

# **BANKING, INSURANCE & CAPITAL MARKETS**

Comprehensive monitoring of credit agreements

## **Comarch Credit Monitoring**



**COMARCH**  
INFORMATION TECHNOLOGY

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## Introduction

The credit activity of financial institutions is closely connected with risk, which first of all is the result of the danger of a debtor's insolvency. One of the ways of reducing risk is comprehensively monitoring the credits granted.

Comarch Credit Monitoring is a complement to the entire chain in the credit process, which consists of granting credits, monitoring and debt collection. It is the perfect way to support a post-sales credit monitoring service.

## Challenges and opportunities

From year to year the number of credits granted increases. Especially for Eastern European customers, credits are no longer “a necessary evil” but are seen as a chance for the realization of expensive plans or profitable transactions. The general change in attitude towards credits is a result of their volume, as a consequence of the number of credits applications approved by banks. Essentially, banks do not profit by the number of credits they grant but by their repayment.

One of the main challenges that the banking system faces is the activation of a credit policy that is adjusted to economic development. It requires a new approach to credit activity within retail banking, towards small and medium-sized enterprises and corporate banking.

Conditions for running a business change, while the cycle of these changes is becoming shorter and shorter. We have witnessed the transition to an information society, the dynamic development of new markets and a rising sensitivity to environmental problems. These sorts of changes are great challenges for companies. They must implement new technologies, win new markets and restructure entire chains of value creation.

The direct implication of these processes in financial institutions is not only the necessity of the internal

changes, but also the response to these changes in the enterprise sectors. By granting credits for the business activities, banks take a certain risk which is the result of many internal and external factors, especially in future-oriented credit transactions. This is because a company is a complicated system which is influenced by the market, production, employees, environment and the economic situation. This is why the effective management of a bank’s risk is focused on prevention.

Proactive analysis of the market requires constant observation of the financial state of the borrower, general developmental trends and an examination of the condition in certain trades. In most cases, the maintenance of the borrower’s capability to pay-back to pay back a credit is an essential condition for any actions taken to restructure and work out alternative solutions. Intensive dialogue and information exchange between the bank and the client is needed, so that credit institutions can take notice of negative departures over time from the desired financial state of the company.

In response to the issues described above, Comarch has created a tool which enables a significant improvement in the monitoring of credit processes, while at the same time, provides banks with an opportunity for fast adjustment towards changing business requirements.

## The most important characteristics of the system

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Comarch Credit Monitoring system is an IT solution aimed at financial institutions which are engaged in credit activities. It has been designed as an automatic tool for the business processes after the extension of credit. The servicing of the credit process after disbursement requires initiation of credit risk management. This is a consequence of the potential possibility of not fulfilling the credit obligation conditions by the borrower.

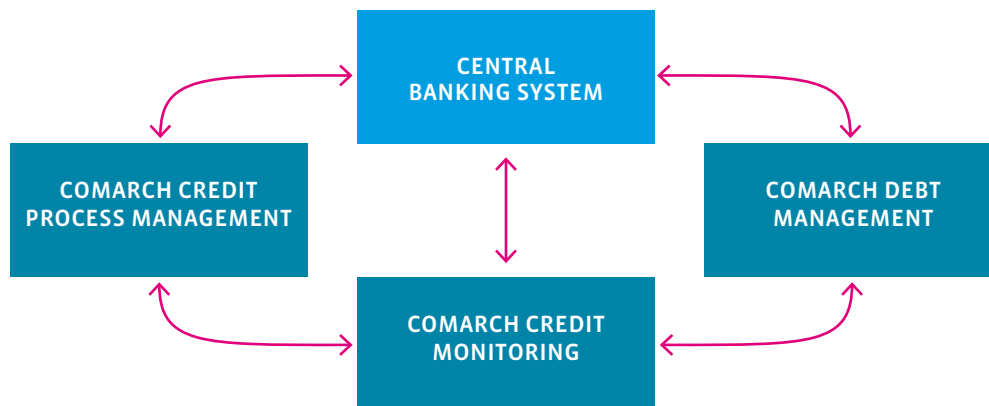
These conditions not only concern the accurateness connected with the credit repayment but also concern other aspects of the correct management of the bank's funds in the credit sector, including those aspects that require separate identification and analysis (e.g. maintenance of complete and up-to-date documentation). Comarch Credit Monitoring has been designed to be a basic application supporting the monitoring of accounts and collateral as well as the financial situation of clients.

