



Evolving Priorities for Risk and Portfolio Management

Observations from IACPM Global Benchmarking

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Agenda

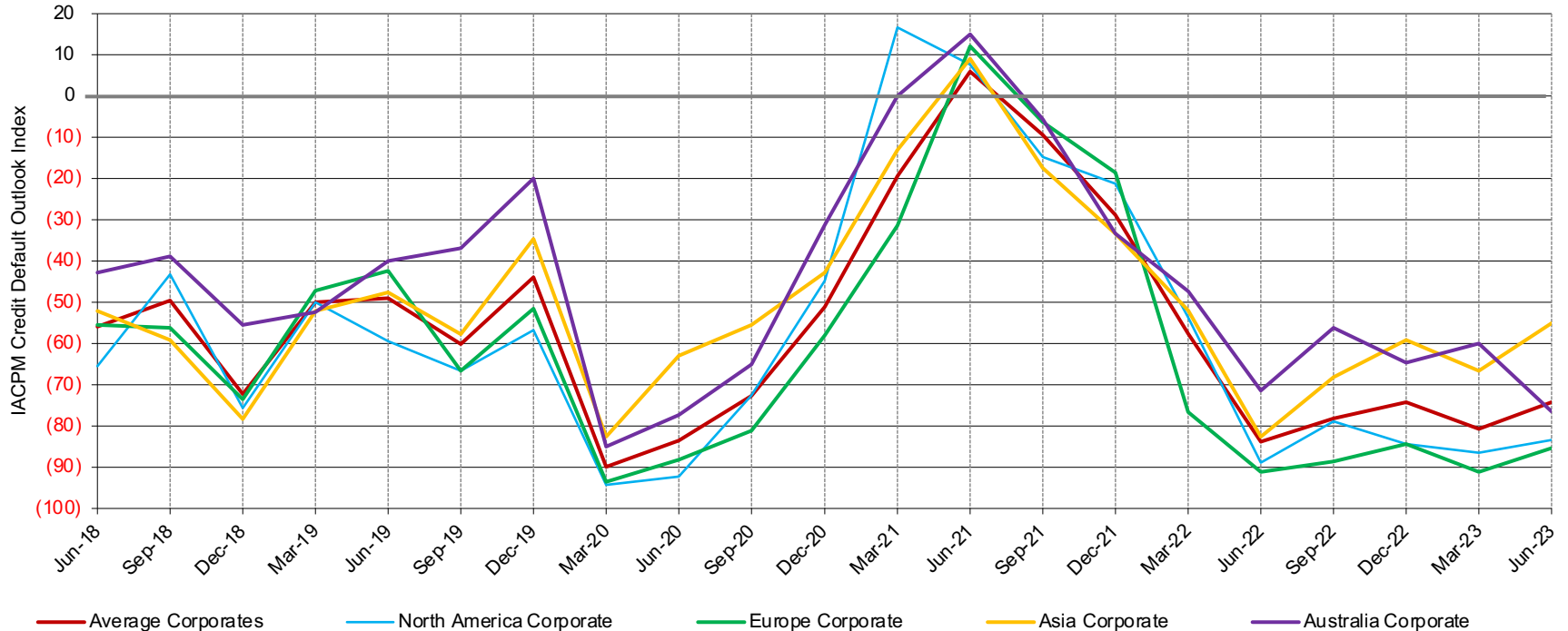
- IACPM Quarterly Credit Outlook Survey
- Principles and Practices in Credit Portfolio Management 2023
- ESG/Climate

IACPM Quarterly Credit Outlook Survey

IACPM 12 Months **Corporate** Credit Default Outlook Index

Expected direction Corporate Credit Defaults will move over the course of the next 12 months

(annual twelve month trailing; positive numbers indicate credit improvement; underlying data on next page)



*Average Corporate also includes results from Africa & Central/South America

Source: IACPM 2Q 2023 Quarterly Credit Outlook Survey | Question: Where do you expect Credit Default Rates to be in 12 months (annual twelve month trailing)?

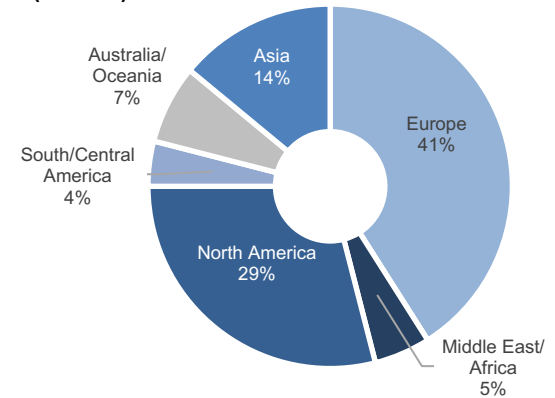


Principles & Practices in Credit Portfolio Management 2023

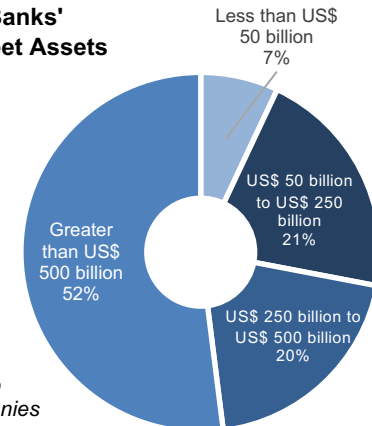
Survey Goals and Demographics

- The International Association of Credit Portfolio Managers (IACPM) recently completed its 2023 Principles and Practices in CPM Survey.
- Conducted every other year, the Survey focuses on five key areas of concern to members: the evolution of risk and credit portfolio management (CPM), organizational structures, mandate and priorities, tools used to manage the credit portfolio, and outlook for the future.
- Results provide insights into the current state of the CPM function across an array of firms and an opportunity for IACPM members to confidentially benchmark their CPM practice with those of other leading financial firms.
- Globally, 65 IACPM member firms participated, including 54 banks, nine Development Banks, and two reinsurance companies. More than half of the participating banks have a total balance sheet size above US\$ 500 Billion. A list of participating institutions can be found at the end of this deck.
- This results deck shows aggregate responses for the 54 bank participants and two reinsurance companies.

