



## Use Case

Assisting Agencies for  
Specialised Monitoring:  
Preventing NPA, Building Trust

## Introduction

Year 2019 was the year of reckoning for India's Banking Sector as they were reeling under distress debt of around \$200 billion and in dire need of debt restructuring and infusion of fresh capital. Aggressive lending to the infrastructure sector in order to prop up the economy after the Great Financial Crisis (2008-2010), and other factors such as fraud and diversion of funds, had resulted in piling up of bad debts within the banking sector.

The need to engage external agencies to maintain a continuous check on utilization of funds was necessitated on the back of big-ticket frauds such as the one at Bhushan Power & Steel; besides the failure of rating agencies to provide correct assessment of companies' financials.

Therefore, the Govt. of India, in order to keep a latch on fraudulent activities and to prevent diversion of funds, introduced the Agency for Specialised Monitoring (ASM) mechanism. Under ASM, banks were to appoint specialized monitoring agencies to closely track the activities of borrowers — with exposure of more than Rs. 250 crores — including purchase/invoices, actual production vis-à-vis projections, high value transactions/payments as regards beneficiaries and purpose, cash inflow/ outflow etc.

iAcuity Fintech assists such agencies by empowering them with automated analytics tools for forensic audit that eliminate hassle of manual efforts or inaccurate results in the process.

## Challenges in front of ASMs

The move to appoint external agencies to monitor loans came in the backdrop of banks reporting a 72% year-on-year jump in frauds at Rs 41,168 crore in FY'18, against Rs 23,934 crore in FY'17. According to the Reserve Bank of India (RBI), frauds have emerged as the most serious concern in the management of operational risk, with 90% of them located in the credit portfolio of banks.

The Indian Banking Association (IBA), thus, appointed several auditory firms to monitor and regulate the flow of cash. Their scope of work includes the following:

- Concurrent review and monitoring procedures for working capital & term loans
- Concurrent cash inflow & outflow monitoring
- Fund flow analysis
- Regular auditing and scrutinizing deviations or fluctuations
- Check for misappropriation or diversion of funds

They also maintain a database for due diligence to verify third-party associations for risk assessment and mitigating future NPA possibilities by identifying problematic or fraudulent dealings before lending is initiated. However, the process of providing due diligence in India is a laborious and time taking procedure.

Similarly, post-sanction credit monitoring is vital to maintain a healthy portfolio. Post-sanction credit monitoring depends upon the type of credit facilities, purpose of loan, market dynamics and regulatory requirements; and, thus, it has to be fine-tuned on a case-to-case basis. All of which requires manual attention, leaving scope for large-scale errors.

## Fund Trail: Solving the Challenge

Fund Trail allows agencies to automate analysis of large volumes of data in varied formats. This makes it easier for ASM Auditors to trace end utilisation of funds and find anomalies. It helps ASM auditors and banks validate borrowers transactions while massively reducing reliance on manual efforts and saving time.

Fund Trail is, thus, a resource optimized and cost-effective solution for ASM auditors to run their checks and carry out subsequent investigation. They simply have to upload bank statements and ledger data to get the desired results.

Once data is ingested, iAcuity's analytics engine automatically validates data through reconciliation of running balance, extracts and resolves entities, categorizes transactions, identifies fund flow patterns and prepares analytics reports.

## Report

## Analysis

### **Net Flow Report**

Highlights all transactions between debtor and other entities along with a visual representation in link analysis to help investigators identify how funds were used. Investigators can flag suspicious entities that do not fit within the norm of healthy bank accounts for further investigation.

### **FIFO Report**

A detailed analysis of fund utilization using First-In-First-Out logic, this report presents investigators with the end utilization of each deposit into an account. With these details, investigator can identify the end utilization of loan disbursements. Once the investigator has identified the end beneficiary of utilization of loan funds, they can further investigate the nature of the relationship and evaluate if it qualifies as diversion or sanctioned utilization.

### **High Value RTGS/NEFT Transactions Report**

Lists all transactions and entities who have received large sums of money across multiple transactions from defaulting debtors. Provides insights into entities potentially involved in fraudulent activities and siphoning of funds.

