



Why 2022 Mattered?

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Francesca graduated at the International Business, Nottingham Trent University in London she gained her professional certificate at the New York University and later attended the CIMA master course London. She is a RICS-qualified professional, entitled to use the designation. She has more than seventeen years of experience in valuations, fund raising, SPVs, Securitisation, real estate project development, investment management, business planning and strategic advisory. Specialized in Asset Management, today Francesca works mainly with foreign investors. She had also occupied executive positions in Real Estate Companies in Italy, Austria and Kingdom of Saudi Arabia.

Reshuffling the Market's Cards | Specialised Servicers Can Play a Key Role

2022 was a year that put the world to the test: from the invasion of Ukraine to the Covid pandemic, from inflation to climate change. 2022 asked hard questions... bringing the world towards a new direction but showing a new light. This period also showed the resilience of European countries. As a consequence of the post-invasion energy shock, European governments are pouring money into fixing prices.



In short, policymakers and investors still differ over the most important questions. How sticky will inflation be? At what level will rates peak? The rise in cost base (raw materials, energy, funding, logistics and distribution) is likely to negatively impact companies' 2022 financial statements, leading to worse results than those of 2021.

Focusing on the Italian market, the loans with public guarantee granted under the 2020-2021 temporary framework (over €250bn) will end the pre-amortisation period. Possible contractions in demand could create defaults very quickly.

Banks must adapt their organizational structures not only to the regulatory requirements, as they are called upon to operate, in the absence of ad hoc implementation operational regulations, in a kind of substantial compliance with them. Moreover, considering the current macro-economic and geopolitical environment, it appears to be highly urgent to assess all those circumstances.

So, how can all these changes be handled? How do banks and the real economy face all these impacts, keeping a focus on their core, leading business without being affected by these external factors?

The credit servicers are expected to feel the greatest impact of changes from the Directive, as they will need to be authorised in a home member state before commencing activities in that territory. Entities already carrying out credit servicing on 30 December 2023 will be allowed to continue those activities until 29 June 2024 or until the date when they will obtain authorisation, whichever is the earlier.

The Directive introduces several other new requirements that will likely impact credit servicers. Among others, these include:

- Demonstrating robust governance arrangements and adequate internal control mechanisms.
- Applying policies that ensure compliance with rules for the protection, and the fair and diligent treatment, of borrowers.
- Having management with sufficient knowledge and experience to conduct business competently and responsibly.
- Setting up adequate anti-money laundering and counter terrorist financing procedures.

It is clear that the market is getting more and more regulated in order to reach the highest levels of transparency and professionalism.

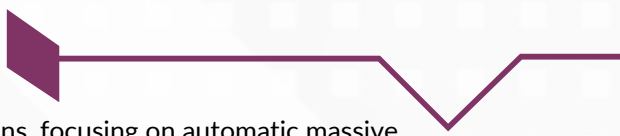
These days, most of the time banks have outdated operations which require too many manual processes, which are also expensive to properly manage UTPs and NPLs. These methods also lack in personalization and create several ineffective touchpoints which perpetuate an unwelcoming, hands-off approach to the customer experience.

As requested by the Directive, raising quality is possible when there is the willingness and the courage to adopt a better approach to operations by using analytics and ad hoc software to understand track records and trends, or artificial intelligence to segment customers and to assign the handling of NPLs to the right personnel or Servicer.

Why does WIBEATS believe that high tech driven servicers / asset managers with a multilayer strategy can become game changers?

Well, despite the abundance of options presented through technology, one of the biggest challenges in professionally addressing UTPs and NPLs is the lack of flexibility of current IT applications, able to analyze different sources of data, in a logical and simplified manner, to define the correct portfolio strategy.

Most of the technological solutions



used by banks or big servicers consist in addressing non-performing loans, focusing on automatic massive collection process. This is fundamentally bank-centric and not customer centric. These automated processes cannot recognize patterns of customer behaviour and are insensitive to their need for personalization. Moreover, the collateralized real estate asset needs to have a parallel customized strategy. With our servicing platform, WIBEATS Servicing company (today called WIBITA), we have noticed that the customer oriented approach, with the deployment of asset-by-asset strategies, has been the best approach. Our collection's operating model is flexible enough to allow Banks or Investors to segment borrowers, real estate assets and to change their approach accordingly. We believe that automated processes should be stirred with bespoke strategies.