**Participating Banks'
Region of Domicile
(N = 56*)**



**Participating Banks'
Total Balance Sheet Assets
(N = 56*)**



* 54 banks and two reinsurance companies

Executive Summary (Page 1)

The 2023 Survey was conducted amid a changing and uncertain economic and geopolitical environment. Conditions included rising inflation, tighter monetary policy, and signs of credit deterioration in certain sectors. As a result, credit risk is under heightened scrutiny at all firms, and the role of CPM is critical and expanding.

Among key CPM mandates are origination frameworks including concentrations and limits policies; risk measurement and monitoring of early warning metrics; and risk mitigation strategies involving expanded use of market tools where available. Further, integration of ESG and Climate metrics into risk and portfolio management is transforming origination and risk mitigation as markets and standards develop.

Accordingly, priority considerations for CPM currently include capital efficiency, concentration management, and sector and asset strategies. To support these priorities, banks globally are expanding their skillsets in data analytics, data science, ESG and Climate and CPM continues to develop to meet the needs and opportunities of the rapidly evolving risk environment.

Survey results continue to support the findings of prior surveys that there is no “one-size fits all” for CPM. The 2023 data demonstrates a range of CPM business models reflecting the nature of the portfolio, geographic location, organizational structure, and culture. Additionally, CPM is a senior function with 40% of respondents reporting within two levels of the CEO, and 80% within three levels of the CEO.

CPM remains a hub for important and growing linkages within the firm (risk, line of business, capital policy etc.) but also across industry sectors which is an indispensable characteristic for the identification and management of ESG and climate risks as well as opportunities.

CPM Tools. While discipline at origination like concentration and limits frameworks, portfolio perspective in deal decision, and regulatory capital measurement tools (front-end) continue to top the list of tools used to manage the credit portfolio, market tools (back-end) like credit risk insurance, financial guarantees, and funded synthetic securitizations increased in importance over the last two years for the active management of the credit portfolio.

Executive Summary (Page 2)

Market tools show varied levels of importance across different regions. Loan sales/purchases are still important across all regions, but less so than just a couple of years ago. In contrast, the relative importance of single name CDS is highest for banks in the Americas. Funded synthetic securitizations are still of more relative importance for banks in EMEA, credit risk insurance is used more often in EMEA and APAC, while banks in the Americas and APAC put higher emphasis on financial guarantees. In the coming months usage is expected to expand for loan sales/purchases, credit risk insurance, as well as funded and unfunded synthetic securitization.

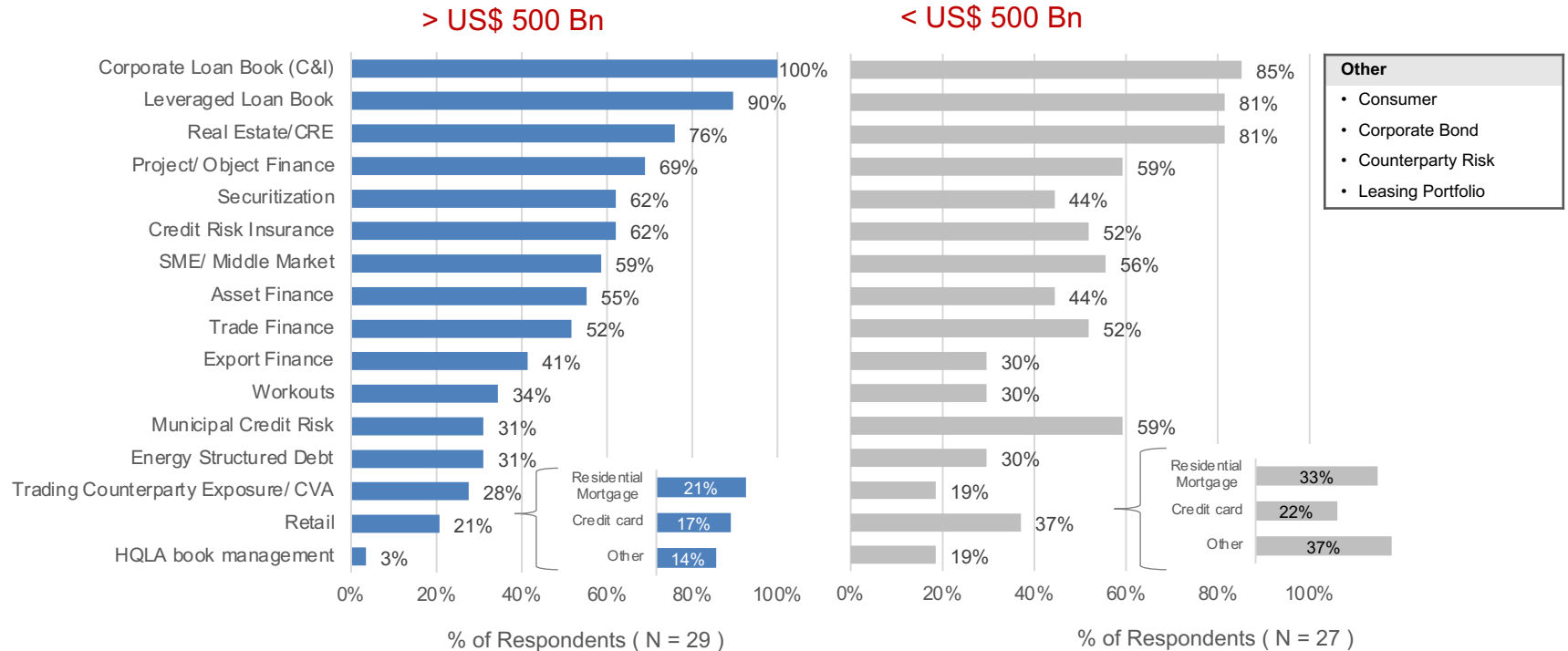
Data and Analytics. CPM functions globally are expanding their data, data analytics, and data science skillsets. They are developing additional data sources (internal and external), non-traditional risk data, and new platforms to inform credit risk management decisions. For the Corporate and SME portfolio, these data sources include news, social media, and internal credit behavior data. Top challenges that are constraining the use of innovative data as well as advanced analytics are the cost and quality of available data, validation difficulties, and regulatory expectations. Forward-looking key risk indicators like credit and P&L movements and credit spread delta are evaluated at least monthly by some two-thirds of participating firms.

