



Associazione Italiana per la
Pianificazione e il Controllo di Gestione
nelle Banche, nelle Società Finanziarie
e nelle Assicurazioni

Icaap, Recovery e SREP: alcune riflessioni trasversali sul Business Model

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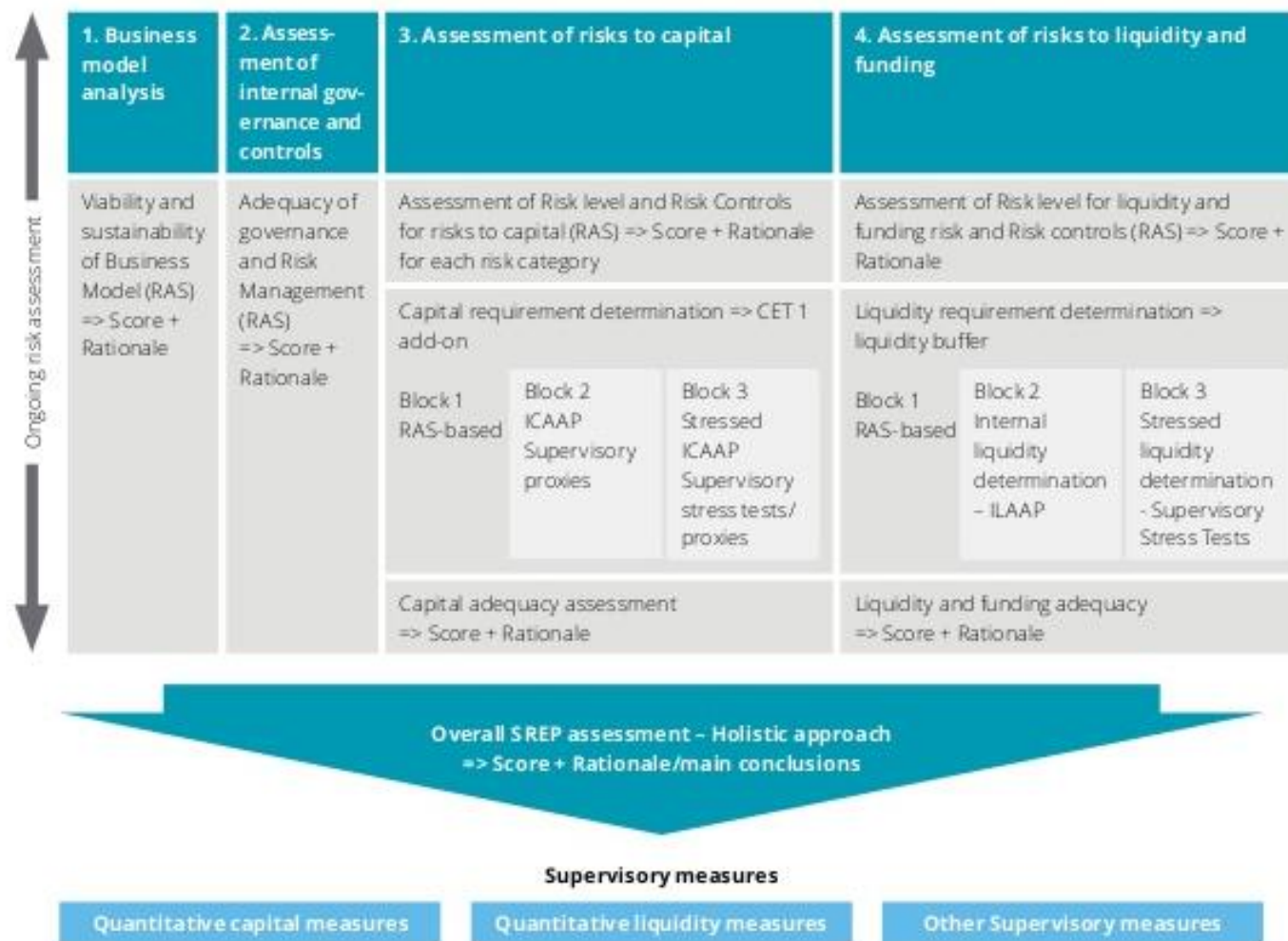