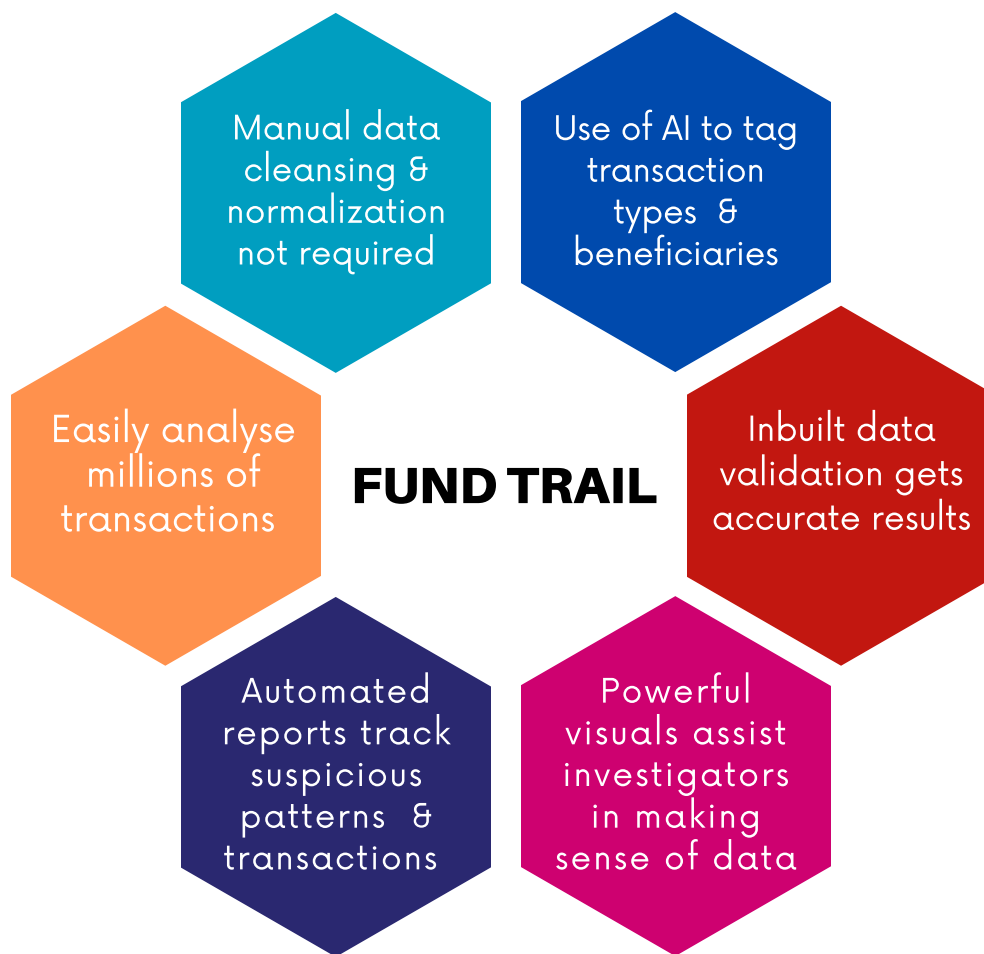
### **High Value Cash Transactions Report**

Lists all transactions and entities who have received large sums of money across multiple transactions from complainant.

### **Non-Bank Party Fund Flow Report**

Lists all transactions and entities that have received and sent large sums of money across multiple transactions with the debtor. This behaviour is abnormal for banking and highlights entities for further investigation.

## Benefits of Using Fund Trail



Fund Trail reduces investigation time from months to days by sorting through millions of transactions and providing view of fund utilization of loan disbursement. Thus, investigators are able to analyse the utilisation of funds, identify potential fraudulent transactions and determine the best recourse for the aggrieved creditors.

### Fund Trail Performance Highlights

- ✓ Over 2M transactions analyzed in 4 hours
- ✓ Reduced analytics time by 95%
- ✓ 500 bank statements loaded in minutes
- ✓ Reconciled 500K transactions in 1 hour
- ✓ Analysed utilization of ₹ 8000 cr
- ✓ Traced flow of funds amongst 600 entities

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## About Us

iAcuity Fintech empowers Law Enforcement Agencies, Forensic Auditors and Financial Institutions to identify financial crime. We have built the world's first hyper-automated, AI analytics engine to facilitate both investigation and prevention of financial crime

