NPA Reporting Revolutionized:
Achieving Efficiency & Compliance

Executive
Summary

In the dynamic landscape of financial services, Non-Performing Assets (NPAs) are an important indicator of financial health of the organization. Effective NPA reporting is crucial for identifying, monitoring, and managing NPAs. There are different methods of reporting information related to NPAs mandated by the Reserve Bank of India (RBI) for banks and NBFCs; this whitepaper discusses Expected Credit Loss (ECL) and Asset Classification (IRAC).

This whitepaper proposes a streamlined approach to NPA reporting that leverages data analytics and automation to improve efficiency, accuracy, and compliance. It also illustrates the power of AGT's solution through a case study.

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Introduction

Complying with regulatory and compliance requirements can be a daunting task, especially when it comes to complex processes like IRAC, ECL, and NPA. Even small errors can lead to unexpected scrutiny and, in some cases, penalties.

In this whitepaper, we will explore the importance of reliable reporting practices for these crucial processes and how AGT can help you establish a robust and efficient reporting framework. We will begin by defining each process and outlining its key elements. Then, we will discuss the potential consequences of errors and the challenges of maintaining accurate records. Finally, we will introduce AGT's comprehensive solutions for streamlining reporting, ensuring compliance, and mitigating risk.

Background

Let us first understand the meaning of ECL and IRAC as well as their importance from a compliance point of view.

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. The bank or NBFC will be permitted to design and implement its own models for measuring ECL for the purpose of estimating loss provisions.

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.

Income Recognition and Asset Classification (IRAC) are rules that prescribe when a loan should be declared as a non-performing asset (NPA). IRAC calculation is a multifaceted process that considers the payment status, risk assessment, regulatory guidelines, provisioning requirements, accounting standards, and internal policies of the bank or NBFC.

The Reserve Bank of India (RBI), as the country's central banking authority, establishes regulatory guidelines with respect to income recognition and asset classification that banks or NBFCs must follow. This helps in identifying and managing potential risks, ensuring that banks/ NBFCs are adequately prepared for any adverse developments in their assets. This also ensures that banks/ NBFCs set aside adequate funds to absorb the impact of non-performing assets, contributing to the overall financial stability of the banking sector.

Challenges

The importance of error-free and timely NPA reporting cannot be overstated from a regulatory standpoint. Traditional reporting practices often face challenges in ensuring error-free operation, maintaining data security and system integrity, managing changes or updates, and granting access to the right users at the relevant process stages.

In the case of ECL, the calculation and reporting process involves multiple stakeholders interacting with multiple systems with varying levels of access. Additionally, ECL encompasses multiple components, such as Exposure at Default (EAD), Probability of Default (PD), Loss Given Default (LGD), and discount rate, all of which require data consolidation from multiple sources to generate a final report.

For IRAC, banks and NBFCs often deal with diverse loan portfolios with varying risk profiles, spanning different sectors, industries, and loan types. Consolidating and tracking these assets can pose significant challenges. Furthermore, complex loan structures, involvement of multiple stakeholders, and data integration across various systems can add to the complexity. Moreover, banking regulations, including IRAC guidelines, may evolve over time. Keeping up with evolving regulatory requirements and adapting reporting processes accordingly can be challenging for financial institutions.

Solution Overview

AGT has developed a solution that can deal with each of the aforementioned challenges to deliver efficiency, accuracy and strong compliance.

Error-Free Reporting:

Our system automates data collection, analysis, and report generation, minimizing the risk of errors compared to manual processes. Automation and tracking ensure consistent and accurate reporting.

Robust Version Control:

Version control meticulously tracks and manages changes made to data, documents, and reports in any format. This empowers organizations to maintain a comprehensive history of revisions, enabling seamless team collaboration, rollbacks to previous states if needed, and accurate project evolution tracking.

Granular Role-Based User Management:

This approach ensures that various stakeholders have access only to the resources necessary for their tasks, eliminating the risk of unauthorized access to sensitive information.

Comprehensive Audit Trails and Logs:

Our solution captures essential information such as user actions, system events, and data modifications in real-time, promoting transparency, accountability, and compliance with internal and regulatory standards.

Customized Report Views:

Recognizing that not all stakeholders require the same level of detail or data presentation format, AGT provides customizable reports tailored to the specific requirements of individual users or user groups.

