The Value of Increased Reporting Compliance to Lenders

Effective reporting compliance is the foundation for effective risk management. While account managers are often tasked with tracking and driving compliance, this activity inefficiently uses resources that could otherwise be spent on increasing portfolio value or growing the client base.

Compliance hinges on a handful of factors that are difficult to individually achieve without connected, purpose-built workflows and automation.

Challenge 1: Timely business reporting

Lenders need updated business performance data on a defined schedule to align with any approach to risk-based analytics. Compliance reporting aims to determine if the borrower remains compliant with existing loan covenants and is otherwise operating a sound business operation. Manual modelling algorithms depend on consistent time intervals to mine financial data, which means that the more erratic your access to business performance data, the riskier it becomes to predict a business' value.

As an example, asset-based loans often tie payouts to the trajectory of the asset base, such as sales invoices. If you, the lender, require weekly invoice reporting but receive the data "whenever," each payout you make comes with an unmeasurable risk. Without time consistency, it's difficult to see predictable trends. If invoice reporting is consistently provided, on the other hand, you might make higher payouts at a more frequent cadence, benefitting you and your client.

Challenge 2: Accurate business reporting

Timely business reporting does not necessarily mean accurate business reporting. Aside from human error, business reporting evolves, sometimes frequently in young businesses. The structure and presentation for a prior reporting period is always at risk of not matching the needs of the current reporting period. The borrower largely has the right to adjust how they track and operate their business, despite obligations in a loan agreement. This slippage makes it difficult to compare the past to the present, and to predict the future if needed.

Human error remains the biggest problem for reporting analysis. When collecting data in an unstructured way, resolving this challenge frequently requires manual analysis by an account manager.

Challenge 3: Closing post-funding commitments and covenants

Given that many non-financial commitments and calculated covenants aren't easily or directly measured from basic financial reporting, lenders need other ways to prompt their clients to confirm (or deny) their achievement of a commitment or covenant.

Challenge 4: Ease of reporting

Sometimes, lenders set reporting compliance terms without regard for the burden it places on their borrower. Reducing the reporting burden on the borrower has a direct impact on the level of compliance you achieve.

You can reduce this burden in a variety of ways, including by making reporting easier to do. Lenders can also exercise thoughtfulness in selecting which documents they request and how often, making it easy for the borrower to track and achieve the desired compliance cadence. Technology automation can have a direct, positive impact on both parties by connecting the compliance workflows across business boundaries.

Achieving a high degree of reporting compliance is a critical factor for successful lending operations. Based on our research, lenders without meaningful automation often hover around 50 percent compliance. If you combine improvements in all of these areas, your compliance will rise, as will the accuracy and usefulness of what you collect Achieving compliance rates of 90 percent or more is attainable with automation.

Furthermore, the lender will be more in sync with the progress of the borrower's business, which in theory means the lender can work with the borrower to help accelerate whatever growth goals are available. Or in a negative situation, they can work with the borrower to mitigate the risks before they create havoc for both parties. If done properly, the lender will become a preferred business partner for the borrower. This shift may mean more referrals and more repeat business, and a material increase to the lender's bottom line.

Example 1: You might require an early-stage company to bring a CFO into the leadership team within the upcoming 12 months to add confidence to their business operations. How will the borrower confirm to you that they've successfully made this hire if you forget to ask? If your client might forget 12 months ahead, when do you follow-up to inquire about this commitment? What will prompt them to update you?

Example 2: You'd like your borrower to grow their qualified sales pipeline by 35 percent in the next six months to sustain your confidence in their revenue forecasting. Measuring this type of financial agreement requires sophisticated, timely data flows between the parties, which is often not in place.

Flowpoint's platform is the first reporting compliance hub to address the needs of lenders. Here's how it addresses all four challenges we've outlined.

1 Timely business reporting

FlowPoint applies state-of-the-art automation to the reporting compliance lifecycle. You define the 'who, what and when' of your reporting workflow. FlowPoint takes care of the rest.

This structure includes visualizing compliance status, setting email notifications to encourage submissions, and an integrated corrections workflow. With FlowPoint, you and your account manager always know the exact compliance status of all borrowers under your management so that you can optimize your time and apply focus where it's needed most.

2 Accurate business reporting

Using FlowPoint, you can formally define your requirements for each reporting cycle. FlowPoint validates the format and label of all incoming documents, and organizes them for easy reference later should that be needed.

You can also supply templates for your borrowers to use, improving the consistency of the analytics you collect, which is a critical point in deriving value from reporting compliance.

3 Closing post-funding commitments and covenants*

You can define post-funding follow-up questions as needed. In the above CFO example, FlowPoint could trigger a short forms-based questionnaire to confirm a non-financial covenant, such as a hire (it works for financial covenants, too).

Configuring FlowPoint through our rules-based approach lets you set visual alerts and issue email notifications once to track your compliance needs. FlowPoint will tell your account managers whether or not a borrower is on track to honour their commitments without the account manager having to make direct inquiries each time they have a question.

4 Ease of Reporting

With FlowPoint, you and the borrower in your practice create a common experience. Both parties have access to a secure, structured data-room that maintains ongoing reporting consistency. Sharing a data room makes it easy to review and audit the submitted documents as either party requires.

The FlowPoint experience for borrowers includes a simple, drag-and-drop interface to submit documents. Borrowers also have a customized request dashboard to see all their compliance requirements at a glance and track their reporting. We'll send your borrowers reporting request emails with all the details required. They'll click through and straight into the FlowPoint application to upload their documentation. Any conversations you may have with them are also captured in the platform for greater transparency. .

Reporting compliance rises rapidly with FlowPoint. Lenders and borrowers stay well-connected, operating with the same expectations and less ambiguity.

FlowPoint

*Coming in Q2 '22