ECL, IRAC, NPA Financial Reporting

01 About Customer

Incorporated in 2007, a leading Non-Banking Financial Company (NBFC) that caters to the growing needs of an Aspirational India, serving both Individual & Business Clients. They provide an extensive array of secured and unsecured loans to their customers, offering a comprehensive solution for all financial needs, including loans, investments, and protection.

1300 Branches	**24** States	**3** Union Territories

02 Process Overview

Expected Credit Loss (ECL) is a method of accounting for credit risk based on the loss likely to occur on a loan or portfolio of loans

ECL is to be measured as a probability weighted estimate of credit loss (the present value of all cash shortfalls) over the expected life of the financial instrument. The bank will be permitted to design and implement its own models for measuring ECL for the purpose of estimating loss provisions.

The components that are crucial to calculate ECL include - Exposure at Default (EAD), Probability of Default (PD), Loss Given Default (LGD), and discount rate.

As per the RBI guidelines in Ind-AS 109, there is a need to move to strong expected credit loss (ECL) provision method. Ind-AS 109 provides guidance for accounting based on expected credit loss model. The objective of this standard is to establish reporting principles that provide users of financial statements with relevant and useful information to assess the amount, timing and uncertainty of an entity's future cash flows.
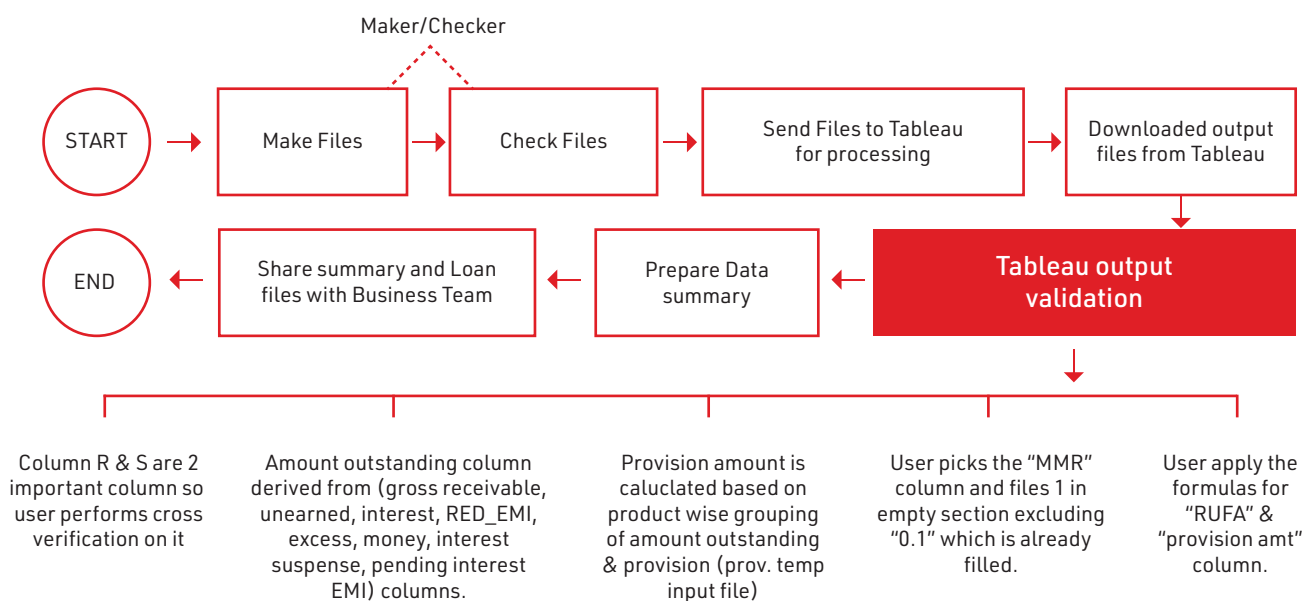
The finance department must ensure that all data fields required by the detailed disclosure requirement imposed by regulators are collected and that no manual steps outside ECL policies and procedures occur during the preparation of financial statements.

03 Current As is State

- Client is preparing monthly ECL (Expected Credit Loss) & IRAC (Income
- Recognition and Asset Classification) report for Regulatory purpose and NPA reporting for Internal reporting purpose manually using Tableau and Excel

- Every Month Client's Financial Reporting team use 27 Different Files, which include LMS data, Provision percentages as per RBI guidelines, Inputs from Risk Team, Branch Details, Asset Types, GL Adjustments etc between business day 2 to 4. Some files are received via email, some are saved in FTP Folder.

- After received these file, all files are linked to Tableau and report is generated manually.

- Report is then formatted as per ECL & IRAC norms & NPA requirement and shared with regulators & internal Board on monthly basis with Month-on-Month Comparison and QoQ Comparison

Current Process

Column R & S are 2 important column so user performs cross verification on it	Amount outstanding column derived from (gross receivable, unearned, interest, RED_EMI, excess, money, interest suspense, pending interest EMI) columns.	Provision amount is calculated based on product wise grouping of amount outstanding & provision (prov. temp input file)	User picks the "MMR" column and files 1 in empty section excluding "0.1" which is already filled.	User apply the formulas for "RUFA" & "provision amt" column.

04 Problem Statement

As per regulator guideline, the finance department must ensure that all data fields required by the detailed disclosure requirement imposed by regulators are collected and that no manual steps outside ECL policies and procedures occur during the preparation of financial statements.

- Client is not able to keep track of files used for generating report, which version has been used, what was the final approved version, who has approved the version etc.

- As per Regulators, there are chances of manual error or sabotage in input files used for creating report which will show some wrong numbers in output, as the file is huge it will be difficult to track and audit such issues.

- There is no roles and responsibilities mapped in entire process, as there I no checker and maker in Tableau. Most of the approval are maintained in emails and some are verbal.

- No able to track any input file and version for historical reports.

- Business team face difficulty to showcase audits, approvals, calculations used during Compliance Audit

05 Solution Features

System has been build using Open-Source System, to address all Regulators concerns and audit of all activities performed in system with ease of use.

- Role based where Maker can Upload the File & Checker can approve the File, with proper tracking of when files were upload and when it was approved along with the name of the actors performed the actions

- Option to Approve or Reject File for Checker with proper version control and reasons.

- Validation on all files uploaded in system and their headers to ensure, the checker will not upload wrong file.

- Any changes done file and uploads and master files are tracked at line level with maker checker activity tracking

- Option to Upload larger file from SFTP Folder

- Option to modify or update rules in future

- Option to run reports when all files are present in system and option to trigger process automatically once all files are available to generate the final report.

- Dashboard to show reports to different users based on their roles (Access levels)

  Option to download all uploaded file as well as detail file with line level data.

- Audit tab to show who ho has uploaded the file, which versions of input files has been used, who approved and when
- Admin Control panel with admin users to add/edit/update/inactive users
- Active Directory login authentication with session management

05 Solution Summary

New report requested created (monthly) → Retrieve operational areas ----- FTP, API, Master

Escalation

Operational area to upload files → Operational area to verify files → X → Approved

Maker   Checker

IGAAAP Financials Component process files, once all files in approved stage → Share Summary report → Report Sahred