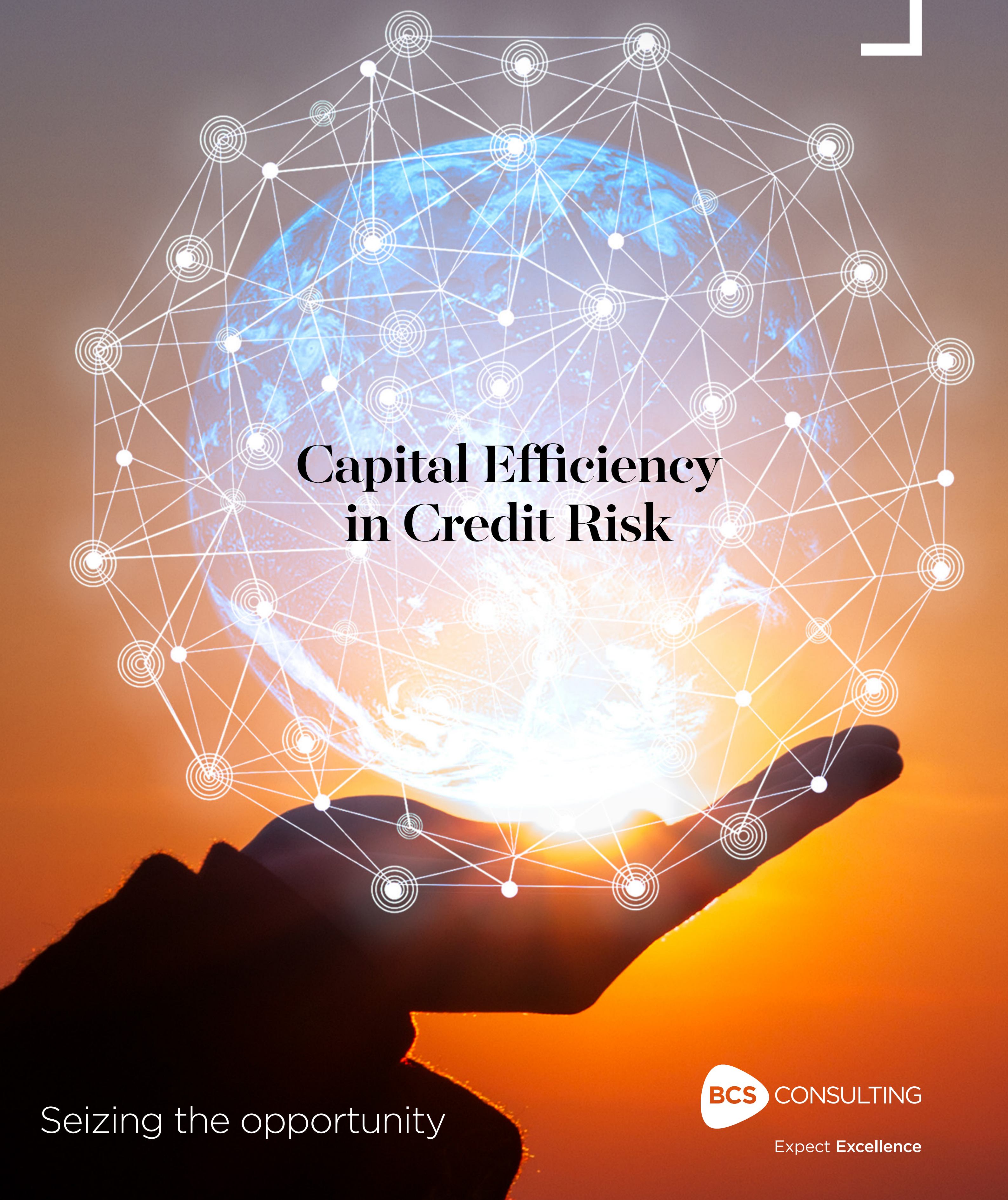
SNAPSHOT



Capital Efficiency in Credit Risk

Seizing the opportunity

BCS CONSULTING

Expect **Excellence**

Risk functions are under pressure from multiple directions

There is a perfect storm of demands on bank credit risk functions today.

In a low interest rate environment, with competition from an array of new credit providers, demands on risk from the business are growing by the day. Advanced risk models are sought to optimise RWAs and capital allocation. Timely, dynamic and insightful analytics and reporting is needed to drive pricing and strategy. And all of this must be done more efficiently and at low cost.

In parallel, regulatory demands continue to increase. IFRS9, reform of Basel III, targeted review of internal modelling and continued changes to stress testing all place a heavy burden on credit risk functions. Add to that the intense focus on ensuring quality data is used for model development and ongoing risk management, and rising expectations for evidencable processes, governance and controls and it's easy to see why some credit risk functions are reaching boiling point.

In addition, many banks continue to be heavily constrained by legacy systems and data infrastructure plus their dependency on upstream business processes. Risk functions have typically grown significantly in size and scope since the financial crisis to meet the wave of new challenges and regulations and, when combined with a feeling of "change fatigue", it can be challenging to meet the new demands.

Emergence of new technologies does present opportunity, but implementation contains execution risks of their own. After all, many technologies are still maturing, meaning regulators are not always comfortable, skills are hard to find and replacing legacy systems is difficult. For all the challenges ahead, those who do not keep up risk losing competitiveness.

How are industry players responding?

Credit risk usually takes up the bulk of RWAs for a bank. If processes and data quality can be improved, banks can, and should, make more efficient use of their capital. Risk functions can become key enablers of growth and improving risk-adjusted returns if they take a structured approach to the challenges ahead.

Given the range of demands, and their often contradictory nature - optimising the business vs regulatory compliance – in our experience risk functions can fail to reap the full benefits of their change investments by taking a siloed approach to meeting each demand separately.

Our view is that the same core business processes and data usually underpin various competing demands in credit risk functions. This means that there is significant advantage in taking a structured approach to changes which fully consider the impact and benefits of any change. For example, remediating legacy data and data governance to meet new regulatory requirements for modelling can also drive dramatic improvements in the quality of analytics to support pricing and strategy decisions. Similarly, automating and re-engineering the credit decisioning workflow to accelerate it and improve customer experience with the use of modern technologies and data sourcing like Open Banking, can significantly help improve data quality for risk modelling and regulatory compliance.

That said, the risk of taking a more holistic approach is the temptation to 'scope creep' and all that results in is unwieldy and complex change programmes which reduce engagement and, ultimately, leads to a failure to deliver.

As an independent third party, with expertise in Risk, Technology, Project and Change Management, we are well positioned to help clients navigate these risks and seize the opportunities that are there for the taking.

How can BCS help Credit Risk functions?

To realise capital efficiency, we focus on two main areas:

1. Enhancing Risk Data. High quality data is essential to realising capital efficiency through specific RWA savings. We help clients advance their data management capability, tools and processes while improving controls, data quality and availability so that they can capitalise on opportunities quickly.

2. Streamlining the Risk Process. Effective and efficient processes are essential to meeting the range of demands on a risk function and to realising the benefits from structured change. By combining our risk knowledge with our expert Process Management & Improvement and Operating Model Analysis & Design capabilities, we help clients design and execute initiatives that reduce costs whilst improving speed, control and output quality, resulting in a risk function that is fit for purpose, effective and efficient.

By putting our skills and experience to work addressing the business demands facing credit risk functions today, we are helping clients seize the opportunities they represent.

Who should you speak to about it?

To find out more about how we can help your Risk function please contact:
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