The monitoring service in cooperation with the financial institution's central system as well with the credit disbursement system and the debt collection system enables:

- Automated analysis of the credit process state (with the possibility of manual analysis, monitoring policy)
- Listing of tasks assigned to particular users, resulting from the current credit process service

- Assigning tasks to business units and employees which correspond to their authorizations and roles in the process
- Periodical review of collateral
- Monitoring the financial condition of borrowers
- Supporting actions connected with document archiving
- Administrating the document flow within the bank
- Managing correspondence with clients
- Managing information and documents received from clients
- Reminders for necessary actions that must be addressed by system users
- Registration of actions connected with the monitoring of collateral on a collateral monitoring card
- Generating reports for meeting deadlines and the quality of actions executed with the support of the monitoring system

As a result of monitoring processes we are able to identify actions which must be taken. Such actions include signals which indicate the necessity to start/initiate informative-explanatory actions between the Bank and client or dunning, although occurring seldom due to the specificity of the credit process in the internal structure of the bank.



*Comarch Systems Compatibility*



# Functionality

The business processes of the monitoring system should be coherent with the general method of supervising credit products in a bank, taking the specifics of each business type into consideration - corporate clients, small entrepreneurs as well as individual clients. The level of process complexity is considerably higher in the case of credits for entrepreneurs and retail mortgage credits:

## Collaterals monitoring:

- Supervision over the timeliness of collateral monitoring
- Control of the documentation required for collateral
- Automated generation of reminders to clients
- Supervision over the timeliness of collateral termination
- Collateral monitoring takes place together with a periodical client review.

## Monitoring of the corporate client exposure:

- Monitoring of the proper use of the credit
- Monitoring the level of the bank's credit exposure towards the client and the client's capital group
- Monitoring and the classification of the receivables taken in on credit accounts
- Monitoring and the classification of the client within the limits of the risk group

## Monitoring of contractual conditions:

- Supervision over the timely fulfillment of the provisions in an agreement by the client
- Verification of the completeness of the delivered documents within the confines of the agreement

ID	Status	Value
126752	✓	200 000,00 PLN
126753	✓	300 000,00 PLN
126755	✓	300 000,00 PLN
126757	✓	300 000,00 PLN

Collateral review of the given credit exposure

ID	Status	Value
126752	✓	200 000,00 PLN
126753	✓	300 000,00 PLN
126755	✓	300 000,00 PLN
126757	✓	300 000,00 PLN

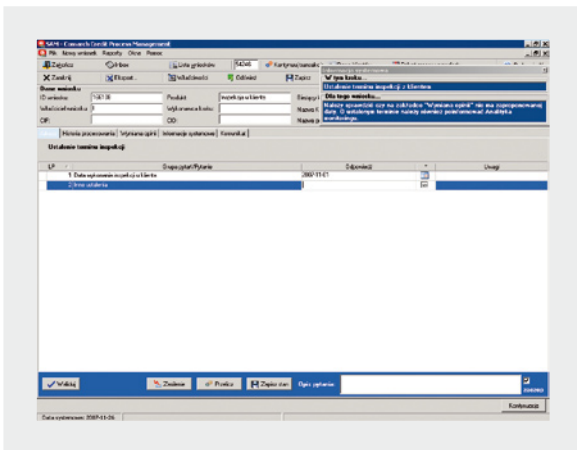
Monitoring of the proper use of the credit

