Market Guide for Commercial Loan Origination Solutions

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Initiatives: Financial Services Technology Modernization and Transformation

CLO solutions enable banks to assess, process, approve and manage lending requests from multiple channels and businesses. Bank CIOs should evaluate solutions based on analytical and workflow capabilities, connectivity features, channel functions, curated APIs, and customization potential.

Overview

Key Findings

- The competitive landscape of commercial loan origination solutions is being reshaped through partnerships and ecosystems, leading to greater collaboration between fintechs and incumbent vendors and thus an expansion of capabilities.
- As banks seek best-of-breed services from different vendors, commercial loan origination solution (CLOS) platforms become more crucial, given their ability to easily integrate a variety of services. Tech vendors are thus moving toward a flexible software design with composable architecture that's easy to update or modify, often leveraging small, independent modules known as microservices.
- Technologies such as AI, advanced data analytics and open APIs are enhancing CLOSs by enabling more tailoring, more-accurate decisioning, hyperpersonalized experiences for borrowers and reduced fraud.
- CLOSs are also enhancing hyperautomation of the lending process with machine learning algorithms, thus helping expedite credit risk assessments, automate document verification and streamline compliance checks.

Recommendations

- Ensure the platform aligns with business needs across different sectors, such as construction and supply chain finance, syndicated loans, and other specific commercial lending segments and products requiring different forms of collateral.
- Focus on features that enable customization and ease of integration with existing systems when looking to procure a new CLOS platform. These usually include distributed architecture, multicloud adaptability, API management, insulation layers, out-of-the-box integrations, workflow management solutions, document extraction, storage and management, and coding requirements.
- Require, as a part of the evaluation criteria, vendor benchmarks and case studies on increased loan processing speed, efficiency gains and the solution's carbon footprint, along with data on improved adherence to credit policies in the commercial lending sector.
- Verify that vendor platforms offer customizable user dashboards tailored for roles, such as loan officers and risk analysts in commercial lending, so that insights can be actioned.

Market Definition

This document was revised on 8 November 2023. The document you are viewing is the corrected version. For more information, see the Corrections page on gartner.com.

Gartner defines commercial loan origination solutions (CLOSs) as software applications that enable lending institutions to manage the end-to-end process of opening lending products, from application through underwriting and closing, for businesses of different sizes. These can be consumed as on-premises software, cloud-based SaaS, integrations and API, and white-labeled solutions.

CLOSs are software solutions specifically designed to facilitate the evaluation, approval, settlement and documentation of loans for businesses. These solutions serve as a centralized platform for lenders to assess business creditworthiness, collect and analyze financial information, automate document processing, and streamline the commercial lending process.

The primary purpose of CLOSs includes activities such as processing loan applications, managing risk, managing collateral and improving operational efficiency. These solutions offer solutions to problems such as lengthy approval processes, manual data entry, complex financial analysis and cumbersome documentation requirements.

CLOS Use-Case Examples:

- A regional bank wants to grow its commercial lending business, but its current process involves passing spreadsheets between various departments and manual underwriting. So, it implements a CLOS to automate the workflow, and create and manage an integrated record of the information used in the credit decision.

- A credit union has struggled with commercial loan processing because of the complex documentation requirements, so it utilizes a CLOS for its document recognition technology, like optical character recognition (OCR), and other features that automate financial spreading.

- A community lender needs to evaluate lending opportunities across multiple industries like manufacturing, agriculture and retail, and benefits from the preconfigured risk-rating models provided by the CLOS.

The standard capabilities of loan origination systems include:

- Application intake, processing and storage — Facilitates the process of submitting loan applications with personal and financial information utilizing a workflow management tool. It ingests data from customer information systems, such as CRM, to enable prepopulation of applications to reduce rekeying.

- Underwriting — Helps to evaluate the creditworthiness of applicants based on the application information and credit reports. It automates and records risk assessment and decision making using business rules and scores.

- Approval and closing — Generates compliant closing documentation, schedules signing and records executed documents. It integrates with title companies, appraisers and other third parties involved in the closing process.

The optional capabilities of loan origination systems include:

- Pricing — Determines appropriate interest rates, fees and other terms based on the applicant's risk profile, market rates, currency of record and so on, as well as the lender's pricing strategy and risk appetite.
- Document management — Maintains a central repository of electronic documents and images related to the lending process and makes them accessible to relevant parties.
- Reporting and analytics — Provides insights into application volume, approval rates, turnaround times and other key performance indicators to help optimize the lending process and for compliance purposes.
- Compliance — Ensures lending practices and documentation comply with all applicable laws and regulations of the markets that it supports.