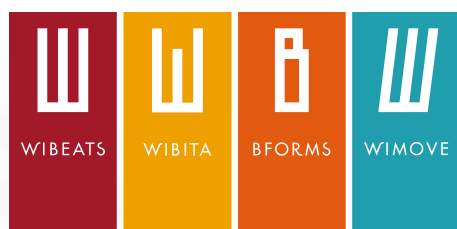


Whereas, for higher-risk borrowers, high value secured NPL collectors must use the data and information gathered to identify the needs of the borrower and to create a tailored solution that can fit the goals. Secured NPLS, and even more specifically for the leasing products, it's necessary to have a real estate asset valuation, strategy valorization and integrated approaches.

WIBEATS group developed in the last 4 years an adaptable cloud base IT system, called WI Update, which gives us the room to negotiate effectively, achieving better outcomes, or allocate specific multidisciplinary teams to take ownership of certain scenarios, as well as bringing into "the game" third party investors willing to buy the positions, or to invest capex in the real estate asset.

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Engineering and finance strategies must go together. We become the bridge between the “traditional real estate players” and the financial world. Although the asset is the common core element, Banks, Investor and Real estate operators analyse it with a totally different point of view and exit strategy.



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WIBEATS' added value is to be able to speak multiple languages, translating the different interests of stakeholders into one common language. We strongly believe that technology and a multiple layer strategic approach is essential to handle complex situations as those we are facing in our days. Our actual historical period is totally different from the previous “NPL Tsunami”. Given the current macro-economic and geopolitical circumstances, it appears to be highly urgent to assess all those situations with an holistic vision. Today's Servicers can play a key role, but they need to invest in their processes and organizational models. Servicers need to implement adaptive management models, based not only on standardized IT processes, but also on detailed specialistic solutions. It is fundamental to establish a continuous process where once learnt from experiences all the operational and related IT processes can quickly adjust actions accordingly. Re-engineering and adaptability are key elements for the future. Only with these continually dynamic organizational models can we steer through complexity.

Banks and servicers must engineer integrated business processes, so that Banks can focus on short terms results, with a greater emphasis on customer acquisition, while Servicers can support in parallel loans value's retention.

Banks must develop internal credit risk assessment models that analyse the financial and other data of loan applicants, focusing on correctly assessing the default probability, also taking under control the collateral's long term value and exit strategies, without taking just for granted the value of the first appraisal.

In addition, Banks and servicers must develop a structured long term partnership aimed at encouraging the relaunch of struggling companies. Anyway, banks in Italy are pushing for a renewal of the public guarantee scheme as GACS has facilitated their de-risking process in the last few years, bringing an overall benefit to the Italian credit system. A renewal would be relevant for banks, especially today, when they are preparing to face the effects of the recession that might impact the Italian economy in the coming months.

On the Investor side, in the recent past, they sharply increased their interest in the acquisition of UtP portfolios also through securitizations. At the same time, Servicers have improved their management skills that entail industry, restructuring and legal expertise, along with fund capabilities (granted by the Investors), to finance restructuring plans to bring the borrowers back to performing status. The UtP deleveraging strategy pursued by the banks is now inextricably linked to their willingness to establish partnerships with Servicers.

In conclusion, market forecasts are foggy outside and the visibility is very limited due to environmental conditions, everyone wants to drive slowly in the event that hazards lie ahead. Most of the time, when you don't know, or are unsure about what steps to take next the best thing to do is to slow down. But if you don't want to slow competitiveness, what should you do?

Rely on a high tech specialised Servicer, providing the most updated tool and processes able to detect every possible hazard, trusting on their reliability to guide you through the fog. Balancing short and long term vision is the key to deliver sustainable, profitable growth.

References

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- The Italian NPE Market. Brand new day? Pricewaterhousecoopers report, 12/2022