

Having the cake and eating it too – A process to set early warning signals to ensure that the wholesale banking assets perform



Nip the NPA in the B (u) D

Every bank is rushing to get its share of the pie from all possible business opportunities. At the time of acquisition, the asset quality appears satisfactory. However, the worry in the minds of most bankers is that of consistency of the asset quality over a period of time. It is becoming increasingly clear that a risk-weighted bottom-line number that factors in the quality of the asset throughout its lifetime is the need of the hour. Traditional Credit Monitoring, a legacy of the pre-liberalisation era, has unfortunately not been redefined to the changing times.

CEO's dilemma

- How do I ensure that the business won by my wholesale banking team amidst severe competitive pressure does not slip in to potential NPAs?
- How do I ensure that we have a credible Early Warning Signal Detection and Escalation Mechanism?

Relying on conventional means of monitoring asset quality like analysis of Stock Statements and QIS etc may actually be reduced to mere formality, especially when the responsibility is entrusted to the same team getting business. It obviously runs the risk of the team devoting more time, energy and spirit to the relatively glamorous activity of Business Development. The answer is clearly to have a robust process which establishes credible, 'Early Warning Signal Detection and Escalation Mechanism' that does not depend mainly on the respective officer's outlook, orientation and capability

ECS helps a large private sector bank to redesign the Credit Monitoring Process

A leading new generation private sector bank retained ECS to put a robust 'Credit Monitoring Process' in place to ensure that Business Development teams spend maximum time in sourcing new business and at the same time, take the right steps to ensure quality of existing assets.

Benefits

- Definite process to govern Credit Monitoring ensuring a Standardised Bank-wide Approach to detect and escalate Early Warning Signals
- Implementation of a Knowledge Management System to retain the organisation's learning of each customer
- Leveraging technology to free up Relationship Manager's time, and make him capable to handle more responsibilities

The Bank had decided to implement the 'Relationship Manager' as a one-point interface for the Corporate Customers. Hence, the RM had to juggle between many roles. Also, given the growth plans and ambitions, it was desirable that each RM be able to handle a very large number of customers. With this as the background, the 'asset quality' responsibility too was allocated to the RM. The key questions that ECS addressed were:

- How can bank have a process for monitoring when traditionally it has been thought of purely as a skill?
- What really constitutes an Early Warning Signal? Is it the same across customers and situations? In that case, how do we detect it effectively?
- Given the same information, how to ensure that variation in understanding and action taken by various RMs is minimized?
- What is the escalation process if the Relationship Manager does not detect or act on it?
- How do we leverage technology to free up precious time of the RM and escalate only that, which requires his attention?

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

Action: Setting up a 'Credit Monitoring Support Team' that would take care of the logistics and co-ordination activities with a direct line of reporting to Sr. Management

Consequence: Freeing up bulk of the RM's time from routine monitoring and consolidating the 'Action Taken Reports' to appraise management

Action: Listing down all possible sources of Early Warning Signals, and defining a process to ensure that all these are captured

Consequence: Standardization and uniformity across the bank in approach towards credit monitoring

Action: Designing an IT system to alert 'Early Warning Signal' in the context of each customer to the respective Relationship Manager

Consequence: Customisation within standardized environment making it possible to have meaningful alerts for each customer

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: Laying down mechanisms to handle the need for Temporary Overdrafts for temporary mismatches on the basis of pre-defined algorithms

Consequence: Even if the RM is not contactable, cheque-passing/rejecting decisions being taken as per the pre-stated 'comfort' with the client and the peculiarity of the situation

Insights out of the experience

- A process can be put in place for even something like monitoring, which is otherwise considered purely as a skill
- With appropriate mechanisms, Business Teams can manage multiple roles and carry out the role of ensuring Asset Quality
- Intelligent design of Reporting Formats and leveraging the power of IT can ensure customisation within a standardized environment

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