Market Description

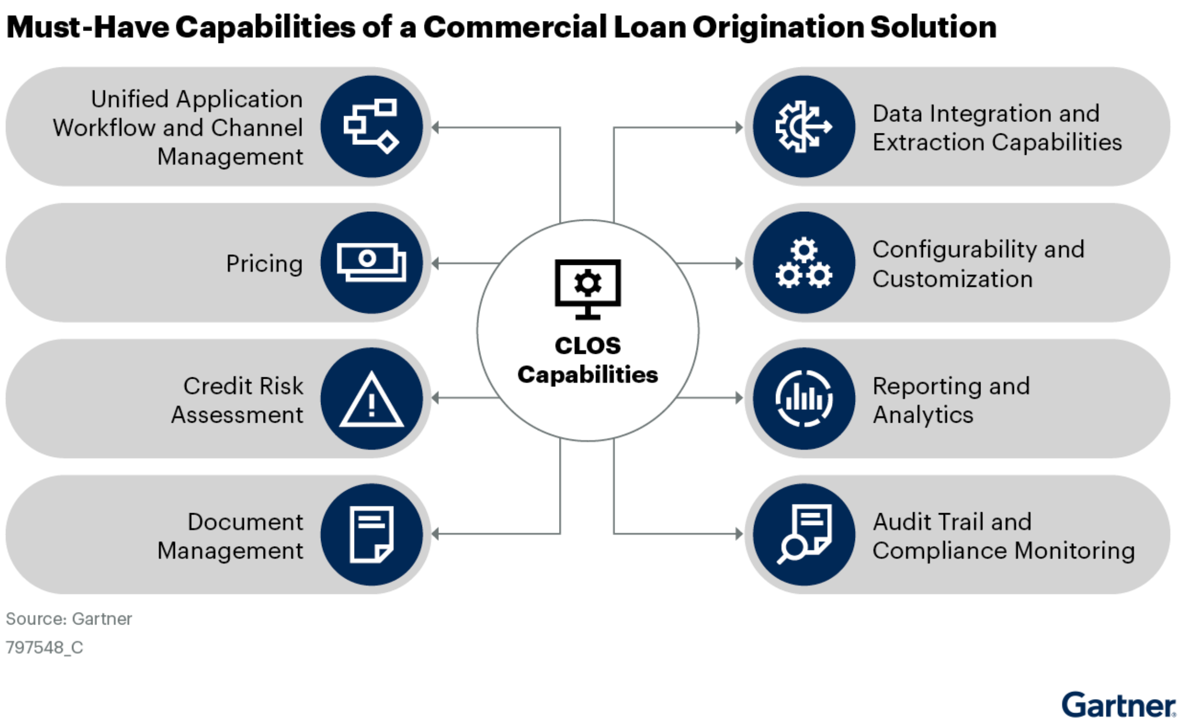
CLOSs enable banks to efficiently originate, process and disburse loans and other forms of lending, such as trade finance, supply chain finance and asset-backed financing, in a compliant way. These encompass processes such as sales and origination, credit decisioning and approval, fulfillment, and settlement and portfolio management. They also interact with other functions, such as lead generation, accounting and servicing.

CLO platforms help solve many key business challenges that lenders face, including:

- **Fixing** disjointed or paper-heavy credit application, analysis and decisioning processes
- **Adapting** to evolving client needs for tailored credit solutions and a streamlined loan approval experience
- **Responding** to innovation from competitors
- **Performing** complex risk calculations
- **Keeping up to date** with changing regulatory requirements

Figure 1 represents some key capabilities of CLO platforms.

Figure 1: Must-Have Capabilities of a CLOS



CLOSs streamline the entire lending process through the following capabilities.

