

# Adapting to the Turning Tides in Lending Risk Governance

COVID-19, or the novel coronavirus, appears to be having a far-reaching impact globally-from compromising health to disrupting the economy. The UN's trade and development agency (UNCTAD) expects COVID-19 to trigger a potential recession-like scenario in some countries, resulting in the slowdown of global annual growth to below 2.5%, with an estimated impact of around a trillion dollars. Declining oil prices, supply disruptions from China, and the negative impact of COVID-19 on sectors such as airlines, tourism, education, food services, auto-parts manufacturing, and semi-conductor manufacturing pose a significant threat of a global downturn. However, given the interdependent nature of the global economy, the impact on different sectors will vary and will likely be determined by each country's GDP growth inhibitors.

# How banks' customers are impacted



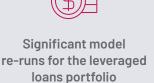
# Stress on lending processes

The FDIC and the Office of the Comptroller of the Currency (agencies) have encouraged US-based banks to use their capital and liquidity buffers to support households and businesses. According to the FDIC, US banks' capital and liquidity exceed regulatory requirements (the largest banks together hold USD 1.3 trillion in common equity and USD 2.9 trillion in high-quality liquid assets) and can be used to provide the necessary credit-driven impetus. In addition, the six largest banks in Canada have pledged to help SMEs manage challenges related to the Covid-19 outbreak. Support requirements will be evaluated on a case-by-case basis and include mortgage-payment deferrals for up to six months and relief in terms of other products. We believe that, given the backdrop of weakening credit quality of loan portfolios and additional pressure to support businesses, banks' lending processes will come under significant stress.











# Given our industry experience, we can help banks navigate some of these challenges



#### Credit analysis

- » Interim reviews of at-risk businesses fee-waiver requests, covenant breaches
- » Event Impact Analysis on Ioan portfolio
- » De-leveraging model updates



### Stress testing

- » Monitoring liquidity positions
- » Monitoring limits and thresholds
- » Cash flow analysis
- » Maintaining portfolio dashboards with triggers for liquidity tightening/stress indicators



### **Covenant headroom**

- » Covenant headroom analysis and deviation
- » Early Warning Signals and Trend Analysis
- » Covenant compliance status



### Re-risk rating

- » Commentary on rating agencies' views and downgrades
- » Re-risk rating (quantitative and qualitative), based on the bank's rating model
- » Risks and mitigants reporting



# Ad hoc requests

- » Rush spreads for additional facility requirements
- » Pre-deal credit memos



#### Credit admin

- » Executing closing documents(pre-funding)
- » Collateral administration
- » General-ledger-entries reconciliation

# We aim to drive efficiency through centralization, standardization, and optimization

# Standardization

Methodology documents/ standard-operatingprocedure documents laying down the processes to be followed, assumptions and information sources

# Improved cycle time

Improved time to market for renewals/extensions/new-loan underwriting

# Improved monitoring

Set up early-warning systems and create borrower/portfolio-level dashboards for improved risk monitoring

# **Technology and automation**

Support lending-platform migrations and custom-automation initiatives

# Increased client-facing time

Actively participate in building and managing 'nonclient/risk differentiating activities'

#### Robust MI

Maintain an effective MIS to provide actionable data points on process lapses, cost to serve and timeliness of reviews

# Flexible staffing

Provide variable support to manage spikes in volumes

# Improved quality

Set up SLAs/KPIs to assess the quality of deliverables

### **About Acuity Knowledge Partners**

Acuity Knowledge Partners, formerly part of Moody's Corporation, is a leading provider of bespoke research, analytics, staffing and technology solutions to the financial services sector. Headquartered in London, Acuity Knowledge Partners has nearly two decades of transformation experience in servicing over 300 clients with a specialist workforce of over 2,500 analysts and delivery experts across its global delivery network.

We provide our clients with unique assistance not only to innovate, implement transformation programmes and increase operational efficiency, but also to manage costs and improve their top lines.

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