

THE EVOLUTION OF THE SECURITISATION INDUSTRY

The Australian Securitisation Forum (ASF)’s Future Leaders and Young Professionals (FLYP) subcommittee explores key themes expected to alter the securitisation landscape in the near future.

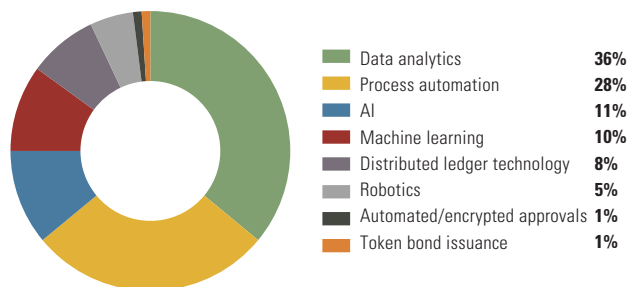
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In November 2019, the FLYP subcommittee surveyed attendees at the ASF’s annual conference regarding their thoughts on the themes affecting the securitisation industry. More than 50 attendees responded, across various roles and organisations, contributing their perspectives on how the securitisation industry will evolve into the new decade.

The survey found that most industry participants think data analytics and process automation are the most likely technologies or innovations to play a key role in the future of securitisation (see chart 1). These two areas reflect developments already occurring in the market, such as the implementation of automated processes across origination, underwriting and issuance.

Automation has grown significantly in mortgage application and processing, with many lenders employing automated credit assessment and underwriting to streamline the customer experience.

CHART 1. WHAT TECHNOLOGY OR INNOVATION WILL PLAY A KEY ROLE IN THE FUTURE OF SECURITISATION?



SOURCE: ASF FUTURE LEADERS AND YOUNG PROFESSIONALS 2019

Lending and servicing is one of the most digitally advanced aspects of the securitisation process given the broader applicability beyond the capital markets, the economic importance of lending and the impact on user experience.

Initiatives such as open banking are poised further to enhance automation of already streamlined credit-assessment processes and further to improve ongoing portfolio management, for issuers and investors.

Looking to capital markets, real-time settlement is also achievable by removing the need to centrally clear individual trades. The Australian Securities Exchange is developing a distributed ledger technology (DLT) solution for equity transactions, increasing the likelihood of wider adoption in debt capital markets.

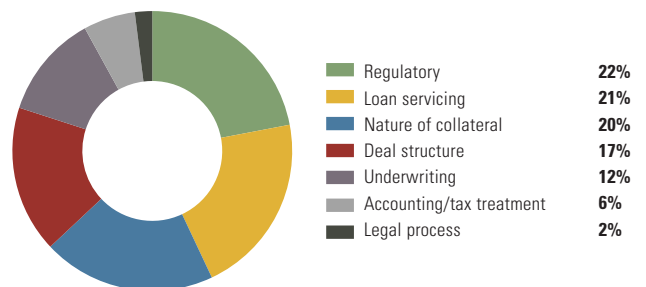
While automation increases loan-application processing volume and helps lenders make better-documented credit decisions, this is not without pitfalls. Following the banking royal commission, there has been heightened focus on responsible lending, including increased expense verification as opposed to the reliance on the household expenditure method (HEM).

Indeed, commissioner Kenneth Hayne’s report concludes: “It follows that using HEM as the default measure of household expenditure does not constitute any verification of a borrower’s expenditure.”

It is evident that, while there are streamlining benefits to automation, the regulatory imperative is to rely less on default measures but instead to investigate and “make reasonable enquiries”. With the evolution of technology, securitisation participants will need to continue balancing commercial objectives of enhanced efficiency with emerging regulatory requirements.

Analytics, meanwhile, is a crucial aspect enabling digital transformation. The industry relies on high-quality data. Key to the acceleration and increased use of data analytics is the improvement of infrastructure to enable secure processing of this data via digital platforms, with the end goal of improving the user experience for all participants. Data analytics also already plays a significant role in the ongoing management

CHART 2. WHAT ASPECT OF SECURITISATION WILL BE MOST AFFECTED BY CHANGE IN THE NEXT FIVE YEARS?



SOURCE: ASF FUTURE LEADERS AND YOUNG PROFESSIONALS 2019

of securitisation portfolios. With the increased focus on data quality from all stakeholders, it is not surprising that survey participants have this on the top of their list when it comes to future impacts.

The power of analytics is clearly seen to have tremendous potential to be harnessed as data quality continues to improve across the industry.