Adaptability to Regulatory and Organizational Changes:

Understanding the dynamic nature of organizational processes, AGT's solution offers the flexibility to modify or update rules in the future to align with evolving needs, ensuring seamless adaptation to regulatory changes or internal process modifications.
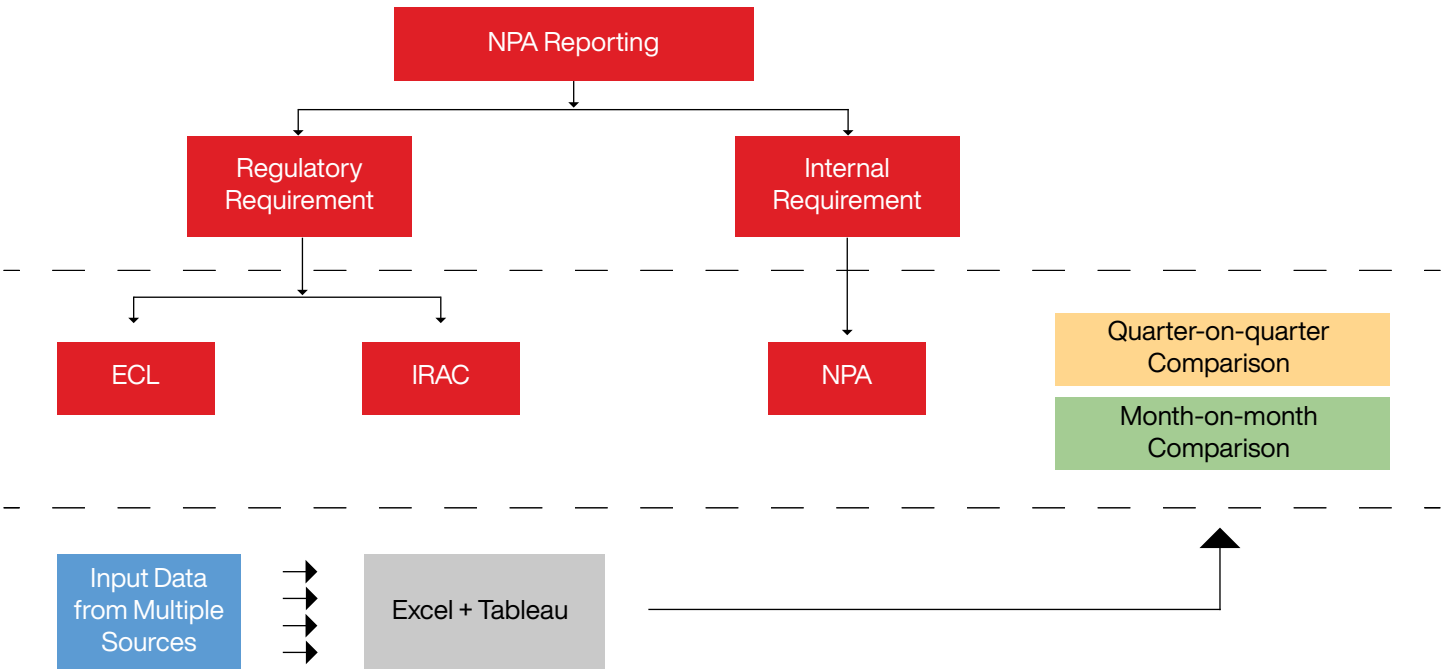
Case Study

This case study outlines the purpose of NPA-related financial reporting, real life challenges that AGT's clients have encountered and illustrates capabilities of the solution deployed to overcome these challenges and streamline reporting to deliver the most desirable outcomes.

Purpose

Banks and NBFCs are required by regulators to make detailed disclosures regarding their Non-Performing Assets (NPAs), besides having to maintain such reports for internal reporting and review.

While the internal reporting requirement is subjective to each organization's structure and norms, the regulator has specified Expected Credit Loss (ECL) and Income Recognition and Asset Classification (IRAC) as requirements with specific data that all financial institutions must comply with. Given the complicated nature of this reporting, financial institutions face certain challenges.