Unified workflow and channel management:

- Streamlines the entire lending process
- Ensures a seamless and consistent user experience

Dynamic loan pricing:

- Employs advanced analytical tools
- Optimizes risk-adjusted returns based on factors like credit score and market conditions

Credit risk assessment:

- Uses various methods, including credit scoring models and financial statement analysis
- Integrates with underwriting teams for comprehensive risk assessment

Document management:

- Facilitates secure creation, storage and retrieval of loan-related paperwork

Data integration:

- Connects with internal systems like core banking platforms
- Integrates with external financial services ecosystems

Customization:

- Allows tailoring to specific business processes, pricing strategies and risk appetites
- Often supports low-code/no-code platforms for easy customization

Reporting and analytics:

- Provides insights into loan metrics and risk exposure
- Features audit trails for compliance monitoring and accountability

The commercial credit process is generally understood to include the stages listed in Table 1, from initial contact and application to approval, fulfillment and post settlement management. CLOS platforms generally address most or all of these stages and activities. However, they may go by different names, may include overlapping or related elements, and may be supported by a range of activities and capabilities, as will be discussed.

Table 1: Key Stages and Representative Activities of the Commercial Credit Process

(Enlarged table in Appendix)

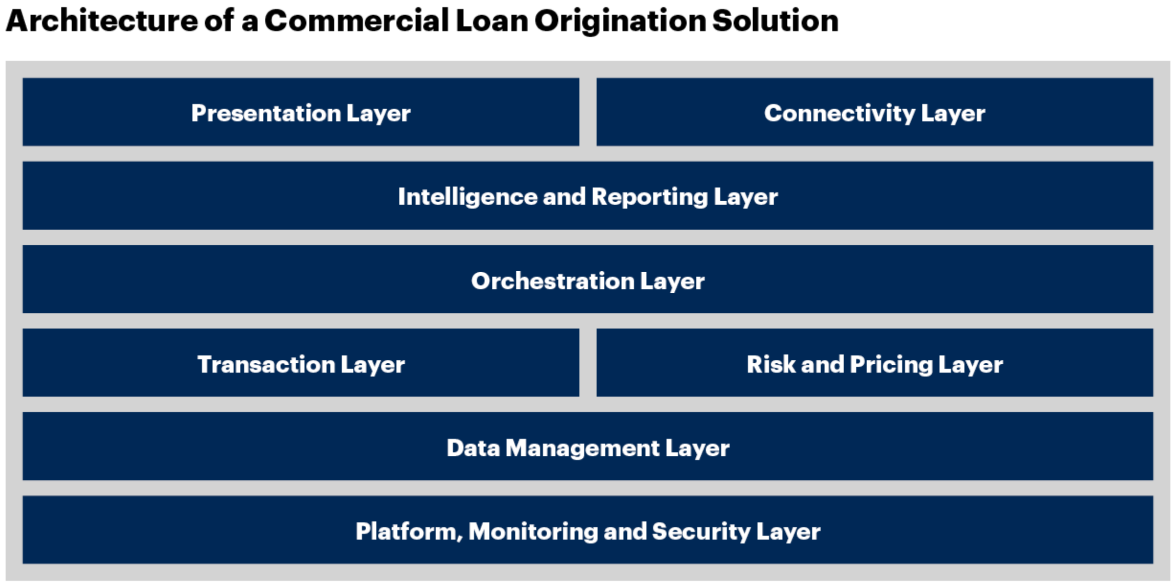
Prospecting and Customer Acquisition ↓	***Credit Analysis and Underwriting*** ↓	***Deal Structure, Decisioning and Approval*** ↓	***Fulfillment and Settlement*** ↓	***Booking, Servicing and Portfolio Management*** ↓
Prospecting, needs analysis, prequalification, application	Financial analysis, credit analysis, collateral identification and valuation, credit review	Risk-based pricing, covenant creation, collateral approval, legal documentation, notification	Document check against terms and conditions, loan closing, client acceptance, funding	Account maintenance, covenant and collateral monitoring, annual review

Source: Gartner (November 2023)

This Market Guide looks at the broad CLOS market, with solutions spanning all loan origination processes from sales and acquisition to monitoring and management postsettlement. Observations about specific features focus on those directly related to origination itself — prospecting and customer acquisition, credit analysis and underwriting, deal structure, decisioning and approval, and fulfillment and settlement.

Such features enable activities such as underwriting, eligibility determination, credit scoring, pricing, financial analysis, covenant management and collateral management, and are typically supported by the technology layers illustrated in Figure 2. Collectively, these layers form a robust and flexible architecture that enable scalability, innovation and compliance.