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SREP Decoded*



La parola Business Model è citata:

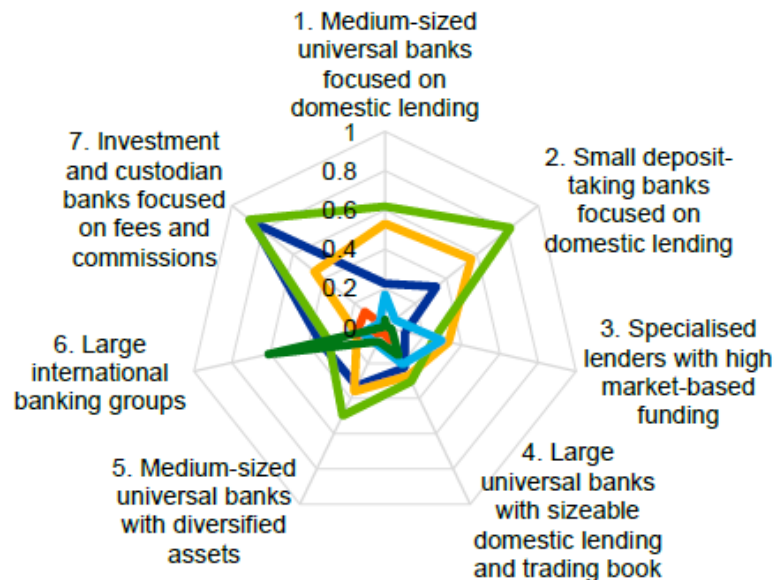
- 24 volte nelle GL sullo stress test
- 25 nelle GL SREP

Ma cosa si intende per Business Model ?

Balance sheet structure of different business models

(2014; ratios and percentage shares)

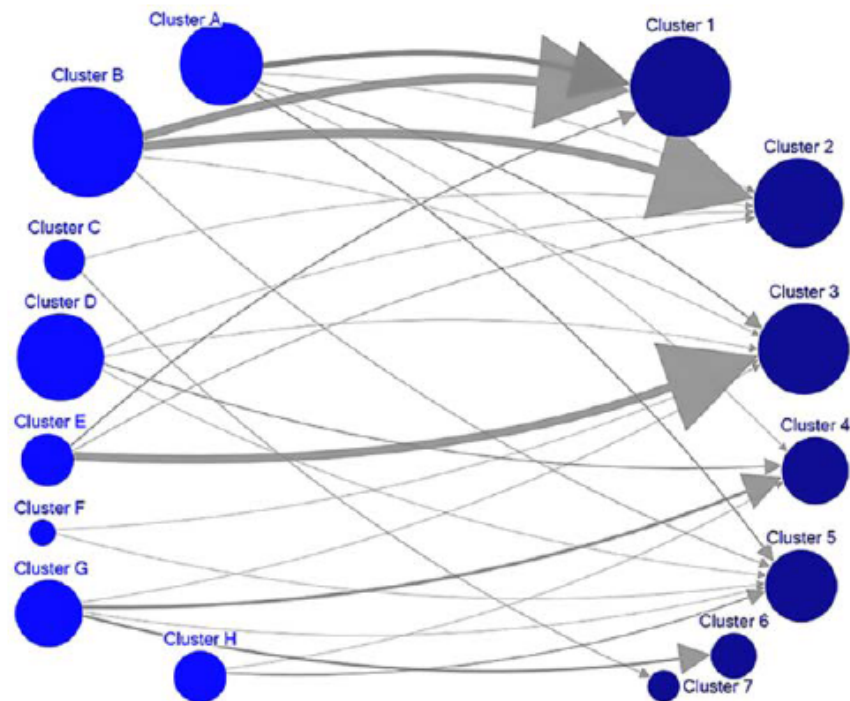
- fee and commission income
- domestic exposure
- trading assets
- customer funding
- interbank funding
- risk-weighted assets



Sources: Bankscope, Bloomberg, SNL Financial and ECB calculations.
 Note: The chart shows the median of variables used for the identification of clusters for each of the seven clusters identified for the year 2014.

