

# NEW TRENDS IN CREDIT RISK MANAGEMENT: REAL-TIME ANALYSIS AND DATA TEAMS



# INTRODUCTION

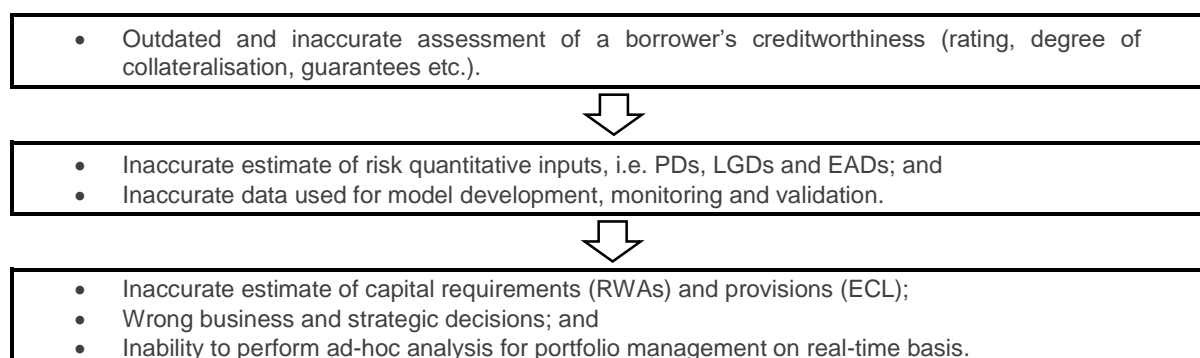
The credit risk review of borrowers plays a major role in the credit risk management of banks. As recently re-emphasised by the ECB in its 2020 SREP aggregate results, this process is even more critical in periods of stress - like the current pandemic - characterised by an increase of Non-Performing Loans (NPLs) and default rates and for which having information with high quality standards for assessing a borrower's creditworthiness represents a decisive advantage.

In this context, it is crucial for banks to have data which is complete, accurate, consistent, up-to-date, unique, valid, accessible and traceable.

For large and mid-corporates, the credit risk review is usually performed annually and uses financials of the customer as the main source of information. Therefore, this review suffers from the following weaknesses:

- It is based on data which is:
  - outdated by the time the credit review takes place;
  - scattered in multiple sources; and
  - not always reliable in terms of quality (incomplete, inconsistent, not unique, not fully traceable and accessible).
- The data collection is highly manual, so the process is time consuming and costly.

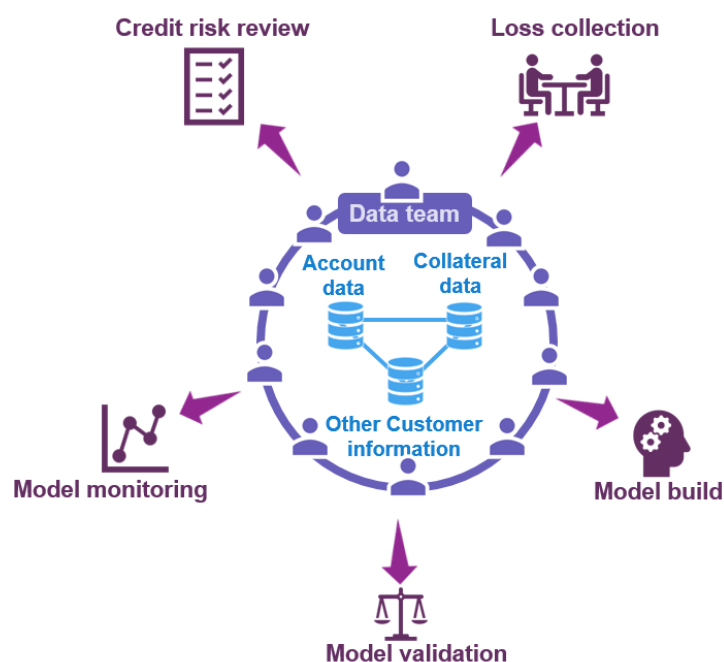
These weaknesses are likely to result in



# SOLUTIONS

Several remediation actions may be defined and implemented in order to mitigate these weaknesses including:

- Automate the credit review process by:
  - **using transaction/account level data**, which is updated in real-time and provides a large amount of information on a customer's ability to repay its debts; and
  - **linking transaction/account level systems with other key sources of information** - such as customer information system, collateral data system, guarantees etc. - to provide a full picture of the customer and its balance sheet.
- Set in place **teams dedicated to data management** used for the various credit processes: credit review, loss collection as well as model build, monitoring and validation, therefore avoiding the duplication of effort through using identical data for different purposes. These teams can ensure that the data is in line with best-in-class quality standards.
- **Adapt processes and methodologies** for using these new ways of working.



## BENEFITS

Implementing such an approach brings numerous benefits in terms of risk management but also in terms of compliance with prudential and accounting regulations:

- Produce up-to-date, reliable and reactive information on the borrower's creditworthiness through real-time cash-flow analysis;
- Provide a global view of the customer and its balance sheet;
- Allow commercial teams to take better decisions when issuing new loans;
- Trigger early warnings automatically in case of a borrower's credit deterioration;
- Address issues raised by BCBS239 and TRIM;
- Bring consistency with modelling, monitoring and back-testing used in IFRS 9 and A-IRB through the use of common data;
- Address the concept of "default contingency" as defined in the New Default definition; and
- Improve overall efficiency, data quality and cost inside the bank.

## HOW AVANTAGE REPLY CAN HELP?

- Design framework and solution for automating and interconnecting processes;
- Advise banks how to reshape their organisation to optimise processes and costs, and improve efficiency;
- Support methodology development for assessing credit risk review and loss data collection using account level information; and
- Provide expertise for developing/improving modelling, monitoring and validation based on new sources .

## WHO TO TALK TO?



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