Figure 2: Architecture of a CLOS



Source: Gartner
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Market Direction

Overview

The CLOS market will continue to become more dynamic and exciting, with a healthy mix of long-standing incumbents and new entrants offering new features, innovations and business models. Solutions will address growing market demand for digital-first experiences, omnichannel onboarding, transparency, real-time interactions, personalization, advanced data analytics and process automation. New disruptive entrants will likely see advances in technology and regulations reduce the barriers to entry.

Next-Generation Platform-Based Solutions

Gartner posits that next-generation platform solutions could serve as a blueprint for the future of CLOSs. This is particularly true for emerging trade finance solutions, such as the multibank, multibuyer and multi-independent software vendor (ISV) trade and supply chain finance platform announced recently by IBM and its partners (see Note 1). These platforms function as digital ecosystems, consolidating the services of various fintechs and ISVs onto a unified, data-driven, API-enabled platform. This modular approach enables banks to seamlessly integrate diverse capabilities from top-tier providers, all within a cohesive architectural framework.

Emerging Technologies Being Incorporated in Product Development Roadmaps

Meanwhile, CLOS platform providers focus their product development roadmaps on applying new technologies to enhance functionality. They are doing so by, for example:

- Using risk datasets and real-time transactional data showing cash flow, as well as by generating data insights to inform credit decisioning, know your customer (KYC) and climate risk exposure evaluation. Providers will increasingly incorporate technologies such as advanced analytics, APIs and AI into their CLOS offerings, which will enable banks to leverage and tailor such data according to their specific product and segment needs. Thanks to this focus on data, CLOSs will also likely enable origination of nonlending products, such as deposits, since bank clients frequently apply for both liability and asset products.

- Deploying hyperautomation, which is typically fueled by technologies such as intelligent document processing, computer vision, graph technologies or process orchestrators. Hyperautomation will enable CLOS providers to further streamline components of the loan origination process still plagued by the need for manual intervention or paper-based documentation.

- Cloud-based solutions are also on the rise, with many CLOSs now cloud-compatible or cloud-native. This trend has been particularly pronounced over the past five years as on-premises deployments have faded. Multi-cloud-adaptable solutions will also become the norm. Such CLOS platforms offer the advantages shared by other types of cloud-based solutions, including enhanced efficiency, flexibility, collaboration and adaptability to market changes, without substantial investment in physical infrastructure.

Regulatory and Compliance

Regulations will continue to become more and more stringent around data privacy; interconnectivity; reporting; and environmental, social and governance (ESG) considerations. This reflects a broader shift in the financial sector toward sustainability and responsible lending. Vendors will continue building out robust and adaptable governance and compliance tools integrated within their CLOS platforms. Such tools can accommodate these emerging requirements (using APIs to integrate external climate risk data, for instance), and some are even touting the carbon neutrality of their solutions.

Market Consolidation

The competitive landscape has been experiencing consolidation for some time, evidenced by, for instance, nCino's acquisition of FinSuite, the launch of Lenvi, and Rapid Finance's acquisition of Thrive. Gartner expects collaborations between fintechs and incumbent vendors will continue as a way to increase CLOSs' functionality in certain areas. Those areas include real-time risk analytics, customer experience personalization, API-driven interoperability, advanced automation through robotic process automation (RPA) and AI-powered predictive modeling for credit decisioning. Merger and acquisition (M&A) activity will continue as vendors seek growth opportunities. The ability to quickly integrate new technologies and partners will drive differentiation.

Market Analysis

CLOSs must be able to accommodate the origination of myriad credit solutions for commercial banking clients. These can be long-term and short-term loans, lines of credit, working capital, franchise financing, commercial vehicle loans, letters of credit, supply chain finance, inventory finance, leasing, and specialized financing like equipment financing and agricultural loans. For firms with significant assets, there are offerings like loans against securities and lease rental discounting (for example, the healthcare and real estate sectors have their tailored solutions in the form of healthcare and realty financing). Meanwhile, large-scale projects, corporates and consortia often tap into project finance and syndicated loans. There are also collateral-backed deal structures and overdraft facilities. While loan origination is a common element for all of these, the specific requirements will vary, and CLOS platforms must be adaptable to the product and segment.

One of the more salient trends is the growing emphasis on product-agnostic, platform-based composable suites of solutions that offer banks the flexibility to access the specific loan origination capabilities they need. Such solutions give lenders the option of purchasing stand-alone components or the entire suite.