Evolution of business model clusters between 2007 and 2014

(left-hand side: 2007; right-hand side: 2014; percentage of total equity)



Sources: Bankscope, Bloomberg, SNL Financial and ECB calculations.
 Notes: The bubble size represents the number of banks in the bank cluster. The thickness of the arrows represents the number of banks that remain in the same cluster or move across clusters.

L'importanza del Business Model nella view del Regolatore*

* Statement by Sabine Lautenschläger, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB, at the Seventeenth Annual Conference on Policy Challenges for the Financial Sector, Washington D.C., 1 June 2017

- ❑ *When we assess business models, we combine two things: an analysis of hard data and the judgement of experienced supervisors. This helps us to be unbiased, **holistic** and **forward-looking***
- ❑ *We have defined **nine** different categories of business model, ranging from large universal banks and domestic lenders to specialised asset managers. We then place each bank in one of these categories and can thus compare it to its European peers*
- ❑ *We ask one very general question: **can a bank generate sufficient returns within a framework of suitable risk appetite and on the basis of a clear and sustainable funding structure?***
- ❑ *The first step we take when we analyse a business model is to map out the **general strategy** of the bank. We try to understand its **main sources of profit** and how they might be affected by economic developments*
- ❑ *The next step is then to derive an automated score. This score is based on indicators **such as the return on assets and the cost-to-income-ratio**. And as I already said, we then complement the scoring with expert judgement*
- ❑ *In doing so, we take a **forward-looking approach**. And what we look for are key vulnerabilities. We assess **how profits might evolve over time**. We analyse the bank's strategic plan; we take into account its financial forecasts and assess how it might be affected by internal and external factors*
- ❑ *In the light of this assessment, **we might adjust the score**. The final result then feeds into the SREP and guides us when we determine supervisory capital add-ons and other measures*
- ❑ *In the long run, **only banks that make profits can be stable**. And only stable banks can handle uncertainty, deal with a changing environment and reliably serve the economy.*

Business Model: le preoccupazioni del Regolatore*

** Statement by Sabine Lautenschläger, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB, at the Seventeenth Annual Conference on Policy Challenges for the Financial Sector, Washington D.C., 1 June 2017*

- ❑ There are 19 countries in the euro area. They all share one currency, but differ in many other respects. **Their economic structures, tax codes and legal frameworks differ. Their macroeconomic characteristics, such as growth, inflation and employment, also differ.**
- ❑ This mix of economies requires a mix of banks. And in the euro area, banks are indeed varied. There are **large** banks that operate on the global stage and **small** ones that focus on domestic business; there are banks which are profitable and there are banks which have not earned their cost of capital for several years now.
- ❑ All these banks face similar challenges.
 - First, they have to deal with **geopolitical risks**, that is, with higher uncertainty.
 - Second, they have to deal with a **challenging macroeconomic environment**; and that includes low interest rates. Hence, banks have to adjust. They have to become more **cost-efficient and diversify their revenues**.
 - Third, they have to deal with **overcapacities** in the European banking market; many banks compete for the same customers.
 - Fourth, they have to deal with **technological change, such as digitalisation**. That change attracts new competitors to the market, the famous fintechs. This makes the market even more competitive.
 - And fifth, they have to deal with **tougher rules**. That includes higher capital requirements, more reporting and higher demands with regard to the scope and quality of risk management – just think of the BCBS 239.
- ❑ That's why we take a very close look at how banks in the euro area make profits and how their business models work. **That is a core element of our annual Supervisory Review and Evaluation Process, or SREP as we call it.**

