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ON AI'S IMPACT ON COMMERCIAL LENDING



with HELEN TUNSTALL

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at Moody's Analytics

Helen Tunstall is a commercial lending expert at Moody's Analytics. For more than 20 years, she has held senior lending roles at multinational banks. Tunstall discusses AI, which is no longer a buzzword or a concept of the future but a tangible technology changing how we work and process information. She believes that leveraging the power of AI is easier said than done and that banks need to seriously assess the possible costs and benefits of the powerful new technology. At Moody's Analytics, she says the organization is learning about and investing in AI technology that can have a real and scalable impact on their clients' business. One key focus is how AI can be used to process loan application data and synthesize borrower behavior for actionable insights across commercial lending.

1

What are the challenges for banks when it comes to commercial and corporate lending?

Banks are facing difficulties with outdated and siloed legacy systems that have been operational for two to three decades. This results in a slower pace of processing and decision-making for commercial loans, as they need to enter the same data into multiple systems. It is highly time-consuming and prone to errors, especially in the case of commercial lending.

2

What are key trends in AI for commercial lending, and how are tools evolving to meet changing market needs and customer demands?

We are seeing banks investing in AI-powered tools to improve the user experience for their borrowers and expedite the decision-making process. These tools streamline and automate large volumes of complex information required for each loan application, allowing bankers to dedicate more time to analytical and underwriting tasks. This advanced efficiency provides improved insights and therefore a more comprehensive view and a deeper understanding into a borrower's activities and behaviors.

"The ability to identify behavioral patterns that could trigger alerts for analysts is crucial."

3

What role does AI play in improving risk management for commercial lenders?

Automating processes can significantly reduce errors caused by manual inputs. When information is manually entered into multiple siloed systems, the likelihood of error increases and may produce inappropriate outcomes to an application. However, if the process is automated into a single system, the information flows seamlessly. The need for manual inputs is eliminated, reducing errors. This is especially crucial in complex processes such as commercial lending, where there are various regulations to comply with—from onboarding to underwriting to decisioning to monitoring. Artificial intelligence can help automate much of this information input, making the process faster and more efficient for analysts and relationship managers.

4

How can AI help lenders reduce impairments and losses?

Historically, lenders have prioritized revenue generation, customer acquisition and new borrowing. However, once the funds are disbursed, the banks bear the risk and must devote significant resources to monitor the loans' health. This process can be almost as labor-intensive as originating new loans, without generating additional income. Fortunately, a combination of AI and early warning tools can automate loan monitoring analysis and provide users alerts to where their attention is needed.

5

How can early-warning tools help lenders more proactively manage credit risk? What are the potential benefits?

The ability to identify behavioral patterns that could trigger alerts for analysts is crucial. These alerts signal the need to investigate a client further due to unusual or suspicious activity. It's important to note that alerts are not always negative and could present an opportunity to offer the client additional loans. Lenders are constantly striving for growth and income. But without an effective early-warning system, clients may default or overdraw their accounts. Therefore, a reliable early-warning system is essential to take action before it's too late.

6

What are some best practices for using AI in commercial lending? And how can these tools be optimized?

Having a 360-degree view of a customer is not enough. It is also necessary to gain insights from outside data and analytics that may impact customers. AI can be used to synthesize all of this information and help you prioritize follow up with clients. When lenders have visibility into changes in conditions, inflation, price of commodities or adverse media, they can act early to prevent any credit deterioration. Moreover, it's crucial to help clients before they face further difficulties and create more opportunities for them. This approach allows relationship managers to collaborate with borrowers rather than solely focusing on repossession or remediation actions.