CHANGE AREAS

The backdrop of the royal commission and a keynote speech from the Australian Securities and Investments Commission (ASIC) seeking to provide clarity on responsible lending clearly influenced responses as ASF conference attendees see regulatory, loan servicing and the nature of collateral as the areas most likely to be affected by change over the next half decade (see chart 2).

While the subsequent release of RG 209 confirmed ASIC's retention of its principles-based approach to regulation – including loan servicing and collateral – implementation of recommendations from the royal commission have been delayed due to the onset of the COVID-19 crisis¹. The regulatory aspects of the underlying collateral, including underwriting and servicing, therefore seem likely to remain a focus of industry participants once we move beyond the crisis.

It has become evident with the onset of the COVID-19 crisis that regulatory initiatives to improve the resilience of the broader financial system have not only proven timely but have put Australia in an enviable position globally.

Combined with prompt and significant government responses to the crisis, including the Australian Office of Financial Management's Structured Finance Support Fund and the Reserve Bank of Australia's term funding facility, the local securitisation industry has remained viable during the crisis.

Capitalising on momentum generated by the crisis for accelerated adoption of technology necessitates a deeper consideration of how existing processes can employ technology to facilitate digital transformation.

A key technology with the propensity to significantly impact multiple facets of the securitisation process is DLT. This already has capital markets use cases^{2,3}, with further applications including clearing and settlement⁴ while enhancing risk and governance⁵ outcomes. DLT also has application in smart contracts⁶ and, while the substance of legal events and actions themselves are unlikely to change significantly, the longevity of paper-based suites of documents requiring wet signatures seems limited.

1 <https://www.abc.net.au/news/2020-05-08/coronavirus-government-delays-banking-overhaul-royal-commission/12229050>

2 <https://www.worldbank.org/en/news/press-release/2018/08/23/world-bank-prices-first-global-blockchain-bond-raising-a-110-million>

3 <https://www.asx.com.au/services/chess-replacement.htm>

4 <https://link.springer.com/article/10.1186/s40854-019-0169-6>

5 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3180553

6 <https://www.nortonrosefulbright.com/en-au/knowledge/publications/1bcd200/smart-contracts>

COVID-19 IMPACT ON TRANSACTION PROCESS

PRE-COVID-19	COVID-19 IMPACT
In-person meetings between issuers and investors during roadshows for public-market issuance. Investor materials are provided as hardcopies in the meetings.	Roadshow discussions predominantly via calls and video conferences between all parties, with digital documents and presentation for reference.
Wet signatures of documentation.	Electronic signatures acceptable.
Working from office was the norm, with occasional work from home. Technologies generally only support partial workforce to work from home.	Working from home has become the norm, and technology infrastructure has been developed to cater to majority of workforce working remotely.

SOURCE: ASF FUTURE LEADERS AND YOUNG PROFESSIONALS 23 JUNE 2020

COVID-19

Few anticipated the COVID-19 pandemic and the profound impact it would have on society. However, one of the positive aspects of the crisis has been the acceleration in adoption of technology.

According to McKinsey: "COVID-19 has not only accelerated digitisation in business-to-consumer applications and channels, but also the traditionally less digitised parts of the economy, such as areas requiring physical interactions and business-to-business processes."⁷

Within the securitisation space, COVID-19 has been the catalyst for an expedited adoption of technology-based alternatives to previously in-person activities. Looking to the future, establishment of secure data repositories will facilitate digital identity verification⁸ and remove a key manual step in the lending process (see table).

It is likely that these changes will remain even after social-distancing rules are lifted and that technology will be leveraged for a more streamlined process within the securitisation space.

Given the COVID-19-induced lockdown, companies have been forced to improve remote working capacity. Employees may find themselves permanently or increasingly working from home beyond the crisis, according to a new survey from research firm Gartner.

This March survey of 317 CFOs and business finance leaders reported that 74 per cent of those surveyed expect at least 5 per cent of their workforce who previously worked in company offices will become permanent work-from-home employees after the pandemic ends. A quarter of those surveyed expect 10 per cent of their employees will remain remote and 17 per cent expect 20 per cent will remain remote.

The ASF survey shows that the securitisation industry is expecting change across multiple areas including analytics, automation and regulation. COVID-19 has already catalysed increased adoption of technology, such as remote working and digital interactions, and gives us a taste of what changes the new decade will bring. While no-one can predict the future, one thing is certain – we live in a world of change. ■

7 <https://www.mckinsey.com/featured-insights/asia-pacific/fast-forward-china-how-covid-19-is-accelerating-five-key-trends-shaping-the-chinese-economy>

8 <https://www.zdnet.com/article/australian-digital-id-biometric-capability-to-move-into-public-testing-mid-2020/>