Automated and seamless loan management for a leading Canadian Bank in India

A leading Canadian bank with a significant commercial presence in India automated loan management to comply with the Reserve Bank of India's Income Recognition and Asset Classification (IRAC) norms for classifying assets and providing for bad loans.

TCS provided a comprehensive solution to automate the monitoring of assets, account for bad loans, and report on Non-Performing Loans (NPLs) in full compliance with IRAC.

Seeking compliance with regulatory norms for asset classification

Over more than two decades, a large Canadian bank built up a commercial presence in India with a loan portfolio of corporate, trade and staff loans and working capital facilities.

Due to limitations with its core banking system, the bank was unable to comply with IRAC norms, which require banks to follow objective criteria when classifying assets into categories (e.g. Standard Assets, Sub-standard Assets, Doubtful Assets). The bank's systems were poorly equipped to handle this operation, let alone automate the process.

Loans were booked manually into a system that was unable to keep track of the required IRAC classifications. Asset classifications and Non-Performing Assets (NPA) were tracked in separate spreadsheets disconnected with the core banking system, which made it difficult to identify accounts under watch, and this approach was not in compliance with IRAC norms.

In addition, the bank overly relied upon tactical fixes and manual controls for letter of credit issuance. For example, after the approval of a loan, lending offers would manually check and mark the loan limits before issuing Letters of Credit and associated SWIFT messages. These tactical workarounds and manual processes exposed the bank to operational risks.

To address these limitations, the bank considered external point solutions for classifying loans, with the results to be fed into its existing core banking system.

Automated loan classifications and trade limits

The TCS BaNCS team, upon being asked to evaluate the situation, found that an external add-on approach would only address some of the IRAC norms, such as calculating Days Past Due (DPD) and classifying overdue loans, without addressing other aspects of IRAC, such as income recognition and reporting. The add-on approach would also forgo the opportunity to make significant functional improvements in limits and exposure management.

Loan Management by TCS BaNCS, which is one of the features of TCS Corporate Loan Origination, was implemented within a strict deadline of five months to help the bank reach full compliance with regulatory requirements.

All loans were migrated to TCS BaNCS, which automatically applies rule based NPA classifications to place each loan into various buckets based on solvency and delinquency. The solution also automatically calculates days-past-due (DPD), marks overdue loan accounts, including overdue principal and interest, and changes asset classifications. Consolidated GL, risk reports, and regulatory reports make it easy to identify overdue or restructured accounts, while providing traceability of all user and system actions.

Trade transactions are now booked without manually checking and updating the limits. The application checks for available limits in real time and blocks them for the transaction value upon execution, resulting in increased operational efficiency and mitigation of risks. Using APIs, TCS BaNCS enabled seamless integration between trade finance and limit processing modules.

Rapid results

Following a five-month deployment of TCS BaNCS, the bank:

- Streamlined the lifecycle for a variety of commercial loans.
- Created an automated mechanism for iden fying, classifying, monitoring, accoun ng, and repor ng Non-Performing Loans.
- Established a common limit structure for processing limits and exposure for loans and trade finance products.
- Achieved full and ongoing compliance with IRAC norms and other RBI regulatory requirements.

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TCS BaNCS The Research Journal

https://joom.ag/QmNd

Function	Before TCS BaNCS LMS Implementation	After TCS BaNCS LMS Implementation
Loans Management	1. Various types of business loans and staff loans were booked in the Bank Master. 2. The bank was unable to change the asset classification rules in the system to match the prescribed classifications by Reserve bank of India. 3. The existing application was not able to automatically assess the overdue loans and assign the applicable NPA stage. 4. NPA classification was being maintained in excel, outside the CBS. 5. It was not easy to identify the Accounts which were restructured and hence under watch. 6. Any upgrade of the account classification was also maintained outside the system. 7. Non-compliant to regulatory norms.	1. All loans were migrated to, and new loans were opened in TCS BaNCS. 2. TCS BaNCS' rule based NPA classification helped the bank define the various delinquency buckets and the corresponding classifications. 3. Automatic classification of the overdue loans in the buckets and auto update of asset classification. 4. Automatic upgrade of account classification in case of recovery. 5. Restructured accounts were easily identifiable, and the account watch status was marked automatically. 6. Complete traceability of all user and system actions related to the account classifications. 7. Complete compliance to regulatory asks.
Limits Management	1. Limits were created in the Bank Master. For letter of credit issuance, the trade operations team did a manual check for the available limit in Bank Master, and then created the transaction in the trade application. 2. The limit update for trade transactions was being done manually. 3. The mandatory check to validate the limit update and accounting of LC before issuance of SWIFT message was being performed through a tactical workaround.	1. Existing limits were migrated to TCS BaNCS. All new facilities were created in TCS BaNCS. Limit marking was seamlessly done for loans created under a facility structure. 2. Trade application was integrated to TCS BaNCS for limit management, and limit availability checks and limit utilization updates were marked online, real time, through APIs. 3. The limit update and accounting for issuance of LCs was immediate and by the system and the input was passed to the trade application for the SWIFT issuance.

