Risk Solutions

NPA Management Solution

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Comprehensive solution to classify, monitor, and define strategies for prudent NPA management

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Challenge

Rising trend of Non-Performing Assets (NPAs) and loan-related frauds have been a subject of discussion and scrutiny for a while now. Though, gross NPAs of Indian banking sector had declined from a peak of 11.2% as of March 2018 to 7.4% in March 2021, the current situation tells a different story*.

While financial institutions assess borrower's repayment capabilities prior to a lending decision, post-facto changes in adverse economic conditions can impact the financial position and repayment behavior of borrowers. Planning for future capital requirements based on predicted NPA and provisions under stressed scenarios, will keep financial institutions not only prepared for adversities, but also to build near term strategies to maintain financial health.

With frequent changes to regulatory guidelines for NPA management, financial institutions had initiated the process of monitoring and tracking their credit portfolios, the approach, however, was mostly siloed, manual and ad-hoc. In the current situation and going forward, a more system driven, proactive approach will help financial institutions stay ahead of the curve and navigate the complexities of economic, business and regulatory environment.

Solution

Over the last seven years, G2 Risk Solutions (G2RS) has been helping financial institutions to overcome the challenges of identification, classification, monitoring and reporting of NPAs and related calculations. We do understand our customers concerns and have accordingly upgraded our solution in line with the latest IRACP guidelines. G2RS NPA Management is a comprehensive workflow-driven modular solution to help financial institutions classify assets as per the RBI's regulations, monitor financial health of the borrowers on a continuous basis, and plan and strategize on the impact of probable adverse situation.

The solution includes modules for Asset Classification, Provisioning and Accounting; leveraging a comprehensive central data mart to get the most value out of your credit data.

* RBI Financial Stability Report, June 2021.

Highlights

- **Proven regulatory technology**
  Experience of implementing NPA solutions in BFS space; leader in RBI ADF regulatory reporting.

- **In built asset classification engine**
  System driven classification based on RBI regulatory requirements.

- **Flexible asset re-classification**
  Flexibility to override system defined asset classification.

- **Provisioning and accounting**
  Pre-built rules for provision calculation and accounting entry.

- **Integrated workflow engine**
  Track, monitor, approve and audit every action performed on the system.

- **Analytical workbench**
  Slice and dice data to create portfolio representations.

- **Pre-built NPA reports**
  Pre-built NPA Reports like NPA Summary, NPA Movement Report, etc.

- **Cloud enabled**
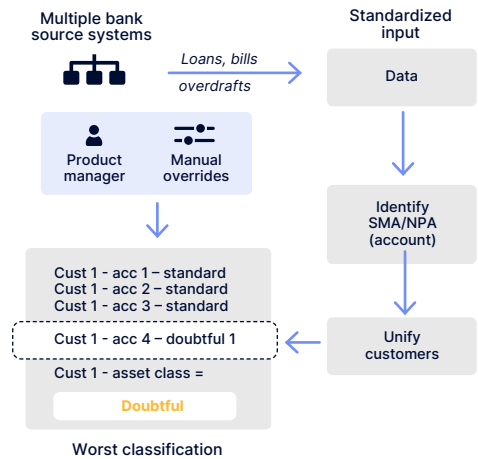 Cloud deployment for cost optimization.

Asset classification

Identify true asset classification through pre-built classification engine and ensure timely compliance.

Key features

- Parametric classification of accounts as per RBI's IRAC classification
- Worst classification of accounts based on unified customer identifier
- Ability to upgrade/downgrade customers per internal bank/lender policies
- Standardized input data structure

Multiple bank source systems — Loans, bills overdrafts → Standardized input — Data

Product manager · Manual overrides

Identify SMA/NPA (account)

Cust 1 - acc 1 – standard
Cust 1 - acc 2 – standard
Cust 1 - acc 3 – standard
Cust 1 - acc 4 – doubtful 1
Cust 1 - asset class =
Doubtful

Unify customers

Worst classification

Provisioning and accounting

Compute provisions in accordance with RBI's norms through a configurable interface and create accounting entries for upstream usages.

Key features

- Calculate provisions based on RBI's norms
- Compute incremental provision requirements after overrides and worst classification
- Perform manual adjustments to change provisioning
- Creation of GL reversal entries to feed back into Core Systems

Source computed provision X

Sytem computed provision Y

Incremental computed provision $Z = X - Y$

GL Reversal Entries

GL	Description	Currency	Cr. Dr.	Amount
1000201	Memo Interest	INR	Cr.	xxxx
127881	Memo Interest	INR	Cr.	xxxx
2198981	Fee Income	INR	Dr.	xxxx
388811	Penal Acc Rec	INR	Cr.	xxxx

About G2 Risk Solutions (G2RS)

G2 Risk Solutions is the definitive expert in risk and compliance business intelligence for financial institutions and online platforms. We are industry pioneers providing market-leading solutions for merchant risk, digital commerce risk, bankruptcy risk, and credit risk and regulatory reporting. We are driving innovation and shaping the future of risk management through unprecedented data, technology, and global compliance and risk expertise, providing the financial services and digital commerce ecosystems with the tools needed to navigate complex and ever-changing regulatory requirements and mitigate risk.