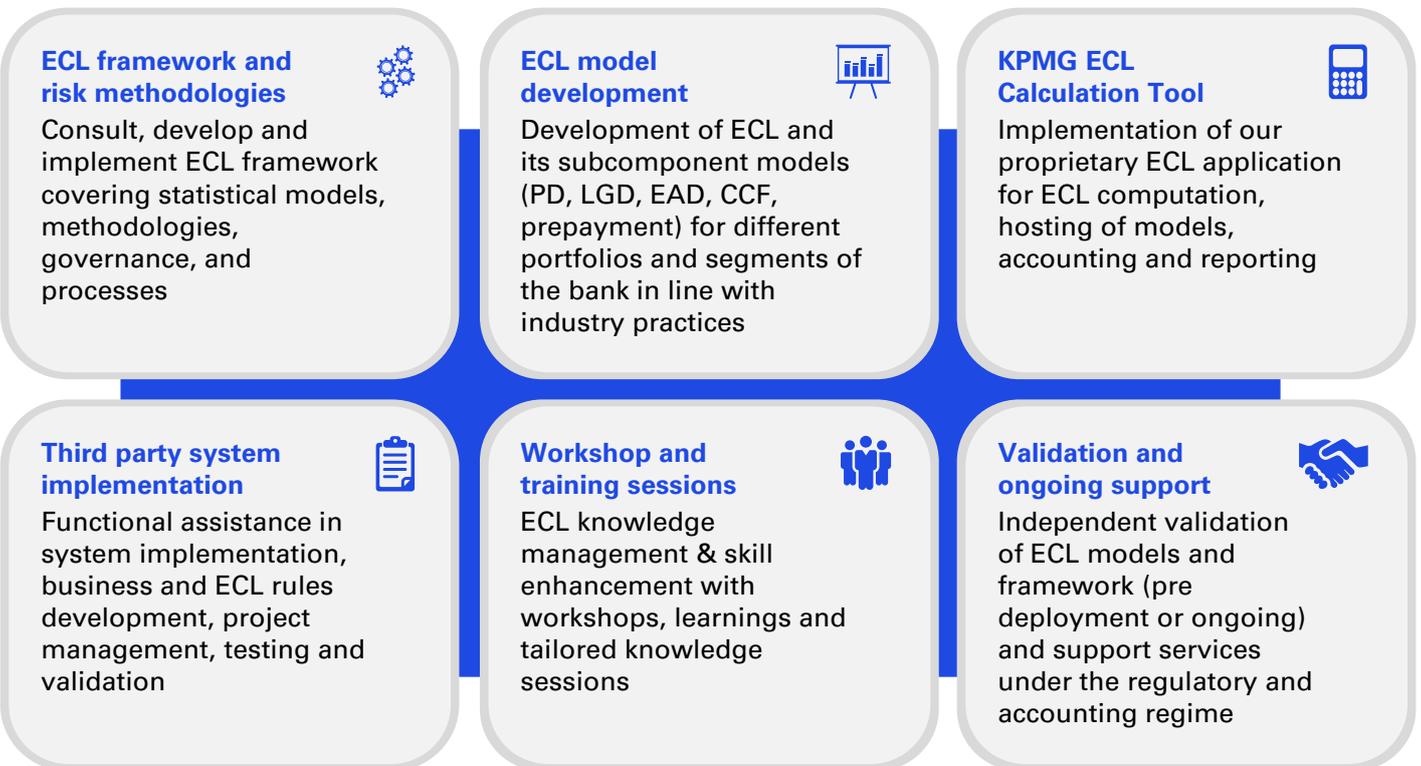# Expected Credit Loss

KPMG. Make the Difference.

Expected Credit Loss (ECL) was implemented in different countries under IFRS9 standard in 2018. In U.S. also, the standard came in effect as part of ASC 326 – Current Expected Credit Loss (CECL) in 2022. To transition to ECL from current incurred loss method RBI had issued discussion paper in January 2023. In continuation, RBI, on 4 October 2023, had constituted a nine-member committee to recommend framework for ECL loan loss provisioning for Indian Financial Institutions (FIs).

On 7 October 2025, RBI issued Draft Reserve Bank of India (Asset Classification, Provisioning and Income Recognition) Directions, 2025 to shift Scheduled Commercial Banks and AIFIs to an Expected Credit Loss model—replacing the incurred loss model under Income Recognition, Asset Classification and Provisioning (IRACP) norms, which will come in effect from 1 April 2027.

KPMG in India's key service offerings for ECL implementation are:

ECL framework and risk methodologies
Consult, develop and implement ECL framework covering statistical models, methodologies, governance, and processes

ECL model development
Development of ECL and its subcomponent models (PD, LGD, EAD, CCF, prepayment) for different portfolios and segments of the bank in line with industry practices

KPMG ECL Calculation Tool
Implementation of our proprietary ECL application for ECL computation, hosting of models, accounting and reporting

Third party system implementation
Functional assistance in system implementation, business and ECL rules development, project management, testing and validation

Workshop and training sessions
ECL knowledge management & skill enhancement with workshops, learnings and tailored knowledge sessions

Validation and ongoing support
Independent validation of ECL models and framework (pre deployment or ongoing) and support services under the regulatory and accounting regime

Our Team and Expertise

KPMG in India has delivered multiple ECL implementations and understands the need for a prompt delivery. Our proprietary pre-built library of ECL methodologies for multiple products, ECL automated tool, data validation experience, ready policies and procedures and compliance checklist enable us to expedite the implementation.

