

# XBRL Web Services: Reducing the Risk of Credit Risk Processes

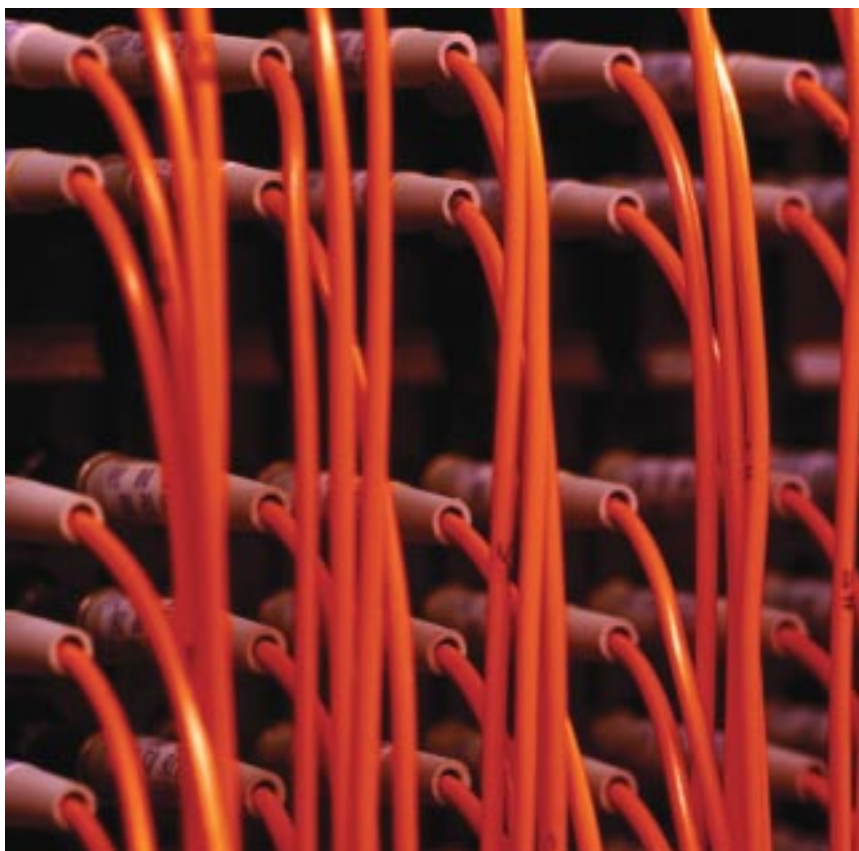
by Mike Willis

Of all the risks facing financial institutions, credit risk continues to represent the most fundamental to operations and profitability. In the midst of the Internet's information revolution, technology hasn't yet been maximized to simplify and accelerate the credit evaluation process. The primary task of evaluating creditworthiness continues

to largely depend on the manual processes based on paper information gathering.

In most financial institutions, business units use stand-alone information systems, and reporting sub-systems, to support the credit processes. These systems provide analytics, decision-making, and credit monitoring, but leave financial institutions vulnerable. Consider how the tremendous volume of incoming customer information gets into a bank's in-house system, then transfers from one business unit to another. Inefficient, tedious, and time-consuming processes require manual re-keying, and re-formatting as information moves from one system to another.

The vitally important task of credit risk evaluation is subject to input errors at every stage of information transfer, which in many instances dramatically reduces the accuracy, timeliness, and efficiency of credit assessment and monitoring. The associated costs often limit the range, nature, and frequency of information considered for credit assessments.



“XBRL Web Services” dramatically reduces that risk. XBRL, the Extensible Business Reporting Language, is the new Internet language for the business reporting supply chain; Web Services redefines the standards for safely and securely moving information over the Internet.

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Some of the world’s largest banks plan to use the new technology for credit risk assessment, including Bank of America, the third-largest U.S. bank; Dresdner Kleinwort Wasserstein, the investment bank of international Dresdner BankGroup; and Deutsche Bank, among others.

By deploying an XBRL Web Services infrastructure, a bank gains an analytical platform that facilitates more timely, consistent, and comprehensive credit analysis and covenant-compliance monitoring. And, they gain faster and easier reporting to bank management and customers. This more automated process ensures data quality and integrity.

XBRL Web Services can be deployed over many available systems — because nearly all software includes the Web Services protocols. Once management begins to utilize the capabilities of these technologies, they can flip the switch.

**Enhancing the Credit Risk Assessment Process**

With XBRL Web Services, credit managers immediately recognize, manipulate, and format information directly from the borrower’s source file. This eliminates the manual inputting of information into the bank’s credit systems, so more time is spent on analysis and less time on data collection and consolidation.

By removing the need for manual system-to-system, software-to-software data transfers, XBRL Web Services enables banks to realize significant cost savings, drastically reduce the lead time required for credit decisions, and significantly enhance credit risk assessments based on more timely, complete, and accurate information.

