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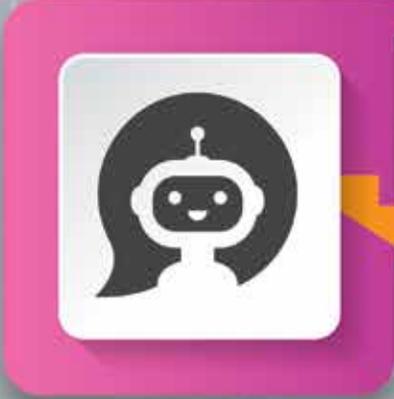


6 Technology Steps to Take Now

You know about data analytics,
AI and blockchain.
Now start taking action.

Sustainability and Equipment Finance
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Technology Steps to Take Now

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By Susan L. Hodges

YOUR COMPANY MAY ALREADY USE DATA ANALYTICS to assist with compliance reporting. But are you doing everything possible with the data you have to learn more about your customers, enhance efficiencies and grow profits? Andrew Cotter suspects not. “I think most equipment finance companies have a data-rich environment that they don’t use,” says Cotter, Chair of ELFA’s Operations & Technology Committee and Executive Vice President of Somerset Capital Group, Ltd., in Milford, Connecticut. “Many small to mid-size companies use data analytics to do reporting, but when it comes to doing the true, in-depth analytics that provide insights and help you make better decisions going forward, I think most companies are lagging.”

Josh Bridge, Senior Manager with Capgemini America, Inc., in Gig Harbor, Washington, believes the industry is somewhat further along with smart contracts. “We publish the Business Technology Performance Index survey with ELFA each year, and a focus of our 2017-2018 report is around smart contracts,” says Bridge. “We asked companies about their level of adoption, and over one-third of respondents

said they saw their companies adopting smart contracts in the next two years.”

When it comes to blockchain, however, Deb Reuben says circumstances are much different. “I think it’s probably the least understood of the newer technologies,” says Reuben, President of Reuben Creative, LLC, in Minnetonka, Minnesota. “Blockchain has been around since 2009 as the technology

that made Bitcoin possible, and it's still evolving. Here we are nine years later and the business world is still saying, 'Hey! What about that blockchain thing?'"

Equipment finance executives and IT professionals have spent the last several years learning and talking about data analytics, artificial intelligence and blockchain. Yet, little has been done in the industry to use these technologies in ways that can make a real difference. But take heart: ELFA's 2018 Operations & Technology Conference convenes Sept. 17-19 in Philadelphia. The Conference is your chance to learn the latest on technologies you've heard so much about—and ask questions to help you begin applying them in your company. In the spirit of the Conference, here are six steps your company can take now to move closer to using these powerful tools.



1. Determine Your Best Benefit from Data Analytics

John Hurt, Director, Digital Business Advisory Practice for The Alta Group in Pasadena, Maryland, says equipment finance

companies are sitting on a goldmine of data that can do much to enhance equipment valuations for end-of-term remarketing. "A lot of this data is in contracts," says Hurt, who'll lead a panel discussion on data analytics at the Conference. "Traditionally operations, finance and asset management staff are required to look at the contracts and see details about how equipment is being used."

Better still, Hurt says machine-learning platforms such as Salesforce.com's "Einstein" or IBM's "Watson" can be employed to do the looking by reading electronic documents and gathering this information. "Just a few years ago, equipment finance companies began to image their documents and that was a big step forward," he says. "Now there are tools that can find and help process the unstructured data in those documents."

Tools also exist to test regressions in structured data and find relationships missed previously. Says Hurt, "There are a lot of exciting things going on in data analysis, and it's all predicated on the fact that you can now store all of your data in the Cloud for minimal expense. This means that, other than compliance, there's no longer a compelling reason to ever delete a piece of data—certainly not for cost reasons."

Perhaps not, but companies still must be able to dig through their data and coalesce it into something they can use. "New tools can help automate some of this, but it takes resources and an understanding of how to leverage your data," says Hurt. "You also have to know which aspect of your business is most impacted by this data and start there."