Evoluzione dello SREP – 2015 - 2017

Table 1: Aggregate SREP outcomes for 2015-2017

	2015	2016	2017
Number of banks	n.a.	106	105
Share of banks by score			
Score "1"	2%	2%	0%
Score "2"	44%	47%	52%
Score "3"	43%	40%	36%
Score "4"	11%	11%	12%
Estimated average score	2.63	2.60	2.60
Average profile scores (estimate)			
Business model assessment	2.69	2.66	2.60
Governance & risk management	2.61	2.76	2.77
Risks to capital	2.37	2.29	2.19
Risks to liquidity and funding	2.34	2.21	2.14
Simple average of the 4 profiles	2.50	2.48	2.43
CET1 capital requirements (simple average, unless stated otherwise)			
Pillar 1	4.5%	4.5%	4.5%
P2R	3.1%	2.0%	2.0%
Capital conservation buffer	2.5%	1.5%	2.0%
Systemic risk buffers	0.2%	0.3%	0.5%
Total (binding MDA trigger)	10.3%	8.3%	9.0%
P2G		2.1%	1.6%
Total	10.3%	10.4%	10.6%
Total, net of systemic risk buffers	10.1%	10.1%	10.1%
Total, net of systemic risk buffers, RWA-weighted	n.a.	9.5%	9.6%

Source: ECB SREP booklets

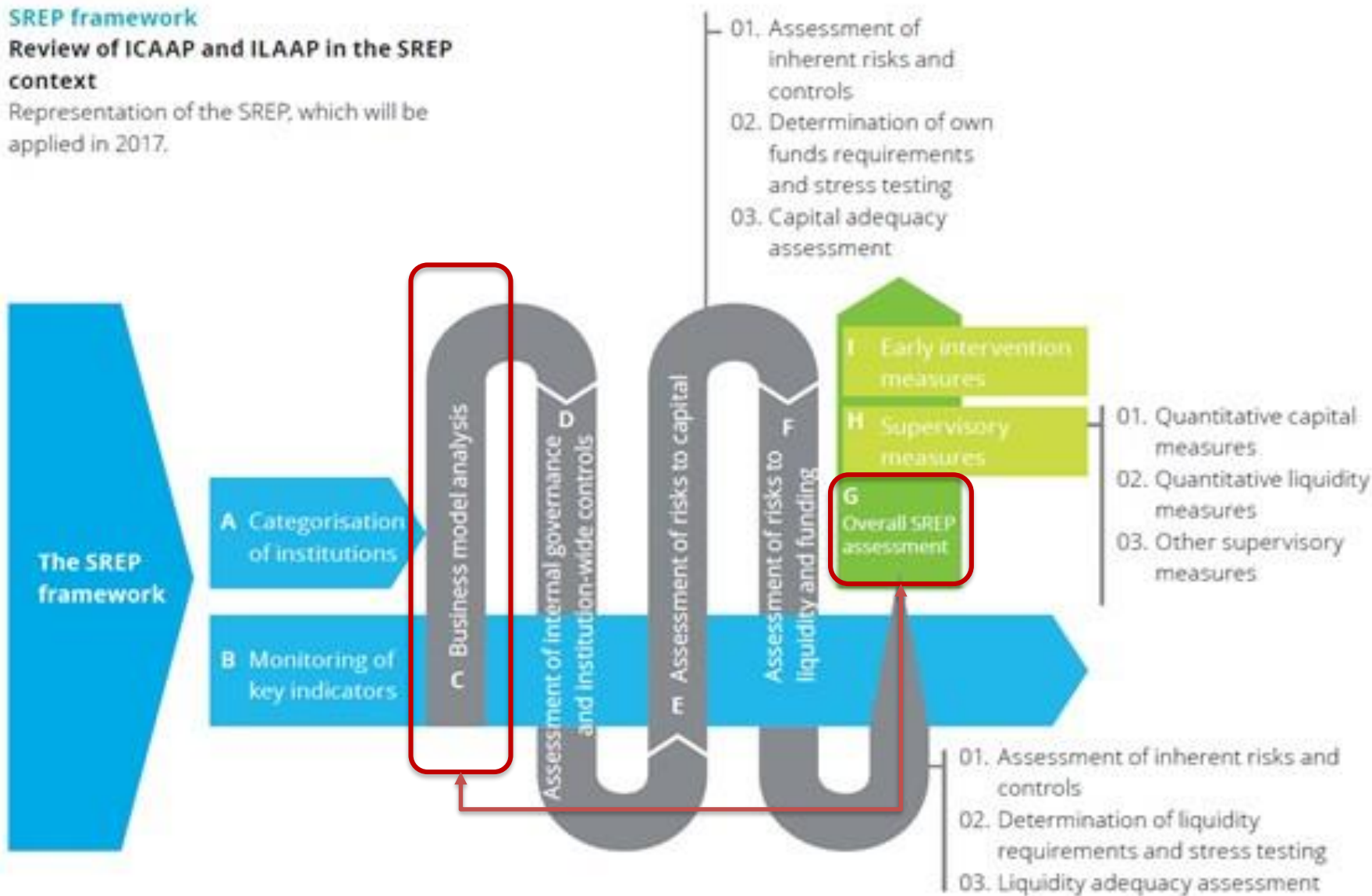
- ❑ Gli SREP Score rimangono sostanzialmente invariati nel periodo di osservazione
- ❑ Le aree SREP **meno soddisfacenti** restano quelle inerenti la «Governance & Risk Management» e «Business Model Assessment»
- ❑ L'overall Score SREP è più alto della media dei singoli profili di rischio, il che suggerisce che – in media – quelli meno performanti e sopra descritti sono quelli che pesano di più nel giudizio olistico del regolatore
- ❑ P2R e P2G si compensano quasi a partire dal 2016 (momento della sua introduzione)