For example, if a bank uses 70 data elements for credit risk evaluation, largely because that’s the information attainable cost effectively, then by expanding the scope and depth of available information at

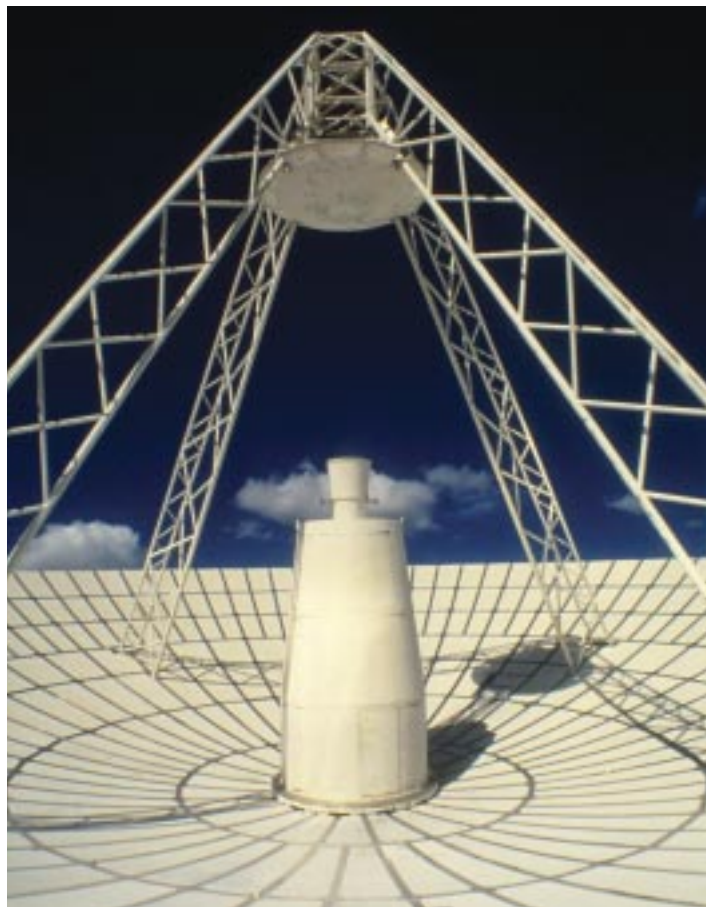
no incremental cost, XBRL Web Services enables banks to consume 1,000 data elements for the credit decision more easily, quickly and for the same price. The quality of decisions improves and risk is substantially reduced. This ultimately benefits stockholders, customers and managers.

**Tightening Links in the Information Supply Chain**

Banks apply this technology by using XBRL Web Services to enable internal credit systems to share information directly. XBRL Web Services enables systems to interoperate over the Internet. Hence, banks

can use the Internet to improve the depth and scope of the information they receive from borrowers’ systems.

The technology makes it possible for bank credit systems to consume and automatically analyze the ledger details from borrowers’ key asset ledgers. This is one example of how XBRL Web Services would benefit the credit assessment process in the asset based lending area. If bank’s access information in customer subsidiary ledgers





more frequently and completely, they can monitor inventory and accounts receivable ledger information — and perform risk adjusted analyses — based on a more timely and deeper information pool.

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Banks may also use this reporting process to more efficiently track loan covenant compliance. Banks depend on client financial statements and other disclosures to assess whether borrowers are in violation of covenant ratios. Since XBRL Web Services lowers the cost of analysis, compliance assessments can be performed more frequently, allowing mitigating actions to limit losses. Additionally, this technology facilitates the communication of covenant compliance information between borrower and lender and other syndicated creditors, exponentially improving today's processes.

### **Measuring Up to New Reporting Requirements**

Even without the benefits outlined above, bank managers have a pressing need to leverage technology for gathering and processing more client information: the Basel Accord requires banks to significantly increase the scope of client information provided. Right now, most bank reporting processes, including credit assessment, are manual, error-prone, and resource intensive.

They do not accommodate vastly increased information gathering, consolidation and reporting demands.

XBRL Web Services helps meet this challenge, especially for banks that are gathering client information in XBRL Web Services enabled credit risk systems. XBRL enabled-information can be used repeatedly for multiple purposes and easily adapts to any reporting format. So, for example, credit systems supply the reporting process with key client information needed for Basel compliance — and the information transfer from the credit systems to the consolidation software occurs in *seconds*.

### **Jointly and Severally Liable for Industry Standards**

No software company owns the Web Services standards, but many have adopted the standards to achieve the larger goal of broadening the Internet's information exchange capabilities. Bank managers and industry members determine how each company and industry applies those standards.

With the capability to achieve a wider scope of information, managers need to re-engineer internal reporting systems and processes to heighten their oversight by tracking non-financial measurements and value drivers previously untracked. On a broader level, banking industry participants — banks, industry groups, accountants, rating agencies, and regulators — form consortia to establish improved industry-wide measurements to heighten correspondence between managers' perceptions of company value and those in the market place.

Because reporting impacts all businesses in every industry, the accounting profession assumed a leadership role in developing and deploying the new technologies. From a small group the XBRL consortium, XBRL International, evolved into one of the largest and most diverse standards development bodies. In addition to accounting firms, membership includes regulators, industry organizations, and many of the world's most influential companies, including leading banks and industry regulators.

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**For more information on XBRL**, please call Mike Willis, Chief Knowledge Officer and founder of the XBRL Steering Committee in Tampa at (813) 351-2795 or [mike.willis@us.pwcglobal.com](mailto:mike.willis@us.pwcglobal.com).

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