Capital optimization and RWA reduction. Given increasing capital pressures by regulators, the regulatory capital ratio is now the top binding constraint at banks globally. Managing the efficient employment of capital has become the top priority especially for banks domiciled in EMEA and the APAC regions. These renewed capital constraints have increased the focus on RWA forecasts in the past months and made meeting capital targets one of the top CPM business priorities globally (behind revenue generation).

While regulatory capital remains the capital measure with the highest importance at banks globally, larger firms in the Americas and APAC are expecting the importance of stressed capital to increase over the next two years. To note: economic capital is the top binding constraint for one-third of smaller bank respondents.

Supporting growth and balancing risk/return. The three most important regulations affecting CPM are the new Basel 3 regulations (84%), followed by securitization and related issues (45%), and Climate Risk Disclosure Requirements (34%). Despite the tightening of credit, some 50% of respondents are expecting growth in their portfolios over the next 12 to 24 months. CPM is seen as a catalyst and will be expected to support revenue growth while meeting capital targets.

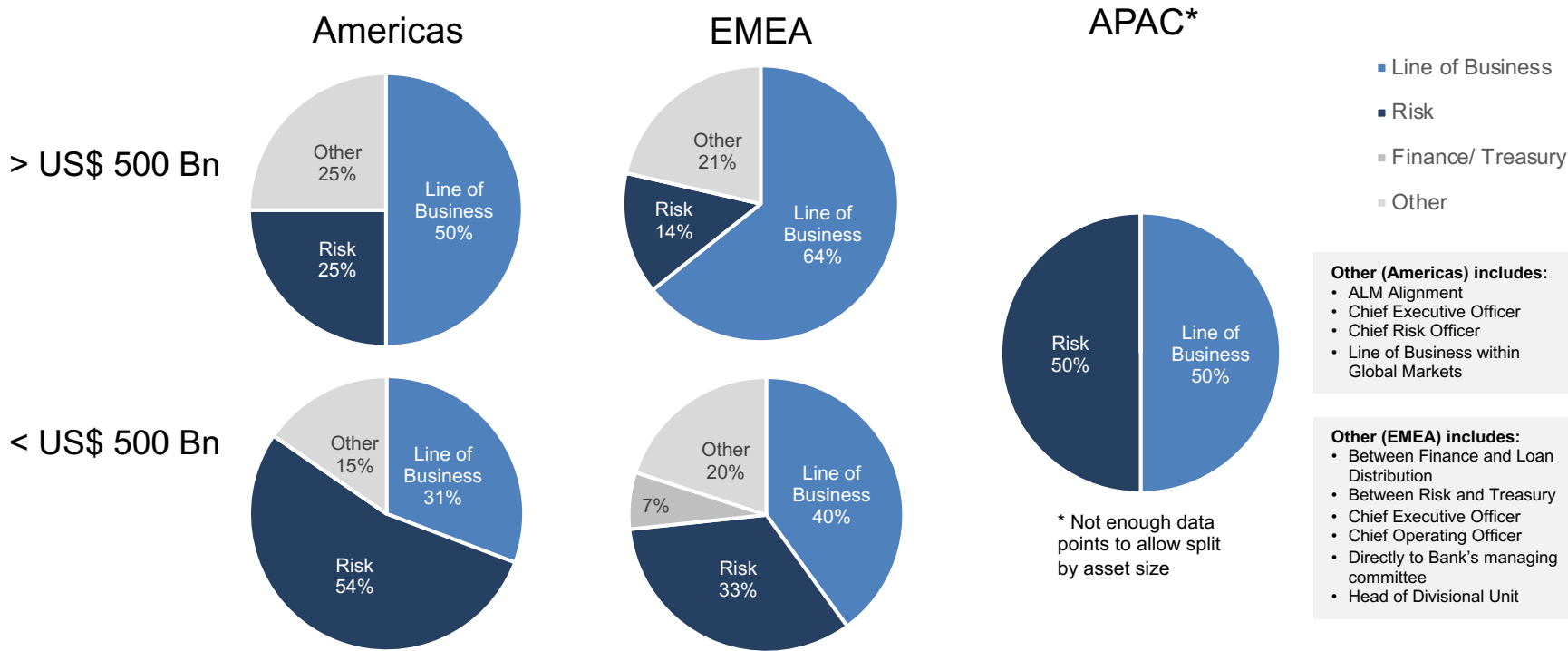
Risk Management Responsibility by Asset Classes



