



## Case Study

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How Finastra is harnessing R3's Corda Enterprise blockchain to open up a new business line and transform transparency and efficiency in the syndicated loan market





## A Broken Marketplace


If any area of the global financial markets is in urgent need of transformation through technology, it's the syndicated loan market. The market consists of large loans—often amounting to billions of dollars—offered by a group of lenders to a single borrower, usually a large corporation. But, if that overview of the market sounds relatively straightforward, it masks a world of bewildering complexity.

Why? The main reason is the use of archaic, labor-intensive manual technologies, such as fax, email and telephone, as the means of communication and information exchange between the thousands of stakeholders involved in funding, arranging, monitoring and trading syndicated loans. As a result, market participants are saddled with painfully slow processes, heavy administrative burdens and a crippling lack of visibility into critical deal information.

But a solution is at hand. The world-leading financial technology firm Finastra has collaborated with R3 and a group of global banks to create a blockchain platform for the syndicated lending community. The impact on market efficiency, cost, speed and transparency is revolutionary—and the resulting benefits are set to extend along the value chain, from lenders, arrangers and agents all the way up to the borrowers. Also, the immediate positive effects in terms of cost savings and reduced friction will expand in the longer term to include enhanced liquidity across the market as a whole.

To explain why Finastra's solution is so transformational, we first need to take a closer look at the structure of the syndicated loan market itself. In many cases, the syndicates advancing the loans include thousands of institutions, ranging from global banks to insurers to specialist funds. The loans are syndicated because the sums of money are too large for a single bank to hold on its books, and parceling them out across the lending community spreads the risk for the lenders. The proceeds are often used for working capital purposes, mergers & acquisitions (M&A), refinancings and general corporate purposes. Among the various sources of funding available to corporates, syndicated loans are generally seen as an alternative to a bond. And since the corporates borrowing them are usually non-investment grade, they often require collateral to back them such as property, plant and equipment (PP&E), inventory, and accounts receivable (A/R).

The loans usually run for several years, throughout which all the lenders need to be kept regularly updated on the current deal position. This information is held and provided to them by a single institution that acts as agent for the syndicate. Up to now, this information—and any other ad hoc queries—has passed between the agent and syndicate members via fax, email and phone. The result is a slow, cumbersome process involving limited transparency, huge manual effort and high costs.



The market's challenges don't end there. Syndicated loans are complex instruments with a host of detailed provisions, including covenants with which borrowers must comply, varying repayment terms, revolving credit facilities, currency limits and so on. Any communications around these with borrowers are again handled through traditional methods such as fax. Also, syndicated loans can be traded on a secondary market that suffers from very poor liquidity. Every time syndicated loans are bought and sold, the agent plays a role akin to a custodian, vetting and signing off the deal and checking that all the relevant conditions have been adhered to. Again, these interactions take place by fax and email, meaning they impose a further heavy administrative burden on the agent and can take weeks to complete. Add in settlement of the trade, and the end-to-end transaction can take months or even a year, creating a degree of illiquidity that limits the attractiveness of syndicated loans as an investment.

Overlay this profound market inefficiency with the numbers of syndicated loans out in the marketplace, and the full scale of the problem becomes clear. Each loan may involve up to 2,500 lenders, each agent may be handling 3,000 separate loans, and each lender may have a portfolio of several hundred loans outstanding. Multiply this and the number of emails and faxes being sent is mind-boggling. Most industry participants agree that the market is effectively broken— and all are clamoring for a better, faster and more transparent way to manage and run it.

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**Jacqueline Morcombe,**  
Finastra's Global Solution Lead for Lending

## Opening the “Golden Book”

The challenges we’ve described aren’t new. In fact, the syndicated loan market’s vast communication inefficiencies have been a prevalent issue for decades, despite repeated attempts to fix it using various technologies. But the global financial services software provider Finastra has now found the solution. Working with R3 and a group of seven leading banks, Finastra has created an online solution—Fusion LenderComm—that is underpinned by R3’s Corda Enterprise, a cutting-edge blockchain platform, and is designed to bring unprecedented transparency and efficiency—and ultimately higher liquidity—to the syndicated loan market.

Fixing the problems in the syndicated loan market is a challenge that Finastra is ideally placed and qualified to tackle. Formed in 2017 by the combination of Misys and D+H, the company builds and deploys innovative, next-generation technology for the financial services industry based on its open Fusion software architecture and cloud ecosystem. Combining global scale with solutions spanning retail banking, transaction banking, lending, and treasury and capital markets, Finastra has a client base that ranges from community banks and credit unions to global financial institutions including 48 of the world’s top 50 banks.

Finastra’s goal is to unlock the potential of people and businesses in finance, creating a platform for open innovation. The syndicated loan market offers it a great opportunity to deliver on this objective. Jacqueline Morcombe, Finastra’s Global Solution Lead for Lending, explains: “The syndicated loan market has known what it needs for a long time. While the technology we’re applying is innovative, the market problem we’re using it to solve is actually very obvious. There have been many attempts to solve it in the past, but they’ve all failed because of cost and complexity.”

She continues: “What’s really needed is the ability for lenders to access the “golden book” of information sitting within the system. The agent holds that golden data. And only by putting it out into the market in real time can you solve all the issues the market faces like the lack of transparency, non-stop queries flying around by fax, and the inordinate length of time it takes to settle trades. When we came up with the concept of Fusion LenderComm, opening up the golden book was what we were setting out to do.”



## Capitalizing on the Reach of Fusion Loan IQ

Finastra's ability to achieve this objective was reinforced by its existing strong position in the marketplace. The company's loan servicing platform, Fusion Loan IQ, has become the market standard used by the world's biggest agent banks. By exposing Loan IQ to the entire market in a controlled and secure way, Finastra knew it could open up the golden book.

