

Still fit for purpose

Special purpose vehicles (SPVs) gained notoriety in the aftermath of Enron's collapse but, as **Universum Group** managing director Dr Karl-Heinz Pitz tells Chris Watts, one should not move too quickly to dismiss their potential.



A sset-backed securities (ABS) have been through the mill in the past decade, despite the fact that they have been serving the banking industry for nearly 30 years. In the hands of a fraudulent originator, ABS can spell disaster. But in the grip of an experienced treasurer, canny usage can diversify risk and act as a lifebuoy for small and illiquid assets.

Universum is an expert on back-up servicing projects. With more than ten contracts totalling €6 billion under its belt, the company understands securitisation and has developed its SAP system to handle several major currencies. And according to the findings of a Universum survey published in 2009, the only primary ABS servicer was its subsidiary company, Concent Forderungsmanagement. Chris Watts learns more.

Chris Watts: What are the basic problems of ABS concepts today?

Dr Karl-Heinz Pitz: Investors have lost trust in ABS concepts and are reluctant to invest in them because of unforeseeable risks incurred in the past. Those underlying portfolios had a mixture of transactions with many hidden risks and a lack of continuous reporting to the investor – for instance, US mortgage portfolios. Furthermore, the servicing was traditionally performed by the organisation of the originator, introducing the risk of mismanagement and nearly no possibility of adequate and early intervention.

With a pension trust as our main shareholder and two banks in our group [the Valovis Group], we found out that financial institutions were interested and ready to invest in portfolios that were thoroughly structured, evaluated and monitored, and based on a reliable rating as well as dependable internal or external servicing. It has even been postulated that their interests are safeguarded by a back-up servicer ready to take over in case of certain trigger events.

Can outsourcing certain functions of an SPV improve performance?

The decision to outsource mainly depends on the evaluation of the ability and trustworthiness of the originator. Even in cases where the originator provides adequate servicing, an external back-up servicer will guarantee a higher security level and minimise risks.

What are the implications for human resources and the business environment when outsourcing certain functions in an SPV?

Concent Forderungsmanagement concentrates on the servicing and back-up servicing fields. Up to now, servicing

activities were mainly requested by companies, not by SPVs. These services were integrated into the companies and didn't have substantial cultural or human resources implications.

How can banks and their outsourcing provider ensure that protections are in place if business conditions change?

Our experience shows that most of the losses are incurred in the first five days after a trigger event. Therefore, you need to prepare and sustain a project organisation to react if such an event should occur. A project team should work out detailed workflow concepts, create a standby organisation to safeguard the SPV assets and develop adequate capacities to deal with the debtors within 24 to 48 hours. In most cases the back-up servicer is asked to take over extra duties such as the repossession of assets, sales of assets and workout concepts.

What happens during the activation period?

The first three to five days are essential. All necessary data will be migrated into Universum's system, and notification letters will be sent to debtors. Call centre employees are required to contact individual debtors by phone to explain the situation and, if necessary, the notification letter. Universum will perform all necessary debt management procedures up to debt management collection – even the repossession and the sale of assets can be arranged. Know-how and powerful systems enable Universum to process mass data and control processes in a flexible and differentiated way.

What is the situation in the servicing and back-up servicing market?

We believe that there will be an emerging market for back-up servicing in the near future, as there is a strong interest in thoroughly checked, evaluated and monitored portfolios of different asset classes among investors. Originators, investors and SPV managers have a growing interest in safeguarding their portfolios and investments by installing back-up servicing facilities. We believe that we offer the right services at the right time in the right markets. ■

Further information
Universum Group
www.universum-group.de

