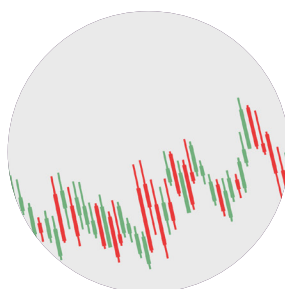
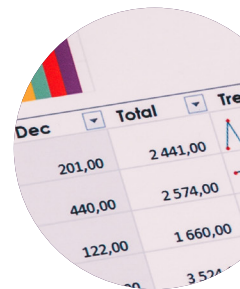
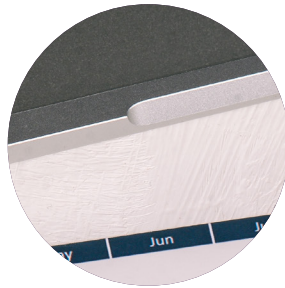


● Whitepaper

Elevating Credit Quality with Tech-Driven Advancements:

Solving Challenges and Reshaping the Credit Approval Process



Executive Summary

In the dynamic banking landscape, the credit approval process is crucial in evaluating lending viability and maintaining credit quality. Credit quality issues have far-reaching implications on a bank, including heightened regulatory scrutiny, strained operational resources, reputational damage, and potential financial penalties.

This whitepaper highlights the prevailing deterioration of credit quality with North American banks, spanning both large and mid-sized institutions. The recent trends have highlighted lapses in the credit approval process, amplifying the impact on financial institutions and borrowers.

The regulatory authorities have identified these gaps through routine audits, compelling banks to implement remediation strategies and strengthen internal controls.

The core objective of this whitepaper is to delve into the intricacies of the credit approval process, unearth the factors behind such lapses, and provide actionable insights to fortify the credit approval process and elevate credit quality benchmarks.



Understanding the issue

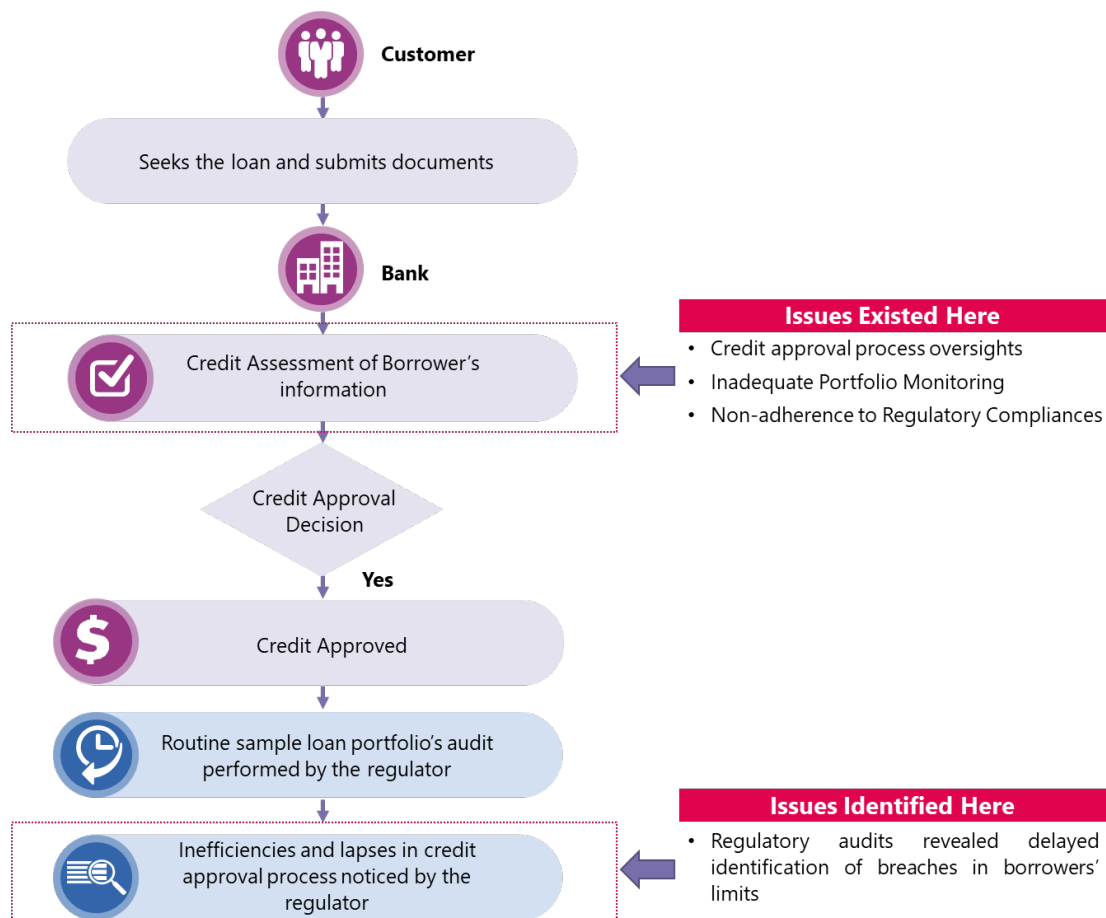
The challenges observed within the credit approval process are not isolated incidents limited to a single bank. They instead reflect broader concerns across the banking industry. An example from the banking sector highlights a common issue.