But what was the best technology to do this? Helen Orton, Senior Product Manager for Lending at Finastra, takes up the story. "Every client we speak to has some form of innovation lab, where they're looking at blockchain in various guises across different product lines," she explains. "And the same question kept coming up: what's the tangible use case and business need for this technology? For us it was about real-time access to data, a single source of the truth, and technologies like smart contracts that can be used to automate business logic. We looked at how we could use these capabilities in the syndicated loan market. And we saw that Corda Enterprise would enable us to solve today's issues, while also future-proofing the solution for tomorrow's."

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# corda enterprise

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R3's Corda platform provides the privacy the market requires. It enables agents to identify precisely those lenders that they want to share information with, and decide exactly what information they can see. So, it simply puts the agent in complete control of the data. Additionally, as Corda was designed to meet the exacting standards required in financial services—one of the world's most complex and highly regulated industries—it was the optimal choice for a platform that would be used by Tier 1 banks.

Helen Orton, Senior Product  
Manager, Finastra


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## R3's Corda Enterprise Wins Out on Privacy

With blockchain identified as the technology, Finastra set about assessing the various Distributed Ledger Technology (DLT) platforms available on the market. R3's Corda Enterprise quickly emerged as the clear first choice—with the key factor being its high level of privacy. “Syndicated loans are a very private market with huge amounts of extremely confidential and sensitive information,” says Orton.

Using smart contract and blockchain technology, Corda allows existing business networks to reduce transaction and record-keeping costs and to streamline business operations. Corda was launched as the world's only blockchain platform designed to record, manage and synchronize contracts and other shared data between trading partners. The enterprise platform, Corda Enterprise, underpins Fusion LenderComm.

Corda's ability to put the agent in control of the data removes the need for data encryption that arises with some other blockchain platforms, while also making a Corda-based platform easier and simpler for agents to use. A further benefit of Corda for agents is that it doesn't require them to share the loan data with a third-party for distribution to lenders. Since each agent's blockchain node is on



their own premises, the data never leaves their systems, and they share it directly with lenders—meaning Finastra never even sees the information, further reinforcing the privacy of the platform. Orton sums up the benefits: “With each agent, lenders get direct, secure, confidential, one-to-one communication, involving only the information that’s specifically relevant to that lender. This is precisely what the agents want.”

## Collaborative Innovation

Having selected Corda Enterprise to underpin its new Fusion LenderComm solution, Finastra began working with R3 to develop and test the offering. According to Finastra’s Helen Orton, this turned out to be a great experience—with R3 proving to be a receptive and responsive development partner, and teams from the two companies collaborating closely to tackle any issues. A good example of this was their joint development of the Blockchain Application Firewall, a unique feature of Corda Enterprise that means agents do not have to turn off their own firewall when certifying a new lender on the LenderComm platform.

The two companies also worked together to make the entire process of implementing and using LenderComm straightforward and friction-free. Finastra’s Jacqueline Morcombe comments: “We’ve tried to keep things as simple as possible at every stage to the extent that clients have been able to implement the solution and publish their first deals in test form within a matter of days. And once it’s implemented, we’ve also made using Fusion LenderComm very straightforward. We don’t want to create yet another complex process that agents have to go through, but rather to enhance and streamline what they’re already doing.”

The process of publishing deal information on the platform reflects this commitment to simplicity. The first step is that the agent bank identifies the deals it wants to publish, and the information on these is pushed to the Fusion LenderComm portal. Then the agent maps the relevant information to each lender on its Corda Enterprise node, and the lenders get direct and secure access to it. As a result, lenders can gain a personalized, real-time view of positions across their agent banks, including access to credit agreement data, accrual balances, position information and built-in transaction data.



## The Journey Continues

The excitement is also set to be sustained into the future. Once the platform's digitization of agent-lender relationships has reached critical mass, Finastra will look to extend Fusion LenderComm into streamlining secondary-market trading in syndicated loans. After that, the next target will be trade settlement. And as the market-wide efficiencies grow, the effects will include the creation of a more active and liquid marketplace: one where agents are freed up from admin to focus more on servicing and adding value for their clients; where syndicated loans are more attractive as an investment asset; and where borrowers benefit from quicker, easier and more cost-effective access to funds.

With Fusion LenderComm, Finastra set out to fix a broken market. Supported by Corda Enterprise, it's delivering on that goal. The syndicated loan market will never be the same again.

## About Finastra

Finastra unlocks the potential of people and businesses in finance, creating a platform for open innovation. Formed in 2017 by the combination of Misys and D+H, it provides the broadest portfolio of financial services software in the world today—lending, and treasury and capital markets.

## About R3

R3 is an enterprise blockchain software firm working with a broad ecosystem of more than 200 members and partners across multiple industries from both the private and public sectors to develop on Corda, its open-source blockchain platform, and Corda Enterprise, a commercial version of Corda for enterprise usage.

R3's global team of over 180 professionals in 13 countries is supported by over 2,000 technology, financial, and legal experts drawn from its global member base. R3 is backed by investment of over USD 120 million from more than 45 firms.

The Corda platform is already being used in industries from financial services to healthcare, shipping, insurance and more. It records, manages and executes institutions' financial agreements in perfect synchrony with their peers, creating a world of frictionless commerce.

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### New York

11 West 42nd Street,  
8th Floor  
New York, NY 10036

### London

2 London Wall Place,  
London, EC2Y 5AU

### Singapore

80 Robinson Road,  
#09-04  
Singapore, 068890

### Brazil

Av. Angélica, 2529 - Bela Vista  
6th Floor  
São Paulo - SP, 01227-200, Brazil

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