Source: IACPM Principles & Practices in CPM Survey 2023 | Question: For which asset classes (including commitments and LCs), or for which parts of the portfolio, does your CPM unit have credit portfolio responsibility? Please check all that apply. (Q3)

Credit Risk and Portfolio Management Reporting Line

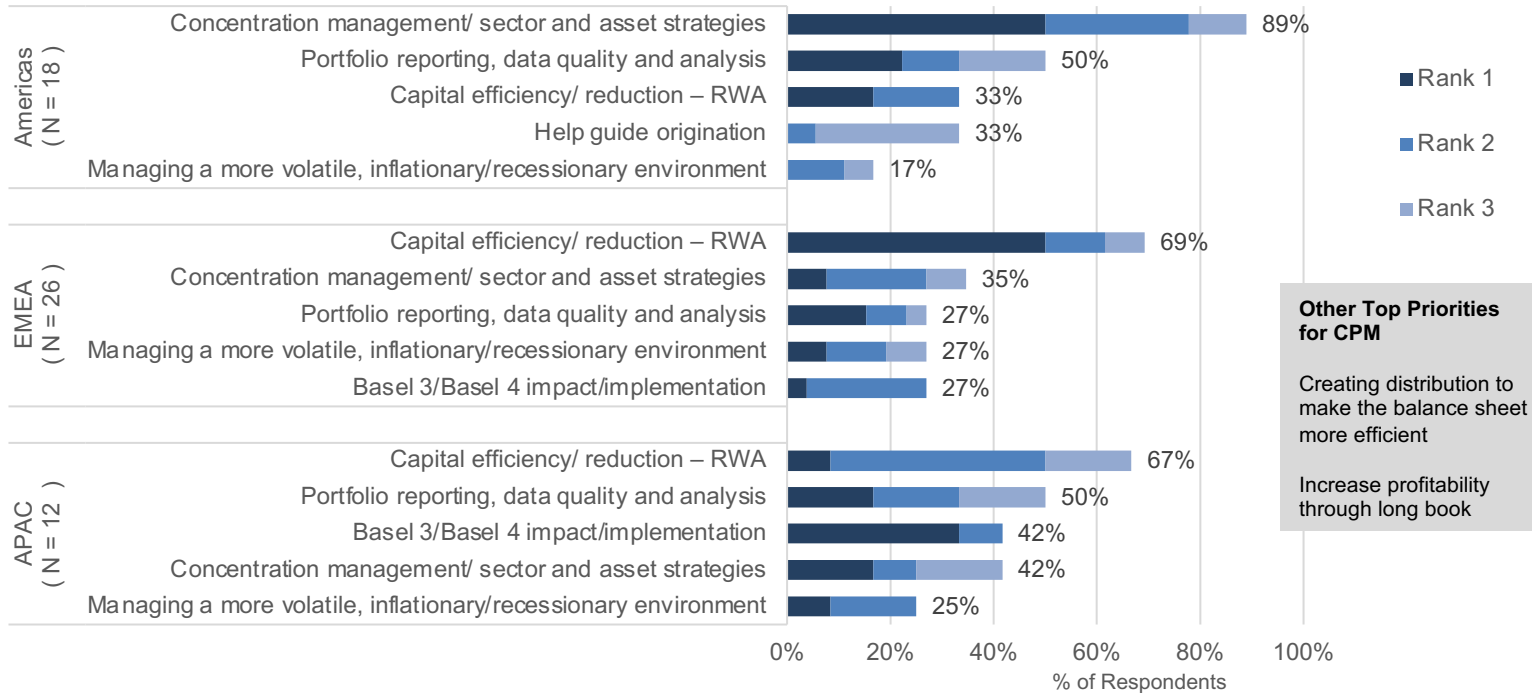
By Region of Domicile & Approximate Total Balance Sheet (N = 56)



Source: IACPM Principles & Practices in CPM Survey 2023 | Question: To which functional area of your firm does the head of your CPM unit report? (Q6)