**Supervision over the timeliness of inspections of corporate clients:**

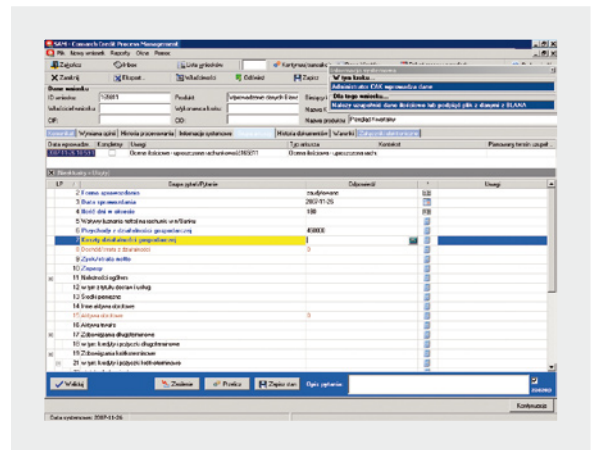
- The type and frequency of a particular client inspection depends on many factors:
- Date of settlement with Inland Revenue
- Type of granted and renewed exposure in the current year
- Exposure level
- Grouping of risk
- The system automatically starts a periodical review of clients and determines its scope
- The system determines the competence level of the person conducting the review

**Entering and assigning classifications for clients:**

- An early warning system enables early identification of clients from a group of increased risk
- Periodical client reclassification is conducted automatically with a possibility modification from an agent with the assigned privileges
- Periodical qualitative assessment of the client:
- Termination/reduction of the credit by the other bank
- Collection of receivables by Inland Revenue
- Periodical quantitative assessment of the client:
- Net profit / Net loss
- Circulating / fixed assets
- Equity capital



*Date setting of the client inspections*



*Periodical quantitative assessment of the client*

# Characteristics of service processes

The Comarch Credit Monitoring System supports the bank activity in the following processes:

**Early credit repayment** - the system enables the calculation of the current amount of debt divided into principal and interest, the commission amount, the generation of the “early repayment order” letter as well as the monitoring and analysis of contacts with a client regarding the accuracy of earlier credit repayments.

**Credit repayments with a deadline** - before a credit repayment, an advisor establishes if the client wants to extend the credit (in the case of revolving credit) or if he or she is interested in a new credit or in revising the old credit conditions (also in the case of revolving credit).

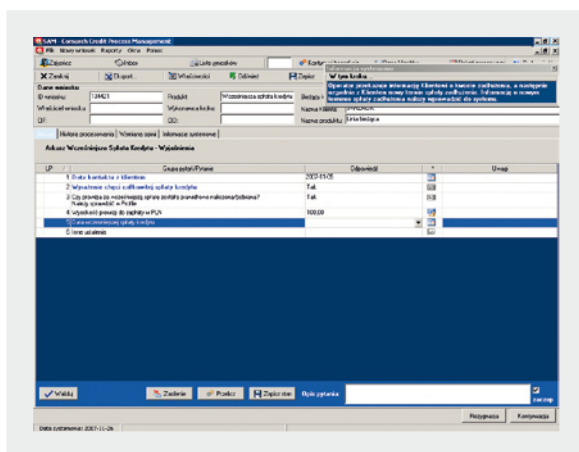
**Collateral release** - after the credit’s maturity date, the system checks the outstanding amount. Depending on the balance being positive or equal to a zero balance, the system initiates the necessary notification-explain-

ing process for a client or the necessity of changing the status of the credit account to „closed” and withdrawing the registration entries concerning collateral. The system prepares the following documents, which release collateral and ensures archiving:

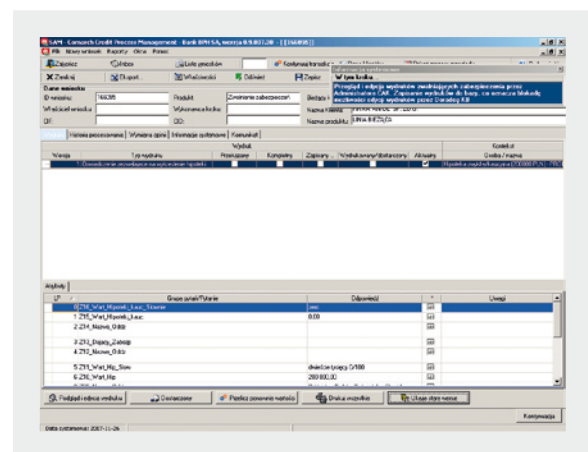
- Statement to cancel a mortgage collateral
- Statement of collateral cancellation
- Consent to unblocking an account in another bank
- Assurance against property repossession
- Release of power of attorney - foreign bank
- Release of a vehicle’s repossession
- Release of collateral
- Confirmation of receipt of a bill of exchange

**Open credit archiving** – monitoring of the credits granted prior to the implementation of the Comarch Credit Monitoring System - thanks to the possibility of open credit imports, the system enables verifying the completeness, workflow and archiving of the entire credit documentation.