Perché occorre spostare l'enfasi sul Business Model ?

SREP framework

Review of ICAAP and ILAAP in the SREP context

Representation of the SREP, which will be applied in 2017.



Le aree di maggior investigazione per la valutazione del Business Model

Key components of the assessment through a 3-phase approach

- Identifying the areas of focus (e.g. main activities of the banks)
- Assessing the business environment
- Analysing the forward looking strategy and financial plans
- Assessing the business model:
 - viability (within 1 year)
 - sustainability (within 3 years)
 - sustainability over the cycle (more than 3 years)
- Assessing key vulnerabilities

Gather information and understand materiality of business areas

- Contribution of business areas to revenues, profits and risks
- Which business areas are significant drivers of risk?
- Quarterly ITS reporting
- Any relevant internal or external information

1

Evaluate the bank's capacity to generate profits

- Generate automated anchoring score, mainly based on ROA and Cost Income ratio
- Compare results to pre-defined thresholds, and aggregate scores

2

Comprehensive analysis – supervisory judgement –

- Used to adjust phase-2 scores taking into consideration the bank's specificities
- More than 60 indicators based on standard regulatory / supervisory reporting → allows for comparisons between banks

3

Una chiara comprensione del Business Model accresce la comprensione dei propri punti di forza**MA SOPRATTUTTO DELLE VULNERABILITÀ!!**



Le vulnerabilità «*embedded*» che caratterizzano il Business Model opportunamente gestite **RAFFORZANO IL COMPLESSIVO PROCESSO DI GESTIONE DEL RISCHIO STRATEGICO**



Vulnerabilità del Business Model come **INPUT A SERVIZIO DELLA PREDISPOSIZIONE DEI PROGRAMMI DI STRESS TEST (ICAAP, ILAAP, Recovery , etc.)**