Though banks frequently select best-of-breed components from different vendors, such suites may be best purchased as integrated solutions for the entire loan origination process, since the components are designed to work together. These platform-based solutions are increasingly offered as completely open APIs, which enable embedded insights such as data analytics to inform underwriting. This is exemplified by CLOSs from nCino, FintechOS, Infosys (EdgeVerve) and others. In fact, a key differentiator of CLOSs is, increasingly, data as a service for the enhanced insights and analytics.

Representative Vendors

The vendors listed in this Market Guide do not imply an exhaustive list. This section is intended to provide more understanding of the market and its offerings.

Table 2: Representative Vendors in Commercial Loan Origination Solutions

(Enlarged table in Appendix)

Vendor	Product Name	Regions With Company Offices	Year Founded
Abrigo	Sageworks Lending Software	NA	2000
Automated Financial Systems (AFS)	AFSVision	NA, EMEA	1970
axefinance	Axe Credit Portal (ACP)	EMEA, APAC	2004
Backbase	Backbase Digital Lending	EMEA, NA, LATAM, APAC	2003
Baker Hill	Baker Hill NextGen	NA	1983
Biz2X	Biz2X	APAC, NA	2007
Comarch	Comarch Loan Origination	EMEA, APAC, LATAM	1993
CRIF	Loan Origination System	EMEA, APAC, LATAM, NA	1988
FintechOS	FintechOS	EMEA, NA	2017
FIS	FIS Commercial Loan Origination, FIS Lending Suite, FIS Credit Assessment	EMEA, NA, APAC, LATAM	1968
Infosys Finacle	Finacle Origination Solution Suite, Finacle Digital Lending Solution Suite	APAC, EMEA, NA, LATAM	1996
Integro Technologies	SmartLender	APAC	2000
Intellect Design Arena	iKredit360	EMEA, APAC, LATAM	2011
Jack Henry	LoanVantage	NA	1976
knowis	isfinancial banking platform	EMEA	2004
Linedata	Linedata Capitalstream	EMEA, APAC, NA	1998
Moody's Analytics	Lending Suite	EMEA, APAC, NA	2007
nCino	Cloud Banking Platform	APAC, EMEA, NA	2012
Newgen	NewgenONE Platform	EMEA, NA, APAC	1992
Nucleus Software	FinnOne Neo Corporate Lending	NA, APAC, EMEA	1986
Numerated	Digital Lending, Business Loan Origination System	NA	2017
Oracle	Oracle Banking Corporate Lending	EMEA, APAC, NA, LATAM	1977
Pennant Technologies	pennApps Lending Factory	APAC, Europe	2005
Provenir	Provenir Loan Origination, Provenir SME Lending, Provenir Decisioning	NA, LATAM, EMEA, APAC	1992
Q2	Q2 Catalyst	NA, EMEA, APAC	2004
SAP Fioneer	SME Banking, Commercial Lending, Credit Workplace	EMEA, NA, LATAM, APAC	1972
Tata Consultancy Services (TCS)	TCS BaNCS	NA, LATAM, EMEA, APAC	1968
Tietoevry	Tietoevry Corporate Lending	NA, LATAM, EMEA, APAC	1968
TurnKey Lender	TurnKey Lender	APAC, EMEA, NA	2014
VeriPark	VeriLoan	EMEA, NA, APAC	1998

APAC = Asia/Pacific; EMEA = Europe, the Middle East and Africa; LATAM = Latin America; NA = North America

Source: Gartner

Vendor Selection

Gartner sizes the market as at least 50 vendors globally. Vendors were required to have a CLOS that can be separately deployed from the core banking solution, cover SME and commercial banking segments, and have at least 10 active clients for loan origination.

Market Recommendations

These are the key factors to consider when selecting a vendor.

Customer Experience An intuitive and user-friendly platform is essential for both internal staff and external clients. Configurability and extensibility ensure that the system can adapt to specific markets and future needs.

Representative questions for the vendor:

- How can the platform be tailored to specific markets and future business needs?
- What is your implementation approach, and how does it support continuous improvement?
- What recent changes, if any, have you made to the presentation layer, and what further changes and improvements are you planning on?

Integration Complexity

Integrating various components can be technically challenging. Composability and componentization are vital for customization and seamless integration, ensuring that the platform can communicate effectively. Amending workflows is often needed, and that is ideally accomplished through no-code solutions.

Representative questions for the vendor:

- Can you describe APIs' management and integration features?
- How does the solution support composability and customization with existing systems?
- What are your out-of-the-box integrations, and how many will need to be coded?