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Date setting of the early credit repayment



Review of the releasing collaterals printouts

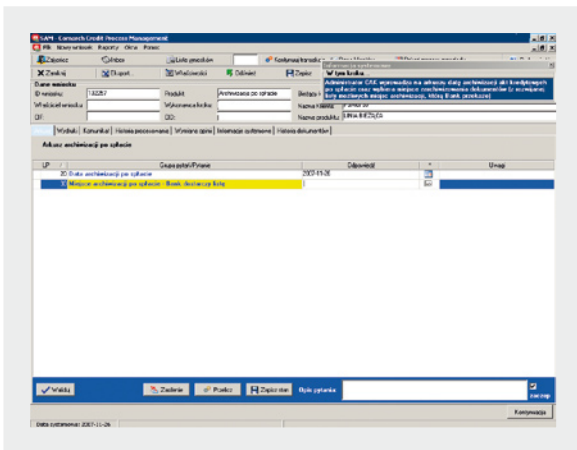
**Periodical review of collateral and clause monitoring**

- The system facilitates for the review of collateral, credit exposure and the conditions of the credit loans granted. Additionally, it lists the plan of reminders to send appropriate documents, with the possibility of making individual decisions on discontinuing the release/ dispatch/ sending of the documents.

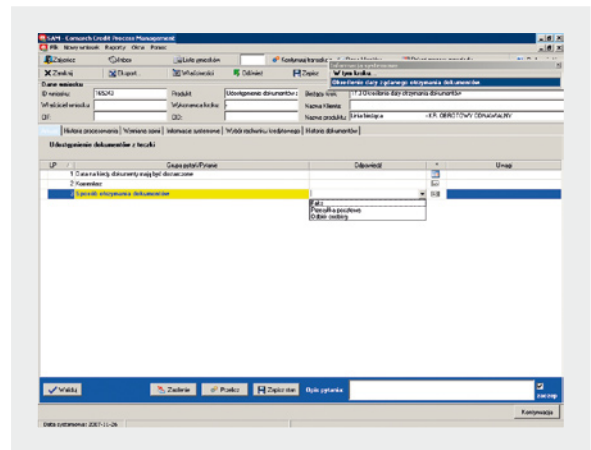
**Reminding clients** - this process is initiated for clients who do not respond to mailed letters. As an example, this can be done three times: for the first time - a first reminder is sent, for the second - the final one, sending of the third reminder means the beginning of the debt collection process.

**Accessing documents from a paper archive** - support for workflow of paper documents. The system enables the indication of a document to transfer, check its access status as well as the registration of an addressee and the date of dispatch.

**Archiving after repayment** - this process begins after the defined numbers of days after the collateral termination process. This process consists of the following elements: liquidating a deposit (if one of the documents is found therein), printing a label and enclosing the documents in credit files.



