KEYNOTE INTERVIEW

Rethinking European loan servicing

Technology will shake up the status quo in the servicing market and generate valuable insights to benefit lenders, argues Vishal Soni, co-founder at Oxane Partners

Europe's real estate loan servicing industry is ripe for technological transformation. That is the view of Vishal Soni, co-founder of London-based Oxane Partners, which provides services across private markets investments. Oxane was founded in 2014 by former Deutsche Bank real estate lending team members Soni and Sumit Gupta. In real estate, the firm provides lenders and investors with services including due diligence, portfolio management and surveillance by combining the use of technology platforms and a 200-strong enabling team spread across London, New York and India. Two years ago, it expanded into European real estate loan servicing. Soni tells *Real Estate Capital Europe* why it is a sector in need of change.

SPONSOR
OXANE PARTNERS

Q How is the role of a loan servicer changing in today's real estate market?

The traditional paradigm of loan servicing has not changed for many years. That function has been very manual, very prescribed, operational in nature and not integrated into the entire transaction life cycle. The servicer runs the waterfall payments, manages the bank accounts and forwards communications from the borrower to the lender. Meanwhile, the complexity of transactions has increased because borrowers are creating a range of quite exotic new bespoke loan structures, so lenders and borrowers are beginning to expect more from their servicers. They want them to drive efficiencies and, more importantly, turn loan servicing into a value creator in the investment process.

Q What are the most critical challenges facing the European loan servicing industry?

The main challenge is around data. A lot of processes are manually intensive. If all borrowers were to report in a given format, you could use technology to automate data-gathering. But most investors currently struggle to get to the right set of data, clean and standardised. A servicer has access to lots of data because it carries out many activities on an ongoing basis, monitoring payments and calculating covenants. It has a sense of how the asset is performing. The servicer is the linkage between the borrower and the lender and should be best placed to understand what is happening between them.

However, servicers are usually administering the loans in a silo, sharing scant information with asset management and investment teams, and mostly after the event. This leads to several gaps. There is no central data repository because servicers and asset managers are maintaining their own copies. From a data perspective, everything is getting recycled, which is inefficient. Data accuracy and data completeness are low, and there are long turnaround times for data requests to servicers from lenders.

"We are seeing more competition, and as a result the complexity of transactions is increasing"

Q How can technology improve loan servicing?

We believe that by harnessing technology it is possible to move the role of servicing from a perfunctory function to an integral part of the portfolio management process. As we supported lenders using the Oxane CREST technology platform for portfolio management and reporting, we came across the gaps in loan servicing that lenders faced. That encouraged us to expand into the loan servicing space. Typically, a servicer would receive data from the borrower and forward it to the lender. We take that data, validate it, try to close any gaps, and put it on our cloud-based technology platform. The lender can log into the platform and download raw data that is clean and standardised, or drill down into the information to carry out analytics. That enables the client's asset management team to be more efficient, or if the function is outsourced it reduces the scope and therefore the cost of what the outsourcer needs to do. We call it 'loan servicing 2.0', and it also enables lenders to be more proactive. During the pandemic, servicers were passing on lots of requests for waivers and restructurings. Borrowers need servicers that have the expertise to analyse such requests from an investment and a risk management perspective, and can evaluate how they would impact the loan risk, enabling better-informed decision making.

Q How will you aim to grow your share of the European loan servicing market?

It is not easy to do in a market dominated by a few key players with entrenched relationships. In our first year, we focused on educating the market. When everything is going well, you don't realise what you need, but when the pandemic hit, unprepared lenders were taken off guard and had to scramble for data and information. They started viewing asset management, data and technology in a new light, and we have seen increased demand. We have signed up six clients, including two new debt funds, and are working with well-established lending platforms, including three banks.

Ours is an onshore-offshore model, so we have a very experienced servicing team in London to carry out critical functions, while the extra evaluation and analytics is mostly done in India, where there is a great pool of talent and also a cost advantage.

Because of the technology and the operation in India, we are competitive in quoting for agency roles, while at the same time being able to provide added-value data without hurting profitability.

Q What do you see as the biggest trends shaping Europe's real estate debt market?

We are seeing more competition and, as a result, the complexity of transactions is increasing. Debt funds like to be lean and nimble. And unlike banks, where the asset management function is not completely integrated, the real work for funds starts when they put the money out of the door.

As debt funds' share of overall lending increases, the importance of asset management and portfolio monitoring will be enhanced. Because they are lean organisations with small teams, they will require more support, and the best way to provide support is to automate and use technology.

ESG is another big theme. Most managers are still figuring out what this means and how to embed and measure these factors in their assessments and portfolio performance. ■