In a recent case, a prominent Canadian bank encountered a regulatory issue during a routine audit conducted by the country’s banking regulator, the Superintendent of Financial Institutions (OSFI). The audit revealed multiple inefficiencies and lapses in the credit approval and portfolio monitoring process, particularly in assessing mortgage values for calculating Loan-to-Value (LTV) ratios. These oversights led to breaches of regulatory limits concerning borrowers’

indebtedness. Many clients held both credit lines and mortgages secured against their homes, surpassing allowed credit thresholds. Furthermore, the bank instructed certain clients to close prior accounts as a prerequisite for new mortgage approvals, but the bank did not ensure the required closures.

Notably, the issue was administrative rather than fraud, sparking concerns over back-office supervision and bank IT system deficiencies. Further, this challenge emerged at a sensitive time when OSFI was already concerned about Canada’s competitive housing market amid higher interest rates and the potential for a downturn, augmenting its impact.

For a visual representation, we’ve summarized the issue in a flowchart below:



Impact

Canadian banks are highly regulated and face grave repercussions when regulators mandate corrective actions. They undertake remedial measures, including enlisting consultants to review and fortify processes to avert the recurrence of similar issues.

Despite opting for these measures, the bank in question has developed a strained relationship with the regulator due to the extended resolution process and imposed considerable pressure on

the senior leadership of the banks, which is eager to demonstrate to the market that the bank's mortgage business is performing well.

Moreover, such episodes strain banks' resources at a time when the industry is navigating budget constraints. Identifying such issues and formulating effective remedies requires significant financial investment. Additionally, it takes considerable time to identify the real impact of the issue.

Underlying Challenges:

Inefficient Credit Approval Process: A cumbersome credit approval process causes delays and errors in evaluating clients' creditworthiness, impairing the establishment of appropriate credit limits

Inadequate Portfolio Monitoring: Lack of robust portfolio monitoring causes failure to conduct interim and annual reviews on a timely basis per the bank's guidelines. This delay hampers borrowers' assessment and potentially triggers credit quality concerns:

Outdated Collateral Valuation: The absence of updated collateral values in the systems leads to extensions of loans based on outdated information. This leads to erroneous Loan-to-Value (LTV) calculations, pushing borrowers beyond allowable credit limits.

Deficient Risk Management: Inadequate assessment and management of lending-associated risks heighten defaults and non-performing loan risks. Inadequate risk management practices undermine overall credit quality.

Non-adherence to Regulatory Compliances: The failure to adhere to regulatory reporting timelines results in non-compliance and increased regulatory oversight, exacerbating challenges for the bank

Suboptimal Utilization of Underwriting Resources: During periods of reduced underwriting activities, the bank's reluctance to deploy skilled, higher-cost underwriting resources for low-cost portfolio monitoring work leads to inefficiencies and resource underutilization

IT Systems Shortcomings: Flaws in a bank's IT systems pose significant challenges to credit approval and portfolio monitoring processes, potentially leading to inaccurate data, disjointed inter-departmental integration, limited scalability, regulatory non-compliance, Operational Inefficiencies, and more.

In Conclusion

In summary, the banks' credit approval process faces challenges related to inefficient processes, inadequate portfolio monitoring, and internal communication breakdowns. The underwriting oversights have shown the importance of strengthening internal controls and the credit approval process while making

lending decisions. Such oversights not only strain banks financial resources but also harm their reputation, emphasizing the criticality of robust risk management, technological enhancements, and regulatory adherence. These measures ensure the efficacy of underwriting practices and maintain stakeholders' confidence.