*Documents archiving after credit repayment*



*Accessing documents from a paper archive*

# System logical architecture

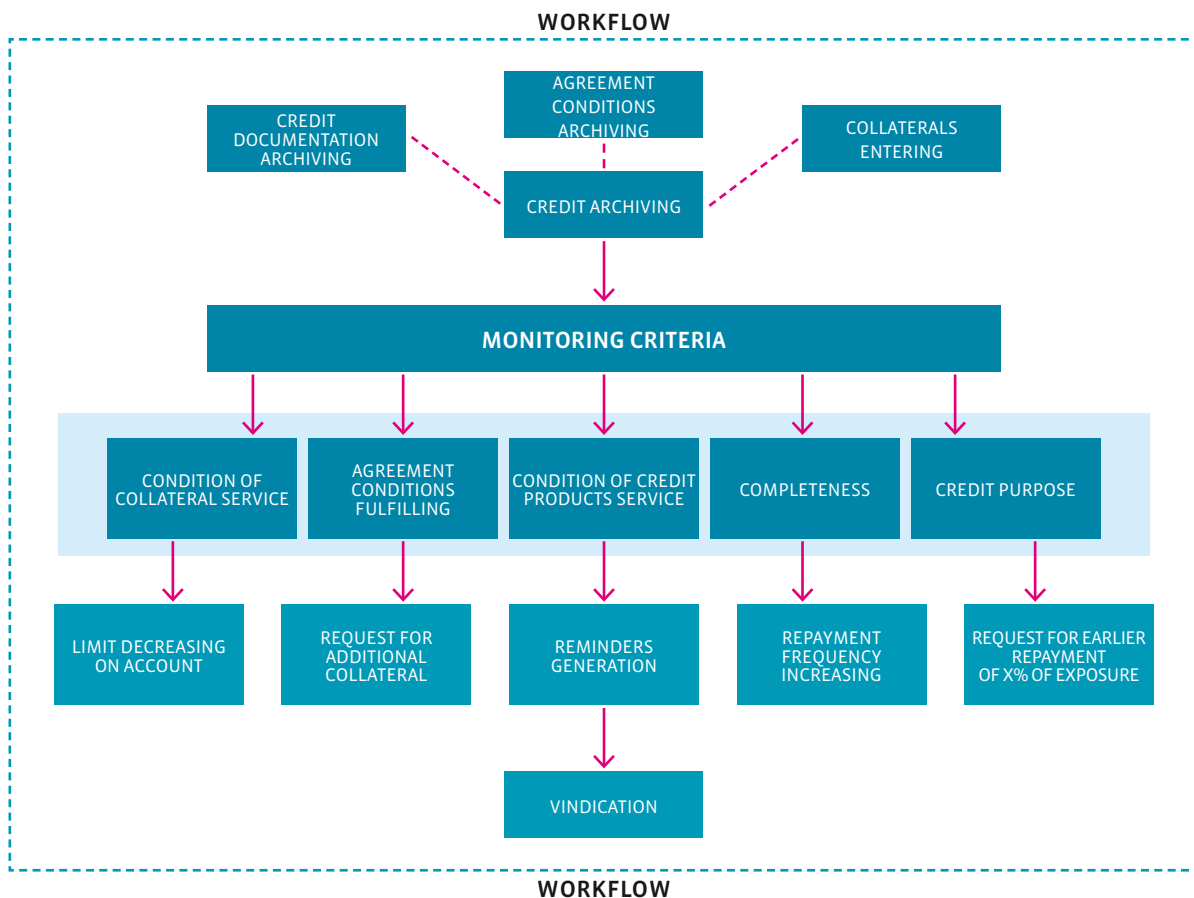
The Comarch Credit Monitoring System has a module structure, which enables easy integration with systems currently used in the bank. The system implementation reflects the bank's activities which are connected with the optimization of the IT infrastructure pertaining to credit risk management, the chosen function centralization and their implementation by the specialized units. The system connects the back office functions (the decision-making segment: monitoring of policy definition, performance analysis) as well as the front office functions (operating segment: transfer of activities that must be executed by employees of an appropriate level).

Thanks to the application of the solutions from the workflow class, the Comarch Credit Monitoring System allows flexible configuration of credit process monitor-

ing, in particular for the flexible redefining of processes and adjustment to the changing business needs of the financial institution.

The core of the Comarch Credit Monitoring System is a set of monitoring functions which constitute a tool for active control and maintaining quality of the credit portfolio. The collection of data for monitoring functions represents criteria which define the expected state of quality of the banks credit portfolio. These criteria are definable regarding the quantitative-qualitative arrangements (from the level of authorization), and enable the control of credit risk, included in this are contracts that are homogenized at a low level. They primarily concern is the analysis of the topicality, completeness and correctness of credit process data.