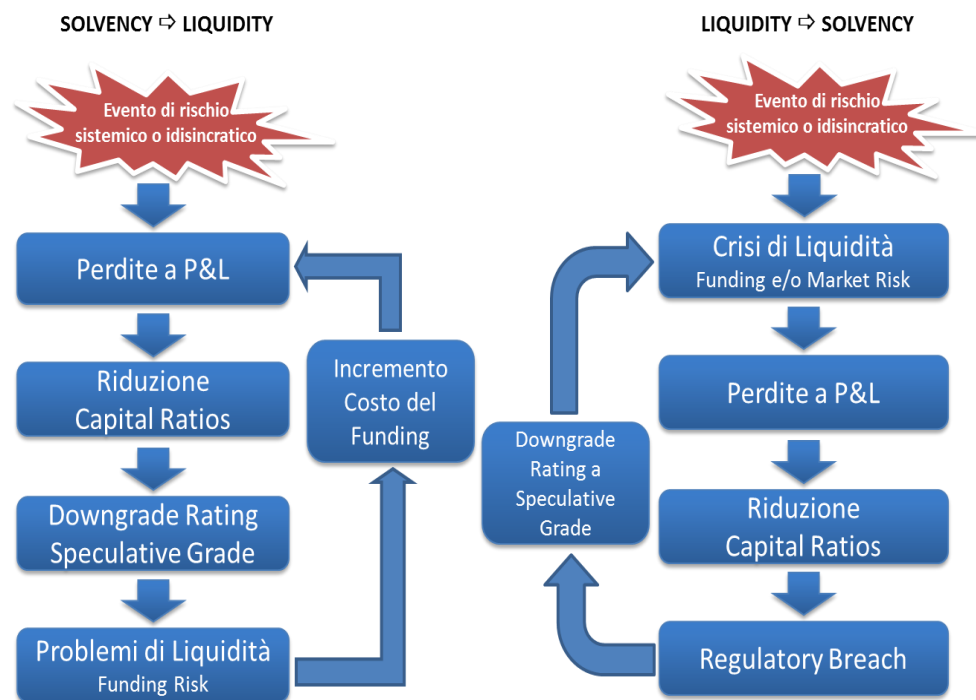


- ❑ Adottare ad un serio ed efficace **Self-Assessment** del Business Model **testando il processo di pianificazione strategica**, basandoci anche su esercizi di Stress Test in ottica BMA (sensitivity analysis, analisi storiche, benchmark di mercato) permette di incrementare la robustezza del «decision making process» da parte degli Organi Aziendali → Strategic using
- ❑ Fare *challenging* sulle elaborazioni di Piano Strategico inteso come BMA outcomes/self assessment permette di ottenere:
 - una chiara illustrazione del range di risultati che esso produce in varie ipotesi diverse dal baseline o adottando strategie diverse
 - elementi utili alla valutazione del grado di severity delle ipotesi che saranno adottate nei vari scenari di stress
 - elementi utili alla valutazione su quali e quanti scenari sono stati utilizzati, con particolare attenzione all'inserimento delle variabili «idiosincratiche»
- ❑ Collegare, in relazione all'analisi di vulnerabilità, il set up e le analisi delle risultanze di altri strumenti gestionali/regolamentari quali soprattutto ICAAP e ILAAP che, come noto, concorrono alla formazione del giudizio SREP attribuito dal regolatore, adottando i risultati di stress come base per la determinazione delle soglie/limiti in fase di predisposizione di RAF
- ❑ Infine fornisce elementi utili nel valutare il grado di correlazione esistente delle varie aree di valutazione (solvency vs. liquidity ad esempio) nonché l'utilizzo di scenari di stress di tipo reverse, benchmark o forniti da altri providers accreditati o dai regolatori (EBA/BCE stress test wide)

Interconnessione e correlazione

- ❑ Negli stress test la **interconnessione tra solvency e liquidity diviene fondamentale** identificare le situazioni in cui un evento di stress sulla liquidità può impattare anche il capitale e viceversa; e quantificando gli effetti delle interrelazioni tra i due fattori di rischio in situazioni estreme
- ❑ Tale interconnessione è realtà e non teoria: nei casi di dissesto finanziario delle banche **generalmente i due fenomeni tendono a verificarsi contemporaneamente**; e quindi anche nei tool di stress test deve risultare rafforzato il collegamento tra gli effetti “congiunti” di tali due eventi.
- ❑ **riuscire a stabilire le interdipendenze tra i due fenomeni** consente di cogliere i fenomeni di non linearità che amplificano gli impatti ben più della somma degli effetti associati a due stress test distinti per solvency e liquidity.

