

Towards Greater Objectivity, Standardization and Speed in Credit Appraisal for Wholesale Banking Proposals



Mr. Late might well be Late Mr. !

In today's market conditions, when wholesale credit offtake has slowed down, every business opportunity has to be grabbed, and that too quickly! The speed with which a Bank is able to appraise and disburse the money becomes the clincher in many a deal. No wonder then, that almost every bank worth its name is grappling with the question, "How do we make our responses swift?"

Statutory Warning: Speed Thrills, But Kills!

On the other hand, concern over NPAs has never been higher! Post the scams and Co-operative Banks bungling, the RBI and the whole Banking sector is trying hard to bring in a climate of greater transparency, objectivity and standardisation in Credit Appraisal.

CEO's dilemma

"How do I make the Bank's response to Business Opportunities swifter, at the same time be assured that credit appraisal has been wholesome and objective?"

Decentralization, delegation & flatter structures have been an obvious answer to the need for becoming swifter. However, that still does not address the 'objectivity and standardization' aspect. The need being expressed by a whole lot of senior managers is "We recruit the best brains and have training programs. But on a day-to-day level, how do I ensure that credit appraisal is objective and wholesome and that the risk assessment would not vary from officer to officer?"

ECS helps a large private sector bank to re-design the Credit Appraisal Process

A leading new generation private sector bank retained ECS to improve its Credit Appraisal process to reduce the Turn Around Time and Iterations and to make the appraisal more standard, objective, and forward looking rather than historical.

Benefits achieved

- 50% reduction in Turn Around Time
- Implementation of a Knowledge Management System to retain organization's learning to ensure swifter appraisal
- Standardised Appraisal process with lower inter-personal variation
- Capability to handle greater volumes without proportionate increase in staff

The Teams responsible for Business Development complained that the Credit Appraisal Teams:

- Took a long time to clear proposals
- Asked questions that would not be relevant to Risk Assessment, and not all queries would be asked at one go, leading to multiple iterations
- While the 'Credit Group' was supposed to take a future-based bullish outlook (since Risk dept was anyway taking a conservative, past-based view), in practice, this was not happening
- The Credit Risk Rating of a proposal would depend on which officer would be evaluating it

The Credit Appraisal Teams faced problems like:

- The Business Teams would give 'half-baked' proposals leading to a large 'Work-In-Progress' inventory of proposals that are waiting for the queries to be responded to by the Business Teams
- The KRAs of the team were not clearly defined and prompted them to take a conservative stand

ECS's assessment revealed opportunities to improve significantly by:

- Bringing in Scoring Process to ensure all relevant parameters are examined
- Institutionalizing Measurement Mechanisms

ECS redefined the role of the Business Teams and the Credit Evaluation Teams

Action: Deconstructing the Appraisal Note and Defining the entity best suited for each of the sections of the Proposal Note

Consequence: Re-designed roles that ensured that the Business Teams brought in Client-specific Information and that, basic checks to be done by IT system and the Credit Appraisal Teams brought in the industry perspective

Action: Redesigning of the Appraisal Note to customize it appropriately

Consequence: Substantial decrease in the quantum of 'Half-baked' information generated, since now only the relevant information would be asked of the Business Teams; decrease in iterations since all that is relevant would be present

Action: Putting a Scoring Model in place

Consequence: An assurance to the Top Management that each proposal had been evaluated on every relevant parameter rather than leaving it to the officer; better sourcing by Business Teams

Action: Laying down the specs and process for Knowledge Management System

Consequence: Building the bridge between the knowledge of the individual and the knowledge of the bank and moving towards a 'learning system'

Action: Developing a Manpower Assessment Model & defining the KRAs

Consequence: Appropriate Staffing and KRAs that ensure that the team neither takes too conservative an approach nor is it unduly bullish

Insights out of the experience

- Scientific models can be put in place that minimize inter-personal variation
- Empowerment and delegation with such models in place can help the Bank to be swift in responding to business opportunities
- The design of the Appraisal Note can ensure greater adherence and quicker Turn Around Time and lesser Iterations
- The information expectation from each entity should be based on the unique position that each entity enjoys

Contact for details

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ECS is a premier business management-consulting firm in India. Its consulting practice covers **Services, Strategy, Operations, Human Resources & Change Management, Supply Chain Management & Full Value Spend.**

Experience in Banking & Financial Services

ECS's pioneering work in the **Banking & Financial sectors** has resulted in significant improvements in **Turn Around Time and Customer Service** while substantially reducing **costs** in the areas of:

Retail banking

Account initiation, centralization of operations, secured and unsecured retail lending, depositories and branch transactions

Wholesale banking

Trade finance, asset management, corporate banking, cash management services, working capital loan, term-loan & corporate Internet banking

We partner all our clients from concept to implementation. Typical results of implementation have been a significant reduction in Turn Around Time and cost along with increased productivity and reliability of business processes.

Some of our leading partners include **American Express, Citibank, ICICI Bank, Dubai Islamic Bank, Deutsche Bank ICICI Housing Finance, GE Capital, Standard Chartered, ING Vysya, IDBI, Bajaj Allianz, Max New York Life and ICICI Prudential Life.**

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