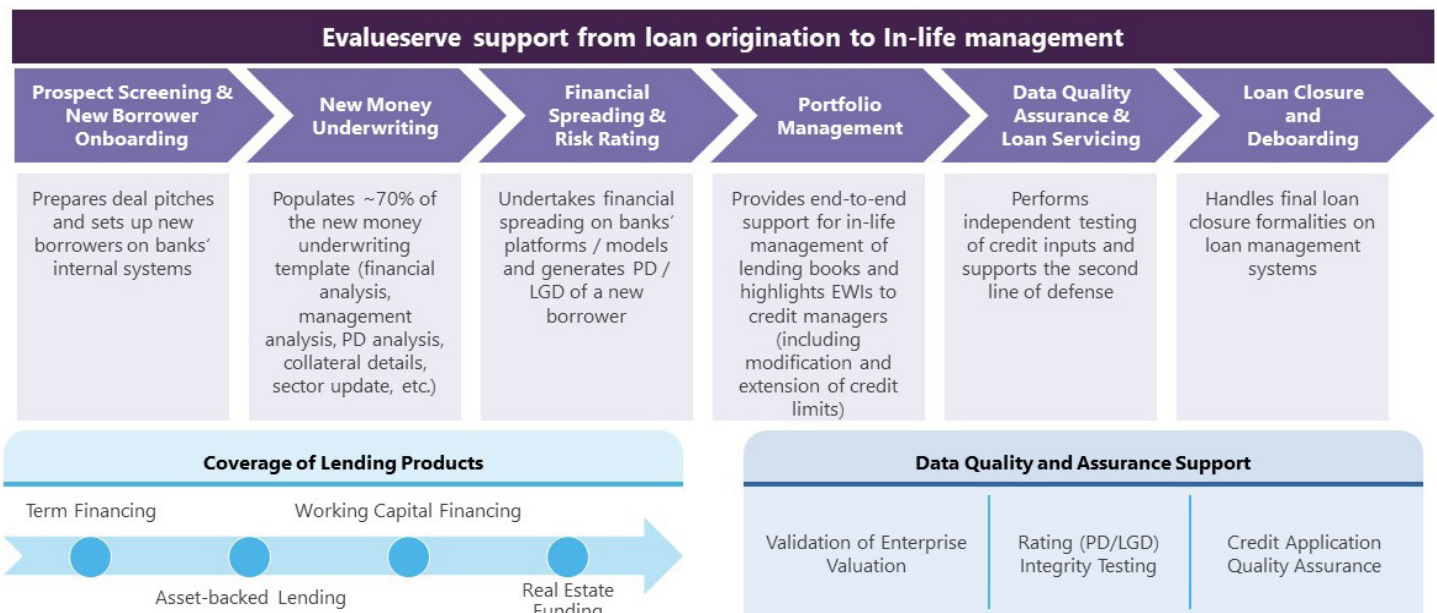
Leverage Evalueserve's Expertise

With over a decade of domain expertise, Evalueserve is a leader in transforming banking operations. Clients across the banking spectrum were able to find solutions to many challenges with our help through our focus on process re-engineering, operational flexibility, digitization, insightful customer analytics, and tailor-made solutions.

We support major banks globally, delivering tailored staffing solutions that drive cost and operations efficiencies across the banking value chain. Below is the summarized information about how Evalueserve is helping the banking sector as a preferred third-party vendor:

Strong Capability to Support End to End Lending Life-Cycle

Evalueserve supports credit managers on several tasks across the lending life cycle



Additionally, Evaluesserve’s proprietary lending IT solutions have achieved substantial time and cost savings for the clients. Below are the key IT solutions that make the credit approval cycle more efficient.

Purpose-built Technology Portfolio for Lending Solutions

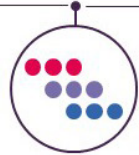
Implementation of digital tools / platforms that drive significant time and cost efficiency for our banking clients

Financial Spreading Automation



Spreadsmart

Workflow Management



Researchstream

Customized Intelligence



Insightsfirst

Dashboards / Process Automation



Custom Automation

Platform for data extraction from company filings

Userbase and clients:

- 10+ clients
- 500+ licenses
- 300,000 financial data spreads p.a.

Integrated & transparent workflow management

Userbase and clients:

- 15+ clients
- 3,500 users

AI-enabled Platform for Real-time Insights (Early Warning Indicators)

Userbase and clients:

- Registered number of users: 10,000+
- 200,000 online sources used

Dashboards for KPI Reporting

Userbase and clients:

- 300+ dashboards & proprietary tools customizable as per requirements

Overall, Evaluesserve is a transformative partner equipped to bolster credit quality, operational efficiency, and regulatory compliance in an ever-evolving banking landscape.

Authors



Vivek Sharma

Vice President, Corporate and Investment Banking

Vivek has 17+ years of experience at Evalueserve in setting up offshore support teams for global banks and managing delivery.

- He is leading Evalueserve's Lending Services practice, focusing on transforming credit risk underwriting, due diligence, and portfolio monitoring processes for banking clients.
- He holds a bachelor's degree in commerce, an MBA, and an MS in finance



Sumit Kumar Agrawal

Associate Director, Corporate and Investment Banking

Sumit has 13+ years of experience in setting up and managing deliveries of offshore support teams primarily focused on Investment Banking and Private Banking services.

- He is a qualified chartered accountant and holds a bachelor's degree in commerce.

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