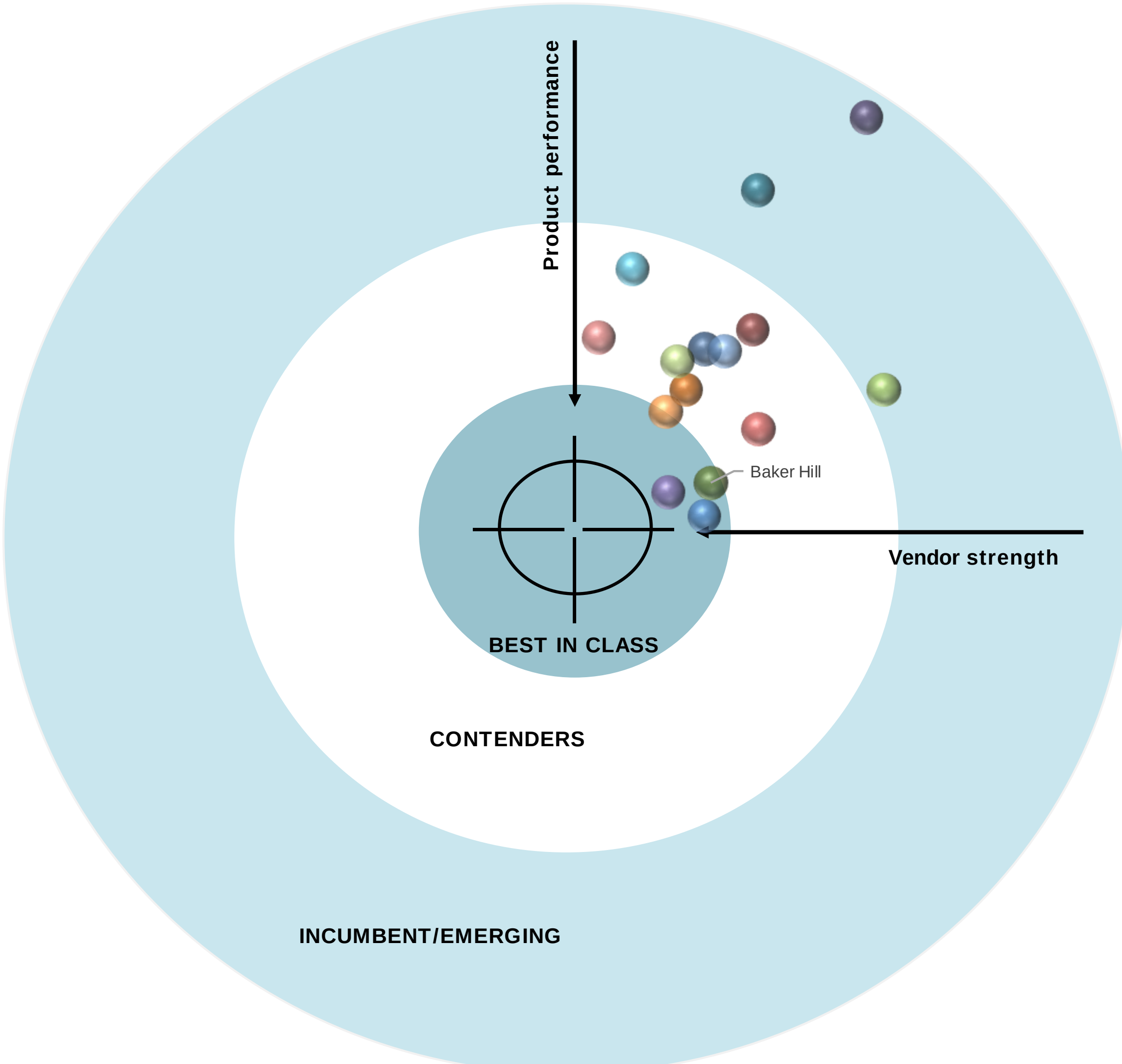
THE AITE MATRIX RECOGNITION

To recap, the final results of the Aite Matrix recognition are driven by three major factors:

- Vendor-provided information based on Aite Group's detailed Aite Matrix RFI document
- Participating vendors' client reference feedback and/or feedback sourced independently by Aite Group
- Analysis based on market knowledge and product demos provided by participating vendors

Figure 16 represents the final Aite Matrix evaluation, highlighting the leading vendors in the market.

Figure 16: CLO Aite Matrix



Source: Vendors, Aite Group

BEST IN CLASS: BAKER HILL

Also among the best-in-class vendors is market elder Baker Hill; areas in which it excel are:

- **Client strength:** A near-perfect score here is driven in part by clients' takes on Baker Hill's cost and its ability to deliver on promises.
- **Product features:** Breadth here is the result of this vendor's tenure in the market, during which it had an offering that covered the vast majority of capabilities examined in Aite Group's RFI and that was strongly reviewed by customers.
- **Client service:** Here, the provision of round-the-clock support without an extra fee is the only area in which it lagged its rivals. Areas in which Baker Hill outperforms peers are clients' takes on value relative to cost, this vendor's ability to deliver on promises, and service and support.

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CONCLUSION

Business-lending FIs:

- Don’t be an automation have-not. Across the many smaller banks in the U.S., the adoption rate of CLO automation is approximately 50%. Available to such automated banks that deploy—and deploy well—are more scalable operations, lower costs, and faster turnaround times for credit-seeking businesses; all are critical goals for any business-lending FI worth its salt. It’s getting to the point that banks that don’t adopt will be in competitive peril relative to those that automate.
- It's an adopter’s market. Competing within the market for CLO automation are 16 vendors providing 17 capabilities. All of them offer mature minimum requirements; many are providing next-generation features, such as early detection of credit deteriorations, and still more are providing competitive differentiators, such as AI-enabled spreading.
- And they are not just providing competitive differentiators upon deployment. Many business-lending FIs have automated their CLO operations, reached a contract renewal date, and put the deployment out to bid. Business-lending FIs with CLO automation should be prepared for such a project should they be dissatisfied with the features, functionality, service, or cost of their existing deployment.
- Digitalization is underadopted. Although most vendors provide capabilities for digitalization of the customer experience, these features and functionality often go unadopted by clients. Causes of this range from a focus on first-order benefits, such as productivity improvements, to a belief that digitalization of the borrower experience can be achieved through digitalization of the loan officer experience. Whatever the cause, the borrower experience remains too poorly digitalized—a gap business-lending FIs should close.

ABOUT AITE GROUP

Aite Group is a global research and advisory firm delivering comprehensive, actionable advice on business, technology, and regulatory issues and their impact on the financial services industry. With expertise in banking, payments, insurance, wealth management, and the capital markets, we guide financial institutions, technology providers, and consulting firms worldwide. We partner with our clients, revealing their blind spots and delivering insights to make their businesses smarter and stronger. Visit us on the web and connect with us on Twitter and LinkedIn.

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