Experience of multiple IFRS conversion projects and of developing and validating credit models for financial institutions across geographies and regions	**Top Talent** covering kaleidoscope of professionals from leading professional services firm, top management institutes, premier colleges	**400+ multidisciplinary team** comprising of Chartered Accountant, MBA, FRM, CFA, CQF, Statisticians, Econometricians, Actuaries, Ex-bankers, Risk Specialists
Extensive knowledge regarding regulatory expectations on account of working experience in different geographies and all relevant stakeholders	**Awarded** 'Best Credit Modelling Team of the Year', 'Central Banking Award' for Risk Management Services, and in-house solution is ranked 37 by Chartis globally in providing Risk Technology Solution	KPMG in India has experience working with **multiple central banks and Multilateral Development Banks** across geographies.

Key aspects constituting ECL

KPMG in India team leverages its diverse experience, and regulatory know-how to implement leading practices and industry benchmarks in banks, NBFCs, and other financial institutions to build, enhance or validate the ECL framework including:

Data analysis and management framework	ECL policy, process and framework	Segmentation analysis and homogenous pools
Definition of default and Significant Increase in Credit Risk (SICR)	Model parameter calculations (PD, EAD, LGD, CCF, prepayment)	Macroeconomic Variable (MEV) overlay and scenario weighted ECL
Post Model Adjustments (PMAs) and Overlays	Disclosures, MIS and dashboards	Governance and control framework

KPMG in India's automated tools

KPMG in India has developed an automated ECL and Model validation solutions on an open-source platform with easy-to-use user interface and no additional licensing costs. Solutions mentioned below are built to enable quick implementation and support expedited ongoing runs.

IFRS 9 Expected Credit Loss Computation Engine

Customisable dashboarding layer with ability to create dashboards for internal MIS or reporting requirements

Capable of supporting different portfolios (retail, corporate, investments, etc.) and can process large datasets

Staging criteria for default and SICR identification can be customised for different portfolios and requires no interference

Probability of default, loss given default and exposure at default estimation can be performed within tool using statistical methodologies

Macro economic adjustments can be conducted using methods such as multi-linear regression, logistic regression and Vasicek
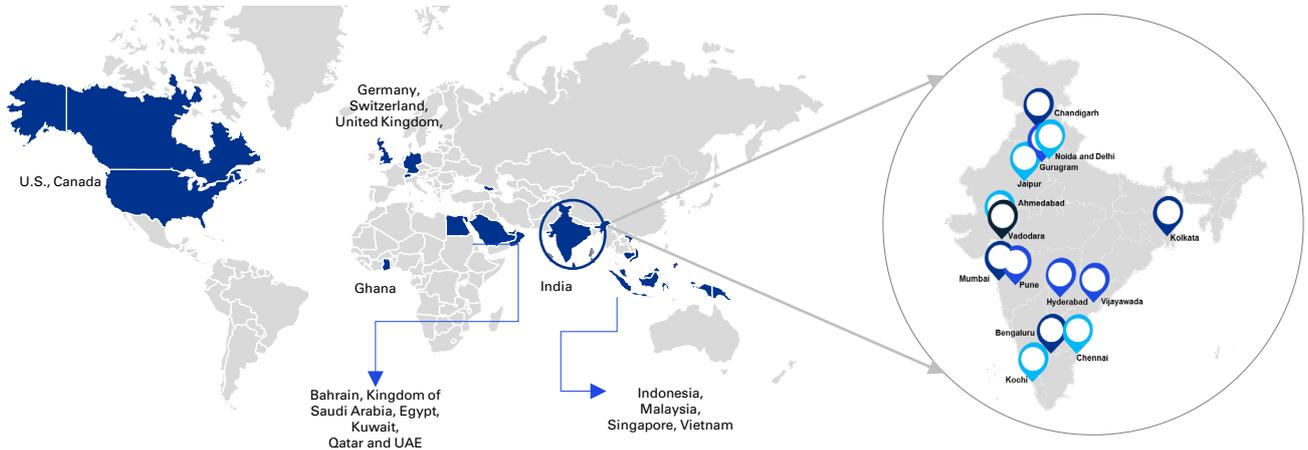
Supports multiple scenario analysis and management overrides

Supports effective interest rate computation and generation of fee amortization schedule for fee recognition

In-built module for attribution analysis, sensitivity analysis to understand movement of ECL in different periods.

Model hosting and validation platform

Python based platform to host rating models, perform validation of models leveraging statistical as well as AI-ML based techniques

Platform to host different rating models and/or scorecard (A/B/C) that is used for credit assessment process

End to end flow of information between first (business management) and second (risk management) lines of defence

Standardised data population templates with data quality ('DQ') checks

Automated tests inbuilt with sandbox environment for additional tests

Multiple dashboards to track the model inventory and work planning.

Our global experience

KPMG in India has provided risk management services across the globe, some of which are highlighted below:

U.S., Canada

Germany, Switzerland, United Kingdom,

Ghana

India

Bahrain, Kingdom of Saudi Arabia, Egypt, Kuwait, Qatar and UAE

Indonesia, Malaysia, Singapore, Vietnam

Chandigarh
Noida and Delhi
Gurugram
Jaipur
Ahmedabad
Vadodara
Mumbai
Pune
Hyderabad
Vijayawada
Bengaluru
Chennai
Kochi
Kolkata

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