Credit Risk and Portfolio Management Top Priorities

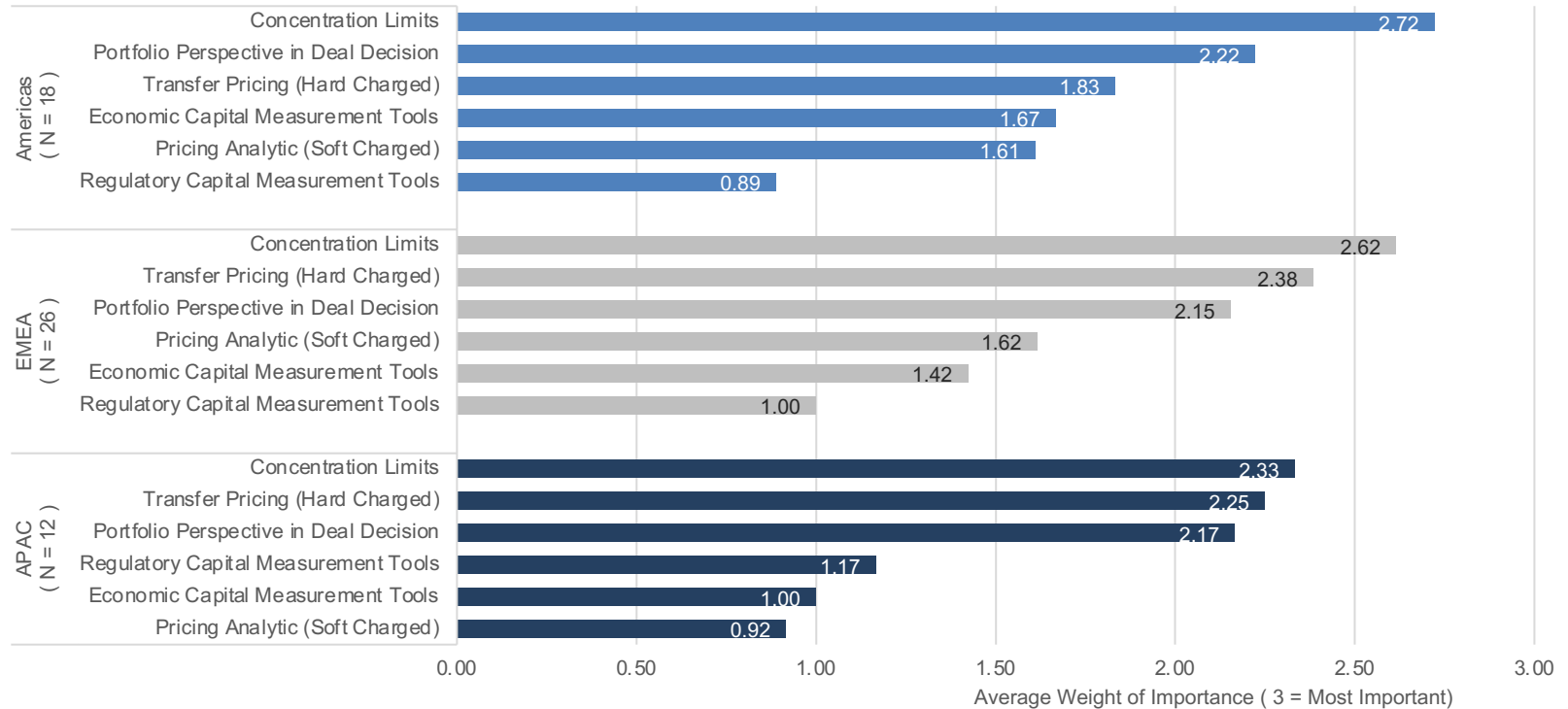
CPM top priorities vary by banks' region of domicile. The credit crisis continues to have American banks focused on concentration management, sector and asset strategies, while banks in EMEA and now also APAC have a clearly focused on capital efficiency.



Source: IACPM Principles & Practices in CPM Survey 2023 | Question: Please indicate and rank top three priorities for CPM at your firm? (Q22)