Questa tematica pone le banche di fronte all'esigenza e alla sfida di realizzare una **più robusta integrazione tra strutture operative, modelli e processi previsionali** di due mondi che finora hanno proceduto in modo quasi parallelo



Un nuovo paradigma in aiuto della comprensione

- ❑ La «**Plausibility of scenario**» è definita come “the degree to which a scenario can be regarded as possible to materialise”; con questa definizione l’EBA intende quindi introdurre sostanzialmente un **concetto di tipo probabilistico**, che risulta certamente utile e rappresenta un passo avanti rispetto alle precedenti GL.
- ❑ Infatti gli stress test in assenza di una misura che in qualche modo dia un peso ai risultati ottenuti non sono propriamente utili: non sappiamo se sia il caso o meno di preoccuparsi con riferimento ad alcune variabili target «inviolabili» (capital ratios, liquidity ratios, ...)
- ❑ In realtà il concetto di plausibility potrebbe forse essere definito meglio in termini di «**Probability of occurrence**», in quanto la probabilità rappresenta la migliore misura quantitativa per rappresentare, ordinare e confrontare in modo univoco i risultati ottenuti nell’ambito delle attività di risk analysis.
- ❑ Tuttavia anche considerando la plausibility in termini di probability of occurrence non risolve del tutto la questione...



“**Probability of breach**”: considerare *tutti* gli scenari che potrebbero realisticamente realizzarsi in futuro e verificare **in quanti** di questi si determinerebbe un evento di *breach*

Sta cambiando l' «ecosistema» bancario

Figure 3

Banks will become an integral part of customers' everyday lives



Banks are uniquely placed to be the orchestrator of fintechs and other partners

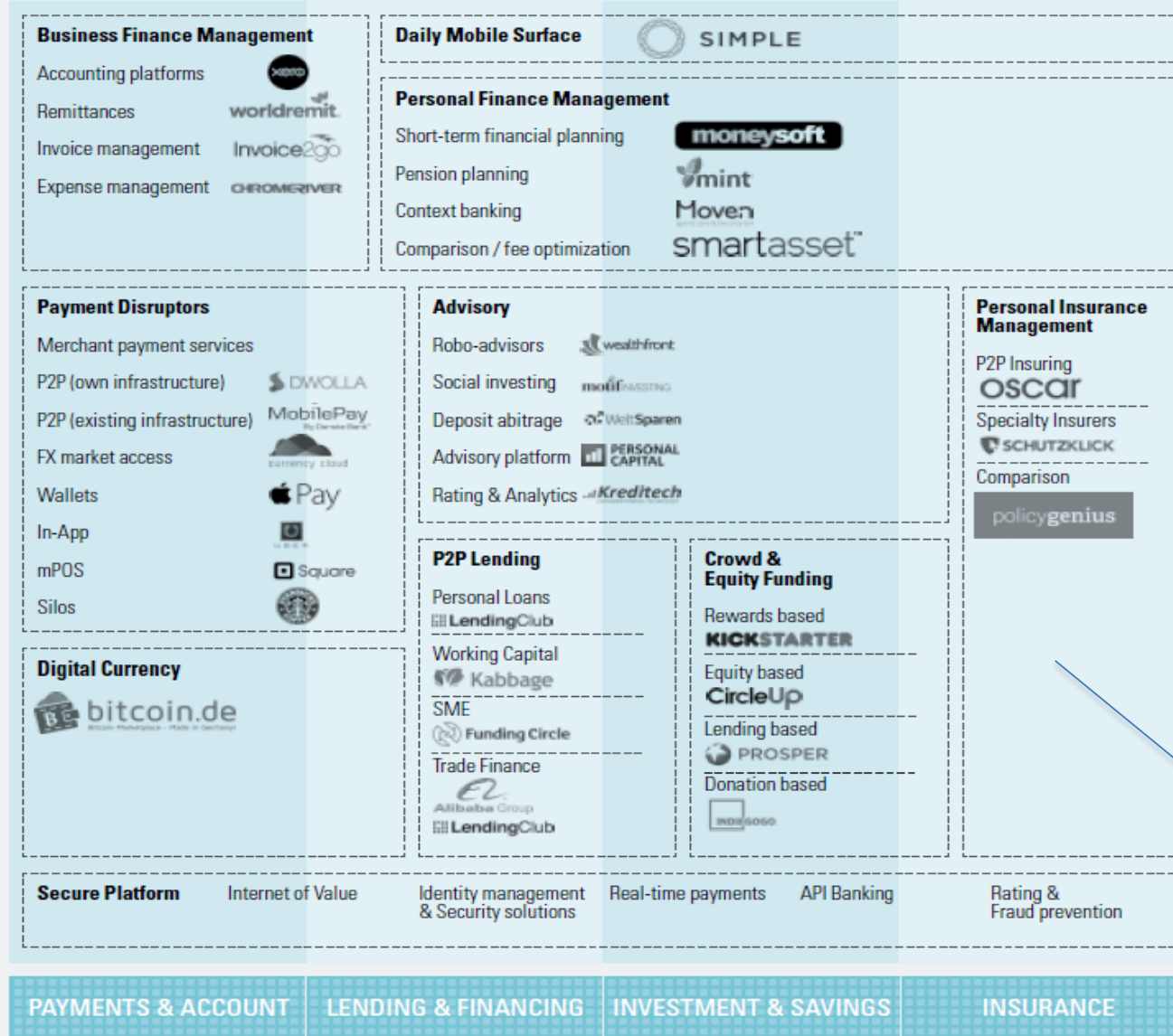
Banks are also best positioned to continue to manage the relationship with customers

