

# 5 Key Insights from the 6th Annual Banking Risk and Regulation Summit

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Adam Grant

With a plethora of regulatory requirements for credit, market and operational risk driving significant change across the banking industry, we were looking forward to hearing how **banks are traversing a challenging regulatory landscape amid unprecedented geopolitical transformations**. Despite a number of similarities in approach, it was clear that they have implemented their own methods according to their business strategies and risk appetite – some are managing several risk and compliance related projects simultaneously, whereas others had to prioritize regulations according to their possible impact and are implementing their methods according to need and severity. Either way, all speakers agreed that “non-compliance is not an option”.

The conference was split into three streams: Credit Risk, Capital Management, and Market Risk. Below are our 5 top insights from the summit:

1. **Risk management has evolved from solitarily monitoring traditional risk areas to a much broader consideration.** For example, **Operational Risk**, including **Cyber Risk in particular**, featured prominently—with practitioners identifying this as a constant problem—not just because of the sheer volume of incidents, but also their potential for damage. To counter this risk, banks are not only materially developing their defenses, but also implementing preventative protocols in case they are breached.
  2. The level of some of the fines and sanctions for non-compliance has pushed other areas of risk to the forefront of the business. There has been a cultural reversal that has allowed **Conduct Risk**, for example, the opportunity to help a bank achieve profitability by avoiding huge financial, regulatory driven losses.
  3. **IFRS 9 has undoubtedly been a prevalent focus** for banks in 2017, but with most institutions in the process of parallel running, one of the main topics of discussion in the Credit Risk stream was related to the future of internal ratings-based (IRB) model development.
  4. Another interesting area was the focus on the regulatory scrutiny around the availability of data and the output of models for high materiality portfolios. It appears that there is a growing belief in the
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industry that, in future, there may be little benefit in developing IRB models for pockets of the industry.

5. While the FRTB (fundamental review of the trading book) framework clearly requires further definition, some aspects of the regulation are still causing genuine concern. **Capital implications attached to non-modellable risk factors (NMRFs) have forced many institutions to seriously consider the feasibility of taking on the internal model approach (IMA) for certain desks.** Many banks have begun implementing the standardized approach, with the intention of further enhancing their model capabilities upon regulatory clarification. Significant efforts are already going into product taxonomy and building general business awareness in advance of model implementation focused work taking place following an anticipated RTS (Regulatory Technical Standards) in H2 2017.

It would be impossible to fully encapsulate all of the hugely relevant material that came out of the conference, but Acuity Knowledge Partners clearly has a role to play in continuing to help banks execute a daunting regulatory-driven workload.

Broadly, Acuity Knowledge Partners has gained significant expertise across credit, market and operational risk frameworks, including: Basel IRB, IFRS 9/CECL, CCAR Stress-Test, MiFID II and CRD V FRTB.

Please do get in touch to hear more about how we are helping institutions, large and small, navigate risk regulations and execute on processes.

#### About Acuity Knowledge Partners

Acuity Knowledge Partners is a leading provider of high-value research, analytics and business intelligence to the financial services sector. The company supports over 350+ financial institutions and consulting companies through a team of over 3,000+ subject matter experts who work as an extension of the clients' teams based out of various global delivery centres.

We empower our clients to drive revenues higher. We innovate using our proprietary technology and automation solutions. We enable our clients to transform their operating model and cost base.