Relative Importance of CPM Tools: Discipline at Origination

By Region

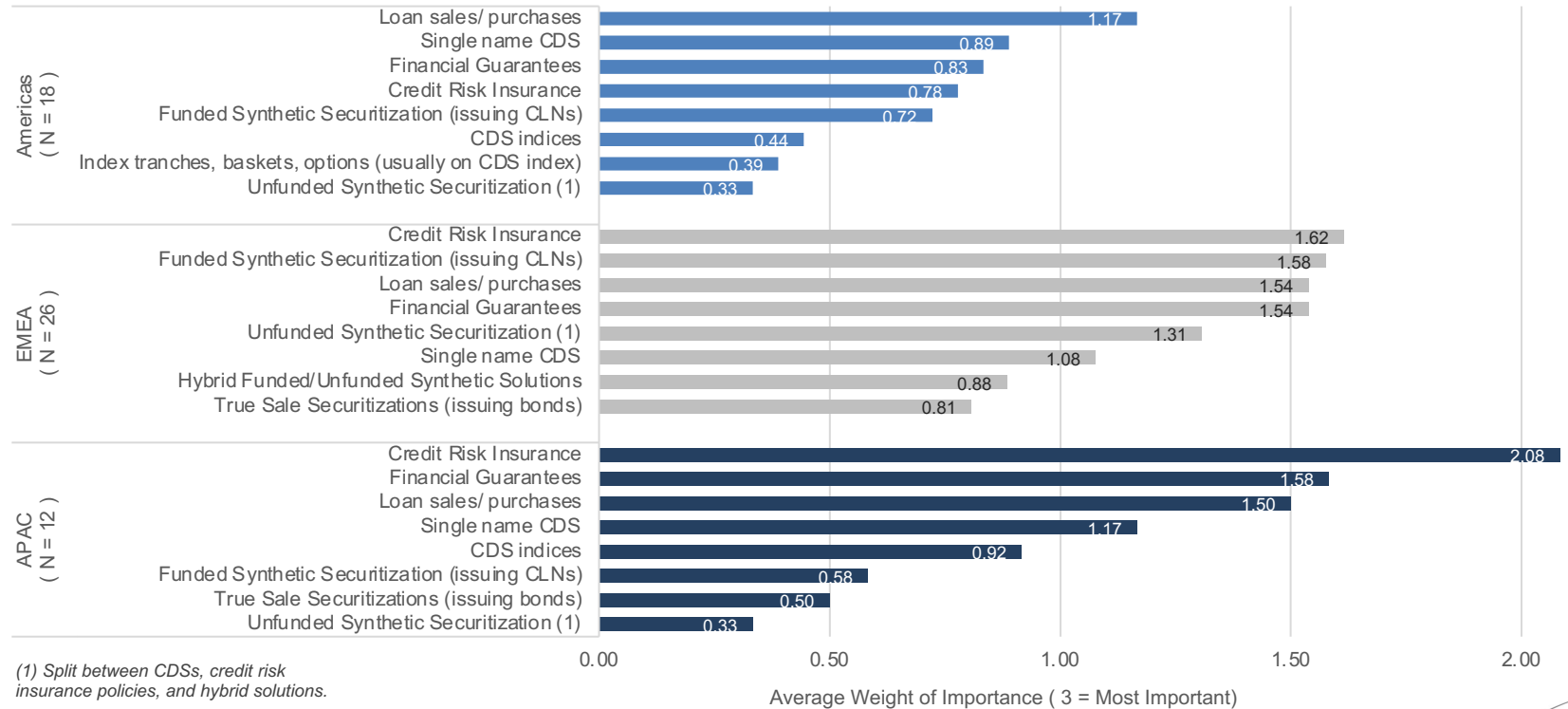


Source: IACPM Principles & Practices in CPM Survey 2023 | Question: Please rate the tools you use to manage your credit portfolio by importance. (Q23)