Banks can add value by orchestrating solution providers around the customer

Banks can integrate core capabilities with partner solutions and “own” customer experience

Source: IBM Institute for Business Value analysis.

Con cosa le banche «a breve» dovranno competere e trovare opportunità*



1. Reinvent customer journey
2. Bring social & data to advisory
3. Democratize market access
4. Build legacy-free transaction networks

Questo è il rischio strategico

* Stern Stewart Research

Quali sfide ci attendono

1. Investment opportunities

Opportunity for institutionals to invest in non-leveraged financial service companies

2. High valuations

First successful FinTech IPOs (e.g., Lending Club, PayPal)

3. Giants invest

New economy players enter the market with strong brands and access to customers

8. Vulnerable banks

Cross-subsidiarization of banking products, legacy IT, organization and products, focus on meeting requirements

7. Consumer expectations

"Generation Smartphone" with different expectations and usage habits

6. SMAC technologies

Social, mobile, analytics, cloud & cybersecurity technologies have reached critical maturity levels

4. Regulatory frame

Regulators support competition between FinTechs and banks ("level playing field")

5. Infrastructure access

Banks are opening their infrastructure to FinTechs



*Quelle: Stern Stewart Research

Conclusioni – 1*

Relevant trends, such as digitalisation, change in regulations and customer behaviour, credit deleveraging, development of alternative funding channels, impacted the banking sector and the existing banking models: the need to integrate technology and to develop strategic digital relationships with the customers, the need to almost double the banks equity capital since the crisis, the need to adjust standard economical models with behavioural analysis and to consider the client as the main driver for change in banking, the restructure of bank's balance sheets by lowering the leverage levels, the need to redesign banking activity, to cut costs and to compete or cooperate with Fintechs, within the new realities of the financial world.

Transparency, authenticity, speed and delivery are rules for a new banking business model, in order to reset bad memories and regain trust. Via innovative technology, banks that are merging large relationship networks must communicate and be engaged in valuable dialogue with the customers.

* «New Pillars of the Banking business model or a new model of doing banking ?», Dan Costin Nătescu

Conclusioni – 2*

Innovation/change is part of the new normality. The digitalisation of financial services is no longer optional, traditional patterns in customer behaviour, work-flows and processes have changed. Educational sales of banking products and services should be a permanent concern within the new banking business model.

A new and sustainable banking business model should mix Human Capital and technology, in order to do “real time” monitoring, learn, adapt and support the dynamic needs of the customer clearly assessed, monitored and managed, within a new risk and resilience paradigm, including also detailed business continuity action plans and communication protocols.



Il rischio strategico è forse il più importante dei rischi

Fa emergere problemi di valutazioni non trascurabili.

L'analisi deve incentrarsi:

- sulle ipotesi alla base della strategia e testare sempre più la loro robustezza
- sulle regole di costruzione della numerica del processo di Pianificazione Strategica
- Può essere relativamente misurato utilizzando strumenti di scenario

* «New Pillars of the Banking business model or a new model of doing banking ?», Dan Costin Nitescu

Grazie per l'attenzione

**Le opinioni sono espresse a titolo personale e non impegnano in alcun modo
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