Scalability and Flexibility The platform must adapt to growth and changing market conditions. Scalability and cloud readiness are essential for handling fluctuating demands and ensuring uninterrupted service.

Representative questions for the vendor:

- How does the solution ensure performance and resilience in the face of fluctuating demands? If, for example, there is a surge of credit applications, can the solution cope?
- Is the platform cloud-ready for flexibility and easy accessibility?

Compliance and Security Adherence to regulatory guidelines and robust security measures are vital to protect sensitive data and maintain customer trust. This ensures compliance with laws and builds confidence in the solution.

Representative questions for the vendor:

- Can you detail the security measures that protect sensitive customer information (particularly, the financial data and other data provided as part of the decisioning process) or collateral data?
- How does the platform comply with specific regional regulatory requirements for fair credit decisioning? Does it provide for reporting requirements?
- Are you accounting for potential security challenges posed by rapidly evolving technologies like generative AI (GenAI)? What are the use cases for GenAI? Do the use cases include compliance, summarization, credit memoranda automation, financial spreading, data scraping and covenant searches? Which large language models (LLMs), if any, are used? How is explainability for AI-derived decisioning assured? How are humans deployed in support of AI for spreading, onboarding, task management or other activities?

PartnershipsPartnerships with various solution providers enhance adaptability across markets and regulations. Considering these alliances ensures reliability, scalability and robust transaction processing.

Representative questions for the vendor:

- Can you explain your partnership strategy with computing and cloud providers, implementation partners, vertical integrations, and fintechs? List the main partners.
- How do these partnerships contribute to the reliability, scalability and robustness of transaction processing?
- Do you have a marketplace of preconfigured third parties?

Risk Management and Business Continuity Vendor risk management (VRM) is not just about managing a vendor — it's about creating a strategic partnership that aligns with the financial institution's goals, complies with regulations and provides ongoing value. It's a complex process that requires careful consideration and management and, when done appropriately, will lead to a more successful implementation and a stronger, more beneficial relationship with the vendor.

Representative questions for the vendor:

- Can you provide information on your business continuity management plan?
- Can you explain how you manage potential risks connected with your suppliers and other third parties?

Other Implementation Considerations

Balancing the cost of implementing advanced features with the return on investment requires a clear strategy. While this may seem obvious, the value of a careful, well-thought-out approach cannot be overemphasized and will ensure that the investment is justified. CIOs must assess, along with their business partners, how features that are essential today (and that the vendor in question may excel in) will actually evolve. They must evaluate the state and direction of the underlying technologies, market innovations, the bank's product planning roadmaps, and changes in commercial client demands and expectations.

Representative questions for the vendor:

- Can you provide a breakdown of the implementation costs and any recurring costs?
- How can we ensure that the advanced features justify the investment? Provide use cases and results from banks similar in size.
- What additional features, add-ons or other changes are currently in the planning stages?

Acronym Key and Glossary Terms

AI	artificial intelligence
API	application programming interface
BaaS	banking as a service — a model that enables fintechs and other third parties to use established bank systems to offer their services
CLOSs	commercial loan origination solutions — platforms that facilitate the origination, processing and disbursement of loans
composable architecture	a design approach where a system is built using individual, exchangeable components
configurability	the ability to customize a system to align with specific business processes
credit risk assessment	the evaluation of a borrower's ability to repay a loan, based on various financial metrics
document management	systems that manage the creation, storage, and retrieval of loan-related documentation
eKYC	electronic know your customer — digital processes used by businesses to verify the identities of their clients
ESG	environmental, social and governance
fintech	financial technology — new technology that seeks to improve and automate the delivery and use of financial services
hyperautomation	the use of advanced technologies to automate complex processes
LOS	loan origination solution
OCR	optical character recognition
omnichannel application management	a strategy that ensures a seamless user experience across multiple channels
workflow automation	tools and processes that reduce manual effort in the loan origination process

Note 1: Gartner's Initial Market Coverage

This Market Guide provides Gartner's initial coverage of the market and focuses on the market's definition, rationale and dynamics.

Recommended by the Authors

Some documents may not be available as part of your current Gartner subscription.

Urgent Opportunities to Accelerate Automation in Commercial Lending

How a Composable Approach Can Fix Commercial Lending

Case Study: Automated, Technology-Driven SMB Credit Lending (WeBank)

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