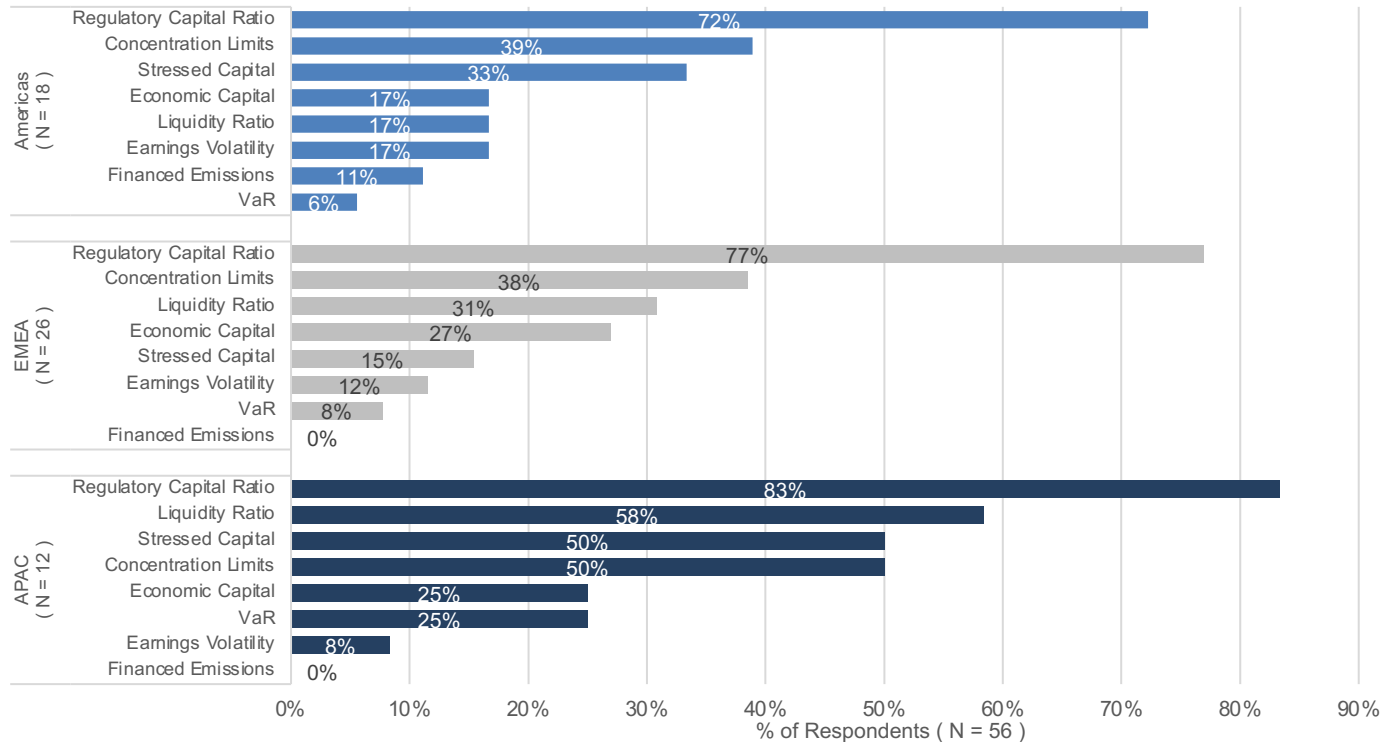
Relative Importance of Market Tools

By Region of Domicile



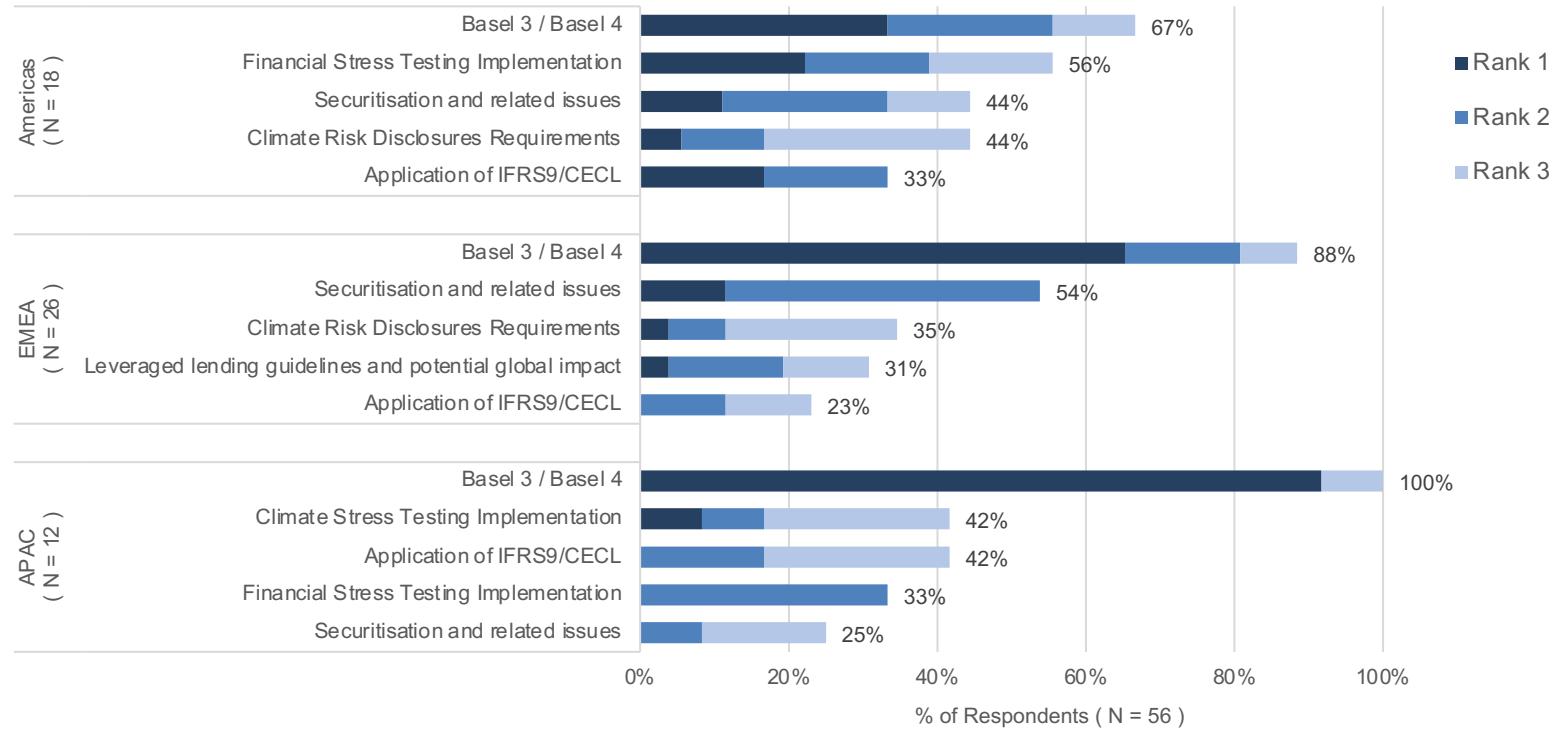
Source: IACPM Principles & Practices in CPM Survey 2023 | Question: Please rate the tools you use to manage your credit portfolio by importance. (Q23)

Top Binding Constraints By Region



Source: IACPM Principles & Practices in CPM Survey 2023 | Please indicate your firm's top binding constraints. Select all that apply. (Q34)