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## System Construction

The Comarch Credit Monitoring System consists of three modules:

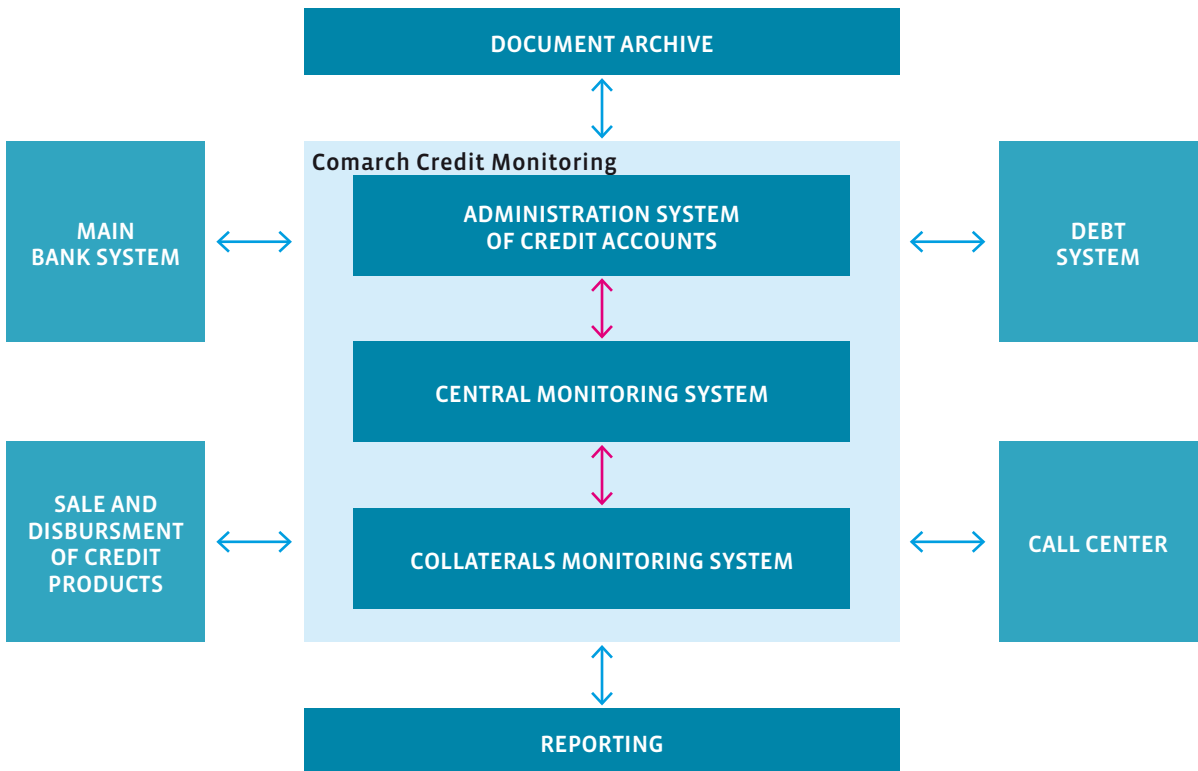
- **The Administration System** - an application dedicated to the configuration of the Comarch Credit Monitoring System.
- **The Collateral Monitoring System** - supporting the periodical inspection of collateral. This covers credit products for corporate and individual clients.
- **The Central Monitoring System** - monitors the financial condition of the clients, warning signals and manages actions taken. It covers all credit clients: corporate and individual.

### Integration with other systems

The Comarch Monitoring System was designed to enable data exchange with many external systems. It allows for work automation and delivers a number of

conveniences to its users and, as a result, contributes towards the increase of efficiency of an institution using the Comarch solution. The system cooperates with the following Comarch products:

- **Comarch Credit Process Management** - comprehensive automation system of all sales stages and the credit product activation service.
- **Comarch Debt Management** - this system improves on the reminding and collection processes and enables the centralized management of all processes and litigation cases taking the specifics of each case into consideration. It is equipped with a configurable, multidimensional decision-making matrix for scoring overdue liabilities.
- **Comarch Internet Banking** - this solution is designed for the provision of financial services through self-service channels (sms, WWW, smartphone).



Solution chart

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