Benefits Realised

1. Configurable and automated NPA management process
2. No manual intervention or monitoring required
3. Regulatory compliance
4. Risk free consolidated exposure management
5. Enabled the bank for new loan business

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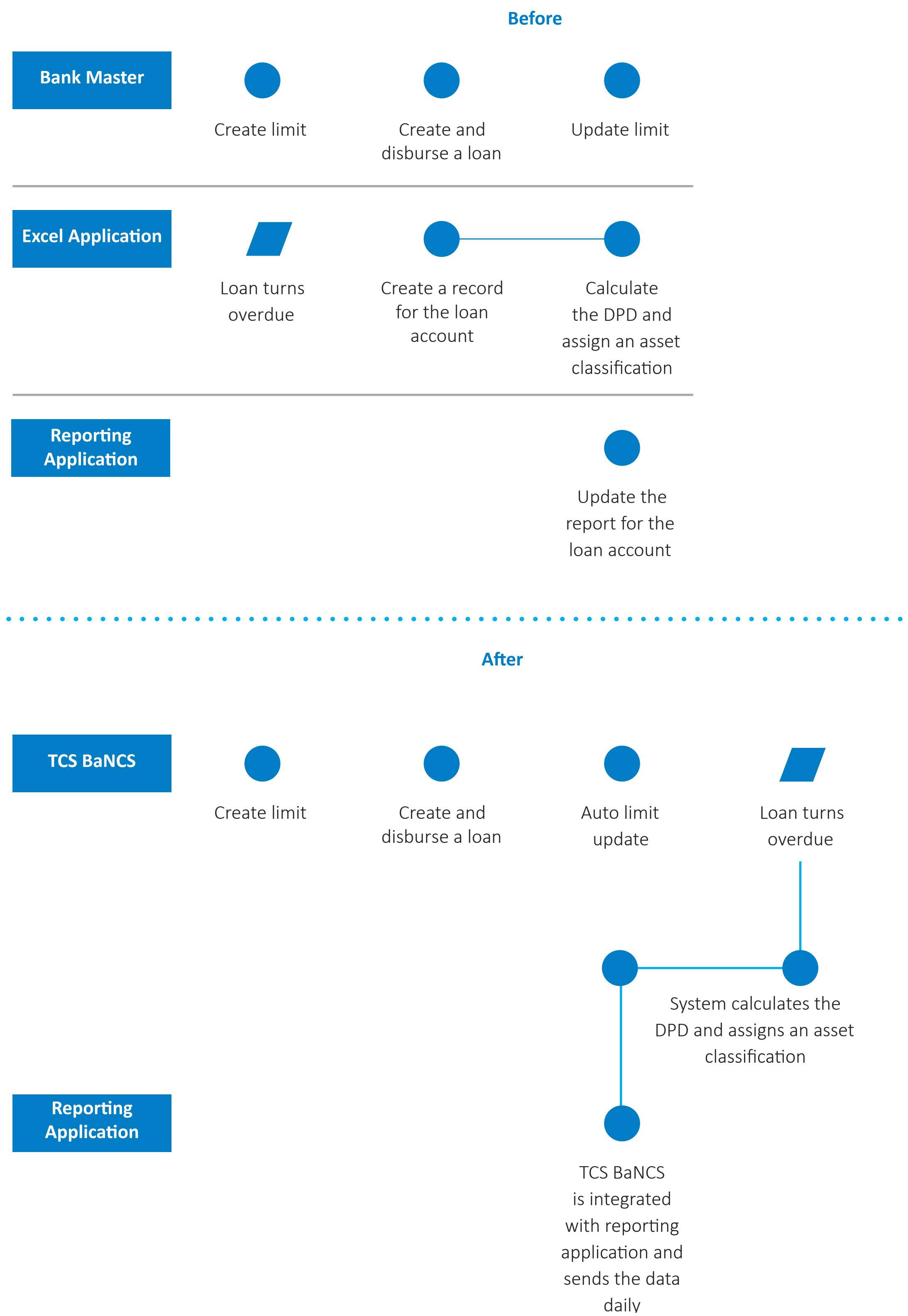
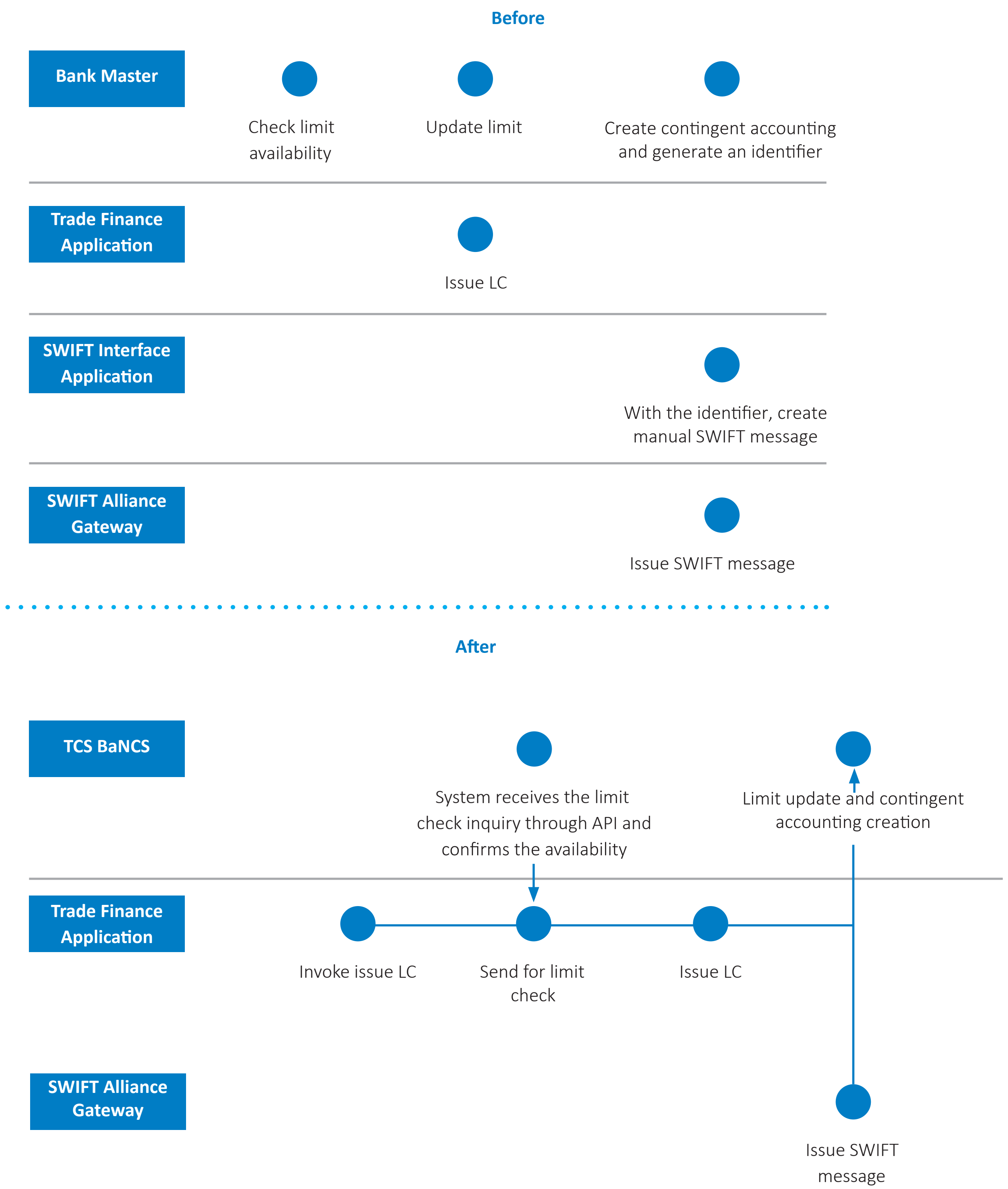
Loans NPA Management



LC Issuance



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