Problem Statement

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                        │  NPA Reporting  │
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              ┌───────────────────┐   ┌───────────────────┐
              │   Regulatory      │   │     Internal      │
              │   Requirement     │   │   Requirement     │
              └───────────────────┘   └───────────────────┘
                   │         │                  │
            ┌──────────┐  ┌──────────┐   ┌──────────┐    ┌──────────────────────┐
            │   ECL    │  │   IRAC   │   │   NPA    │    │  Quarter-on-quarter   │
            └──────────┘  └──────────┘   └──────────┘    │     Comparison        │
                                                          ├──────────────────────┤
                                                          │   Month-on-month      │
                                                          │     Comparison        │
                                                          └──────────────────────┘

     ┌────────────────┐          ┌────────────────┐
     │  Input Data    │  ──►     │                │
     │  from Multiple │  ──►     │ Excel + Tableau│ ──────────────────►
     │    Sources     │  ──►     │                │
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Client received data from multiple sources like email, loan management system (LMS), and so on. As many as nearly 30 files are used as input data for manual calculations in Excel and Tableau to create reports as required.

Challenges

Multiple Data Sources	Input File Management	Communication between Stakeholders
▪ Keeping track of all required files ▪ Roles and responsibilities not mapped	▪ Ensuring the correct version is utilized for input data ▪ Possible errors or sabotage of input files ▪ Inability to verify correctness of calculations	▪ Necessary approvals may come from different channels ▪ Absence of single system to track of communication between stakeholders

Solution Features

User Management	Role-based user management to assign rights/ limitations as required
Hierarchy Mapping	Create hierarchical relationships to facilitate requests and approvals
Centralized Communication	All communication including approvals through centralized portal
Integration	Provision to integrate with Active Directory (AD), SFTP, etc.
Validation & Version Control	Validation of uploaded files and version tracking to ensure accuracy
Activity Tracking	Activity logs, audit trails to track activities like uploads, doc edits, etc.

Automated Triggers	Option to automatically trigger for process when all files are available
Custom-view Dashboards	Dashboard to show reports based on role assigned to user
Granular Data Analysis	Move from analysis at product/ portfolio to customer/ agreement level
Admin Control Panel	Provision to add new users, edit, update or remove inactive users
Scalability	Futuristic design to provision for fast growing transaction volumes

The solution has been build using Open-Source System, to address all challenges outlined in this document, regulators' concerns and audit of all activities performed in the system with ease of use.

Conclusion

AGT's solution not only aims to overcome challenges of traditional reporting but also deliver benefits to the organization to enable growth and build competitive advantage in the industry. Below is a summary of the expected benefits.

Enhanced Accuracy and Compliance for Financial Institutions:

AGT's solution by streamlining operations significantly enhances accuracy, a critical factor in the financial industry, particularly in the context of compliance. Our solution helps eliminate the risk of potential penalties arising from reporting errors, safeguarding an organization's financial standing and upholding financial integrity.

Transparency and Trust through Real-Time Insights:

The robust, centralized platform for managing and tracking financial data, ensures that stakeholders have real-time visibility into transactions, analytics, and compliance measures. This real-time visibility empowers stakeholders to make informed decisions, fostering a culture of openness and accountability. Transparency is not merely a compliance requirement; it is a cornerstone of trust. By embracing transparency, financial institutions can build stronger relationships with their stakeholders and establish a reputation for integrity and ethical conduct.

Empowering Data-Driven Decision-Making with Granular Data Control

AGT's solution provides banks and NBFCs with comprehensive data control, enabling them to efficiently collect, manage, and analyze data to streamline the reporting process in real-time. This granular control empowers financial institutions to transform data into actionable insights, enabling them to make informed decisions that drive strategic growth and enhance regulatory compliance.

Ensuring Robust Compliance in a Dynamic Regulatory Landscape

Navigating the ever-evolving regulatory landscape can be a daunting task for financial institutions. AGT's solution is designed to streamline compliance by enforcing adherence to industry standards, internal policies, and external regulations. This comprehensive approach ensures that your institution remains compliant with the latest requirements, mitigating potential risks and fostering a culture of regulatory adherence. Our solution's adaptability allows you to seamlessly adapt to changes in regulations, ensuring that your compliance practices remain aligned with current standards and best practices.

About
AG Technologies

AG Technologies headquartered in Mumbai is a human-centered digital transformation company that focuses on creating value for our stakeholders through the integration of people, processes, and technology.

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