Business Resilience

Regulatory impacts

CONTENTS

Introduction

Although the solvency and liquidity positions of European banks are generally regarded as sound, the European Central Bank (ECB) quickly took steps to introduce a series of measures to provide further liquidity, solvency and operational support to the banking sector in shoring up new lending, capital requirements and profitability.

Banking operations are directly influenced by increased credit, market and operational risks, as well as new regulatory and government measures. These include credit guarantees, release of capital buffers, payment moratoria, tax payment deferrals - all of which are aimed at mitigating the impact of an economic downturn. As the impact of the pandemic continues to unfold, banks are balancing priorities between mitigating against the economic effect, while recalibrating business processes for the future.

Despite the challenges, we believe that by working together and bringing you a powerful combination of data and tools, we can help you and your customers to quickly recover.

Situation analysis

Current challenges

A NEW PARADIGM OF RISK

- The applicability of pre-pandemic scenario and segmentation models is under question.
- Many organisations face a lack of clarity over appropriate risk metrics. Which of those remain predictive? Which are less reliable? How can they be measured within a new context?
- Structural breaks in the data have arisen due to government measures and shifts in population risk profiles.
- Updated / new models are needed, based on the re-assessment of existing risk drivers and new sets of variables.

THE PANDEMIC TOOK PLACE AMID SIGNIFICANT REGULATORY CHANGE

- Covid-19 responses need to be aligned with multiple regulatory requirements including:
  - European Banking Authority (EBA) Loan Origination and Monitoring guidelines (expected in July 2020) require comprehensive approaches to creditworthiness and portfolio monitoring.
  - The ECB and EBA guidelines on Non-performing Loans (NPL) and forbearance management are highly relevant as they require forward-looking strategies.
  - IFRS9 and IRB 2021 regulations require the development of a new generation of risk models.

NEW PRESSURES ON INTERNAL DEMAND FOR PREDICTIVE ANALYTICS AND INTERNAL REPORTING

- The “perfect storm”, a combination of falling revenues, increased losses, increased provisions, mandatory regulatory compliance deadlines, scarcity of capital and skilled people, creates unprecedented pressures.
- The unfolding scenario heightens the pressing need for the alignment of regulatory risk management, operations and analytical functions.

Impact

CUSTOMER

FINANCIAL

OPERATIONAL

Implications and indicated actions

New approaches are required based on holistic creditworthiness assessment, integrated customer and portfolio monitoring, alongside forward-looking NPL management

- Implementation of the Loan Origination and Monitoring guidelines ensure banks have robust and prudent standards for credit risk origination, management and monitoring to help mitigate the impact of the downturn and recalibrate strategies for the future.
- Implementation of the NPL Management Guidelines require:
  - Forward looking early warning systems for triage strategies.
  - New forbearance processes to help distinguish between clients with temporary financial difficulties and clients who may not be able to recover.
  - Use of forward-looking loss estimates for more efficient and effective NPL management processes.

Organisations need to implement a new generation of risk models, more frequent capital monitoring and reporting

- Shift in risk stages and provisioning levels due to the forward-looking, pro-cyclical nature of the IFRS9 provisioning framework. Tactical and strategic IFRS9 optimisations is emerging as a key theme.
- The implementation of the IRB 2021 package of regulations will provide banks with a new generation of regulatory models that are able to reflect the impact of different economic scenarios and portfolio shifts on banks' capital requirements.
- Critical success now hinges on an ability to perform frequent recalculations, forecasting and scenario analyses, as well as stress testing to evaluate the impact of emerging scenarios on provisioning and regulatory capital levels.

A lack of scalable access to predictive analytics and data science capabilities, may become a key area of operational risk

- Organisations are likely to face constraints in their ability to meet the increased demand for the development of new analytics models, model validation, deployment, monitoring and ongoing risk management.
- Lack of scalability, risk to headcount, on-site work restrictions or issues with key suppliers, creates significant operational risk for many organisations.
- Some are adopting new approaches to analytical resourcing. Smart-shoring of analytics capabilities with a trusted partner and use of collaboration platforms helps reduce operational risks.

How we can support you

CUSTOMER AND PORTFOLIO LEVEL FORESIGHT

- Multiple data sets including bureaux data and scores, economic forecasts and scenarios, alternative data, open banking, transactional and socio-demographic data.
- Risk and regulatory model development, validation, deployment, maintenance and management across credit lifecycles to leverage new insights.
- Creditworthiness, portfolio monitoring and NPL management frameworks aligned with regulatory requirements.

PROVISIONING AND INTERNAL CAPITAL ALLOCATION

- Tactical and strategic IFRS9 optimisations.
- New generation of IRB2021 regulatory models.
- Economic forecasting, scenarios and stress testing.
- Granular capital impact, concentration and contagion risk assessments.
- Consultancy on implementation of emerging regulatory guidelines and moratoria on loan repayments.

OPTIMISED EFFICIENCY THROUGH TECHNOLOGY, AUTOMATION AND COLLABORATION

- Cloud-based multi-user regulatory compliance, portfolio monitoring and reporting platforms.
- Consolidated needs consulting across credit risk management / regulatory analytics / operations / strategy.
- Automated design, deployment and workflow management of new decisioning strategies across the lifecycle.

SCALABLE ANALYTICS AND DATA SCIENCE CAPABILITIES

- Wide ranging analytics, data science resourcing and collaboration models including on-shore and smart-shore analytics teams to reduce or remove internal constraints.
- Use of cloud-based collaboration platforms and wide range of analytics tools.
- Full compliance with the European Banking Authority (EBA) Guidelines on outsourcing arrangements.

Get in touch

If you'd like to discuss any aspect of this report or find out more about how we can support you, please get in touch with your Experian account manager today.

Denmark
Lyngbyvej 2
2100 Copenhagen
www.experian.dk

France
Tour PB5
1 avenue du Général de Gaulle
La Défense 8
92074 Paris La Défense Cedex
www.experian.fr

Germany
Speditionstraße, 1
40221 Düsseldorf
www.experian.de

Italy
Piazza dell'Indipendenza, 11/b
00185 Roma
www.experian.it

Netherlands
Grote Marktstraat 49
2511 BH, Den Haag
Postbus 13128, 2501 EC, Den Haag
www.experian.nl

Norway
Karenlyst Allè 8B, 0278 Oslo
Postboks 5275, Majorstuen
0303 Oslo
www.experian.no

Russia
5, bldg. 19, Nizhny Susalny lane
105064 Moscow
www.experian.ru.com

South Africa
Ballyoaks Office park
35 Ballyclare Drive
2191 Bryanston, Sandton
www.experian.co.za

Spain
Calle Príncipe de Vergara, 132
28002 Madrid
www.experian.es

Turkey
River Plaza
Buyukdere Cad. Bahar Sok.
No: 13 Kat: 8 Levent
34394 Istanbul
www.experian.com.tr

United Arab Emirates
Dubai Islamic Bank Building 01
Office 102, First Floor
Dubai Internet City
www.experian.ae

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