To begin, Hurt suggests sitting back and thinking about where your company gets wrapped around the axle. "If you do small-ticket flow, you may want to develop analytics around credit and risk because these are such high-touch and high-volume resource activities," he says. "If you're a bank, you might start with credit or sales. If you're a captive, you'd likely start with assets. Then ask what's possible. Next, start looking at technology partners."



2. Implement Smart Contracts

Smart contracts are electronic documents that use embedded coding to execute the contract automatically when predefined conditions, such as

payment, are met—or not met. "Smart contracts can be enabled by blockchain, but do they have to be?" asks Bridge rhetorically. "Blockchain has the most value between parties who don't know each other, and in our industry, many companies have established relationships," he says. "So there's not as much need to secure a transaction, but to document it and automatically execute."

Smart contracts record the terms of a transaction and connect with selected bank accounts. When certain triggers are activated, such as the movement of funds from one account to the other, the contract evaluates the data against pre-defined conditions and sends data to appropriate parties for compliance and reporting. The contract then self-executes and sends data to the appropriate parties.

"Relying on physical documents can cause delays, errors and increased exposure to fraud," says Mike Donnary, Senior Director at Capgemini America, Inc. "And financial intermediaries, although they provide interoperability and lower risk, increase overhead and add to compliance issues." Smart contracts, by comparison, reduce risk, save money and greatly enhance efficiency. "With smart contracts, an asset can be shipped immediately upon receipt of payment," says Bridge. "The

speed and efficiency with which the customer receives the equipment can benefit both parties." To move forward with smart contracts, Bridge and Donnary suggest contacting one or more experts in the space.



3. Look for Opportunities to Apply AI

The use of "chatbots" to replace customer call centers and help desks is growing, and it's not hard to see why. Chatbots

are computer programs that use artificial intelligence to simulate human conversation, and they're becoming increasingly sophisticated. Cotter tells this story: "I know of a technology company that uses one to follow up with customers. The company changes the name of the chatbot from time to time to reflect normal personnel turnover, and they've actually received flowers addressed to the chatbot because customers were so appreciative of the help it gave."

The lines between human help and AI are starting to blur because many people can't tell the difference between them. But Cotter says it's critical that AI be programmed to contact a person when it can't answer a question. "You can use machine-learning to train AI," he says. "More and more, chatbots will be used to service customers without call centers, and the conversation will then bleed into execution."

A different use of AI can be found in applications that revolve around automated invoicing, payments and cash-application solutions. "Some of these applications learn from the bills you send to your customers and feeds from your banks to match payments with invoices," says Cotter. "They start learning immediately and take correlative data to build higher probabilities. They can not only match payments but make smarter decisions on applying your cash."

Josh Bridge cites another industry application for AI. "When I began in leasing, I worked in a credit department spreading financials for \$20,000 deals," he recalls. "This involved hands-on sifting through credit reports and payment histories and manually writing up deals for approval. The evolution from touching each deal was the implementation of an automated score card. Those score-card projects were a big undertaking to start with, but they also took a lot of time and effort to refine and adjust going forward. Today, machine-learning is the next evolutionary step. We could

Learn more at the ELFA Operations & Technology Conference, Sept. 17-19 in Philadelphia. Don't miss the special session showcasing the 2018 Operations & Technology Excellence Award winner, CWB National Leasing. This year's winner is recognized for developing and implementing a custom-built core system that streamlines all aspects of the financing process from beginning to end. See conference details at www.elfaonline.org/events/2018/OT.



be evaluating those same trends and collecting that same data automatically while making corrections and refinements in a fraction of the time."



4. Increase Your Vigilance

Mike McKie, Vice President, IT Program Management for LEAF Commercial Capital, Inc., in Philadelphia, says that unfortunately, hackers, fraudsters

and cyber-criminals continue to be as innovative as new technology. McKie will speak at the Conference about cyber-security.

