

RightClassify your Non-Performing Assets Forensic Data Analytics

A financial asset is considered non performing when it ceases to generate income for a financial institution.

NPAs, beyond a certain level, are a cause for concern because they can eventually affect the smooth flow of credit. Therefore, **the first step to manage the problem involves the right classification of NPAs**. RBI, too, has recognized this issue and through multiple circulars (dated from July 2013 to March 2014), has emphasized on the importance of this classification. Banks/ NBFCs are expected to establish an appropriate internal system for timely and proper classification of NPAs, especially in respect to high value accounts.

The need for a corrective action plan

RBI has issued guidelines that incentivize early identification of problem cases and timely restructuring of accounts (considered to be viable) and taking prompt steps for recovery or sale of unviable accounts.

This coupled with other direct benefits of an efficient asset management process makes it critical for banks/ NBFCs to implement an effective corrective action plan.

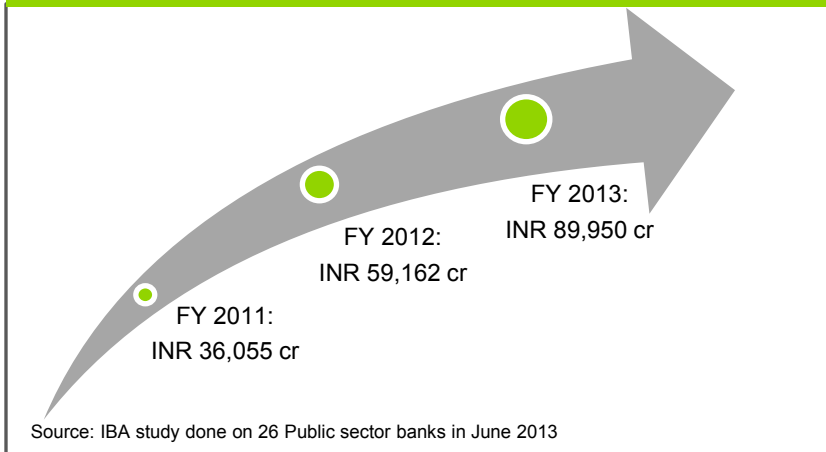
“Restructuring is a legitimate attempt to deal with changes that have happened, but ever-greening is trying to ignore the problem and taper over for a later period, thus creating large problems in the future. Clearly, an important distinction we need to draw.”

- Dr. Raghuram Rajan, Governor of the RBI¹

Non-performing assets (NPAs) or bad loans of PSU banks rose by 28.5 per cent from INR 1.83 lakh crore in March 2013 to INR 2.36 lakh crore in September 2013.

Source: RBI Governor quoted in Business Today March 2014 issue

NPAs have increased two folds since FY 2011 to FY 2013



Some key questions

- Are we classifying the assets appropriately?
- Is our system equipped for asset classification?
- Do we have any hidden NPAs?
- Do we have a check on assets that might be NPAs in the future?
- Are we appropriately provisioned/ under provisioned or over provisioned?
- Are all our clients KYC compliant?
- Do we have 'single version of truth' for each client?

¹ Source: The Economic Times, 15 Nov 2013

What do we deliver?

RightClassify is a data analytics driven forensic audit service that helps you with the following:

- Analyze loan portfolios – Test the correctness of asset classifications and provisions. This, in turn, helps banks to regularize classifications prior to regulatory audits. The service provides:
 - Exception reports for NPA tagging
 - Exception reports for inappropriate asset classification
 - Exception reports for inappropriate provisioning
 - Scheme-wise, region-wise, city-wise, product-wise slice and dice exception reports
- A scoring model that will help the bank to know the current status of their assets
- Analyze transactions and demographics data to identify patterns that can indicate the likelihood of assets that may become non-performing

Our credentials

Deloitte has extensive experience of working with various financial institutions, as well as, with the regulator on multiple engagements related to stressed assets.

PSU Bank: Investigative audit ordered by RBI

Deloitte investigated a PSU bank based on orders by an RBI initiated audit to check the loan portfolio of the bank. Deloitte unearthed gaps in the system and helped in uncovering hidden NPAs. Exception reports for inappropriate classifications and provisioning were also provided.

Private Sector Bank: Health Check

Deloitte helped a private sector bank in analyzing their loan portfolio. This was done by the bank to review the state of their own assets and to check if there are any hidden NPAs. The bank also wanted to know the gaps in IRAC norms and their core banking solution system.

Deloitte's Forensic Data Analytics team brings together an unparalleled set of skills that help our clients to acquire data driven insights and answers to complex strategic and tactical questions.



Contact us

Rohit Mahajan

Senior Director
Forensic services

T: +91 22 6185 5180

E: rmahajan@deloitte.com

KV Karthik

Senior Director
Forensic services

T: +91 22 6185 5212

E: kvkarthik@deloitte.com

Suprabhat N. M.

Director
Forensic services

T: +91 80 6627 6168

E: suprabhatnm@deloitte.com

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