A recent hacking trend called "social engineering" uses social media to glean and imitate relationships between companies, vendors and employees. "Criminals try to see who you are associated with on LinkedIn, Facebook or even Twitter," he says. "Then they pose as individuals you'd normally trust to get you to do something that lets them into your system. With just one click, you can allow them to take over your computer and cause real damage to your applications, network and ultimately your business."

McKie says there's no single tool to install that will prevent suspicious electronic correspondence and help you sleep at night. "So it's imperative that we get people to stop, think and react in the right way to every email they are sent," he says. "Ask yourself if the person you know would want you to do whatever is being asked. Hover over links to see where they come from. Inspect email addresses to see if you recognize them. Inspect language for grammatical errors, and if you're unsure about any of these things, simply pick up the phone. Most people understand the environment we

live in and will appreciate any extra steps you take to protect them.”

The problem doesn't stop with colleagues and vendors. McKie says interactions with existing customers require the same amount of due diligence. “Every employee needs to know their customers to the degree that they can decipher when someone is posing as one of their customers,” he says. Good habits include knowing customers' preferred methods of communicating, the area codes and exchanges they usually call from, and the IP addresses and email addresses they use. Says McKie, “We hope that IT departments can set up rules to stop spam emails from coming in, but as an industry, we need to respond with increased vigilance.”



5. Think About Where to Use Blockchain

Although the technology is hard to understand, Reuben says the conversation about blockchain is shifting from technology enthusiasts to business people, including those in equipment finance. “We’re trying to wrap our heads around where it could add value in our businesses and where innovation is possible in our industry,” she says.

Blockchain is a shared electronic ledger, each copy of which contains the same validated information and cannot be undone. No specific product yet exists to usher blockchain into equipment finance, but Reuben says it’s time to start thinking now about what new business models are possible when real, synchronized data exists across the value chain. “We haven’t asked that before because everyone has maintained their own ledger,” she says. “But what if, for certain aspects of the business, they didn’t have to? Blockchain doesn’t solve everything and doesn’t replace the need for other types of databases, but it could augment them. Understanding this allows us to think about how business flows and imagine more efficient alternatives.”

Last year, the Ops & Tech Conference featured an introductory session on blockchain with an expert from IBM. “We’re bringing him back this year as part of a pre-conference workshop I’m leading on Sept. 17,” says Reuben. “In this workshop we intend to go beyond the blockchain 101 discussion of what it is and talk about the practical possibilities for equipment finance.”

She envisions the equipment finance industry acting as a unit to form an industry-level consortium working group that studies blockchain and identifies where and how new business interaction models on blockchain could benefit all participants. “There are already use-cases where I believe it could add value,” she says. “Moving forward as an industry would require coming together to have a new conversation, not only to understand where the challenges are, but to imagine the platform of the future and eventually get to proof of concept. I sense from various events I attend that we’re ready to take action and participate in something like this.”

The ELFA Board of Directors recently established an Innovation Technology Work Group to monitor, analyze and understand the impact of new technologies on the industry and member businesses. Stay tuned for more information about this important new initiative.



6. Look and Learn Outside Equipment Finance

If you’re limiting your learning about operations and technologies to the equipment finance industry, Cotter says you’re missing the mark. “Create a budget for research and development and bring someone in to help you experiment,” he suggests. “Look at vendors and attend gatherings outside the industry, then bring your questions to our Conference. We want to dig into operational issues so we can talk about how technology can be applied in our industry.”

Cotter thinks equipment finance companies should also examine the General Data Protection Regulation (GDPR) adopted by the European Union. “These regulations were adopted two years ago but are only now going into effect, and companies are scrambling,” he says. “It makes me wonder how well prepared we are with our systems and processes for changes under the new accounting standards.” To that end, the Ops & Tech Conference will hold a session on the Financial Accounting Standards Board’s Topic 842. “It’s so relevant for our industry to work collaboratively on this,” Cotter says. “We have to be sure customers truly understand the impact.” ☰

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