Most important regulations affecting CPM

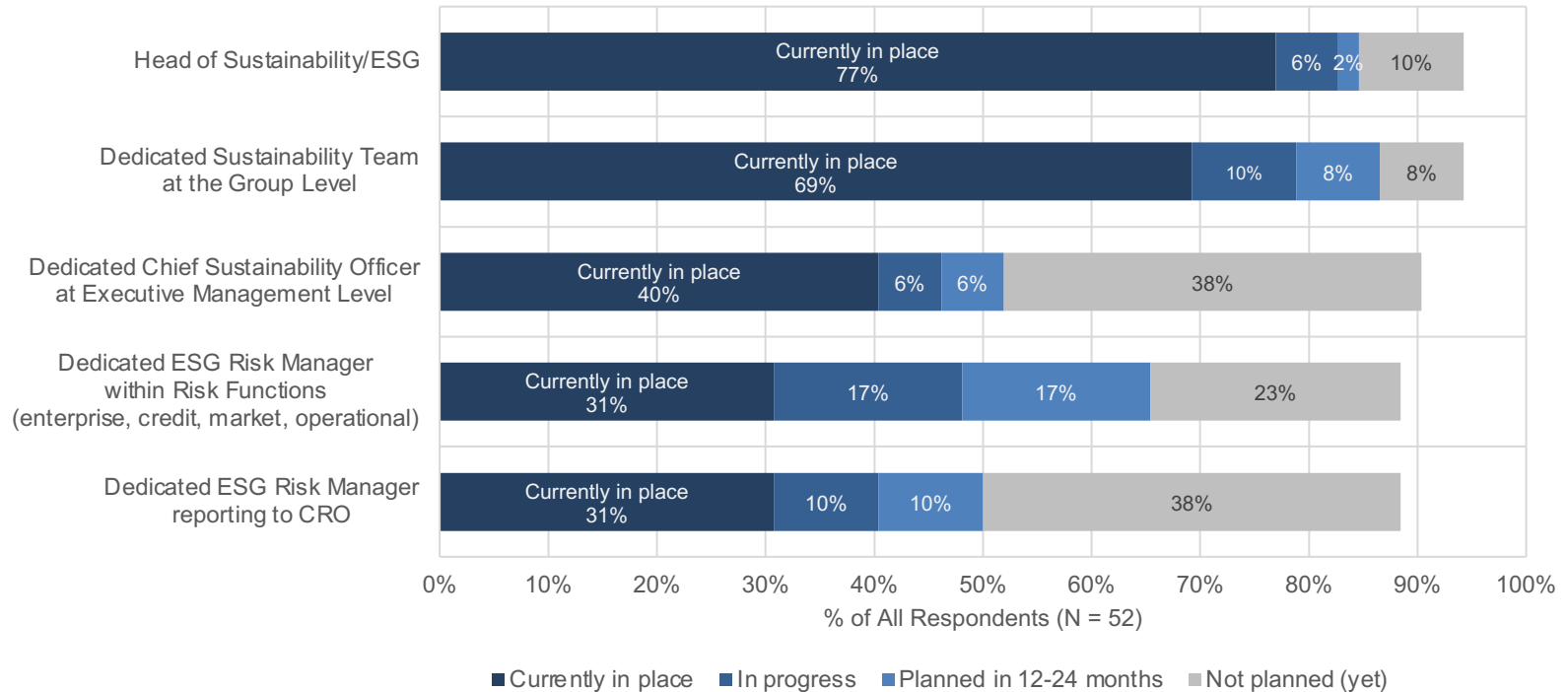


Source: IACPM Principles & Practices in CPM Survey 2023

Question: What are the most important regulations affecting CPM? Please indicate and rank top three. (Q42)

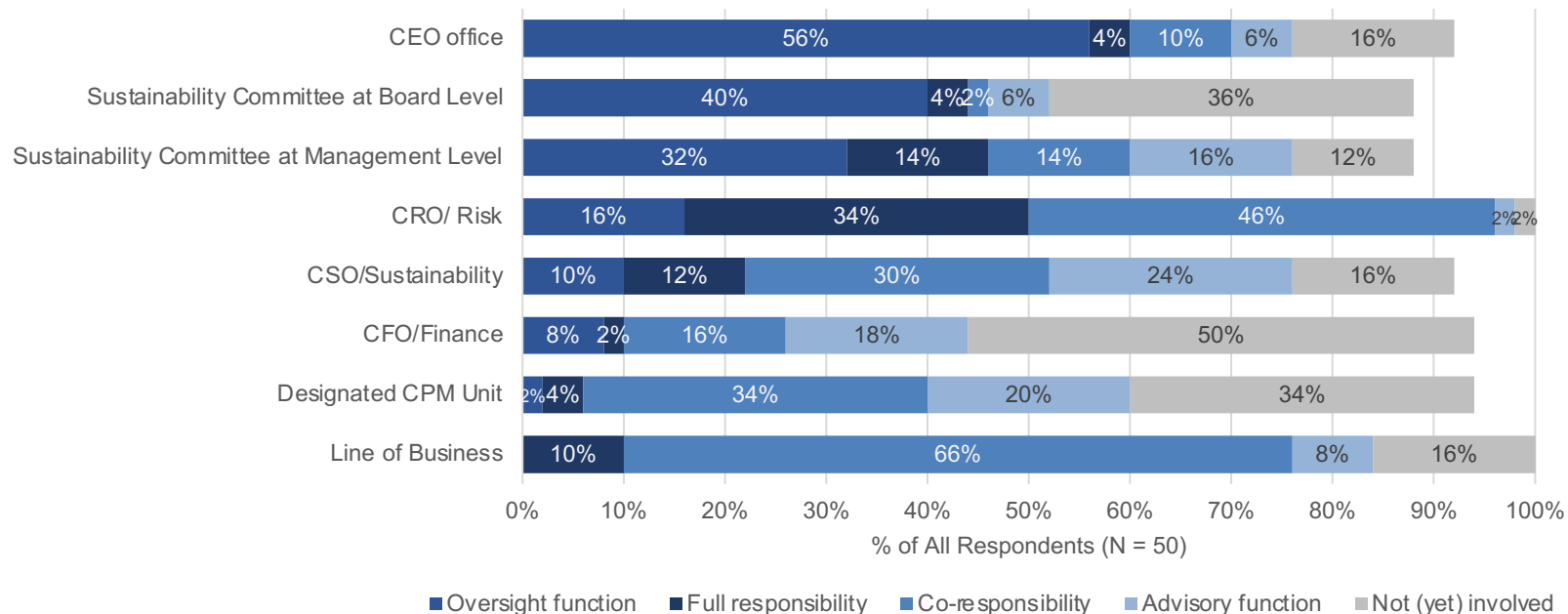
ESG/Climate

ESG & Climate Risk Governance Frameworks



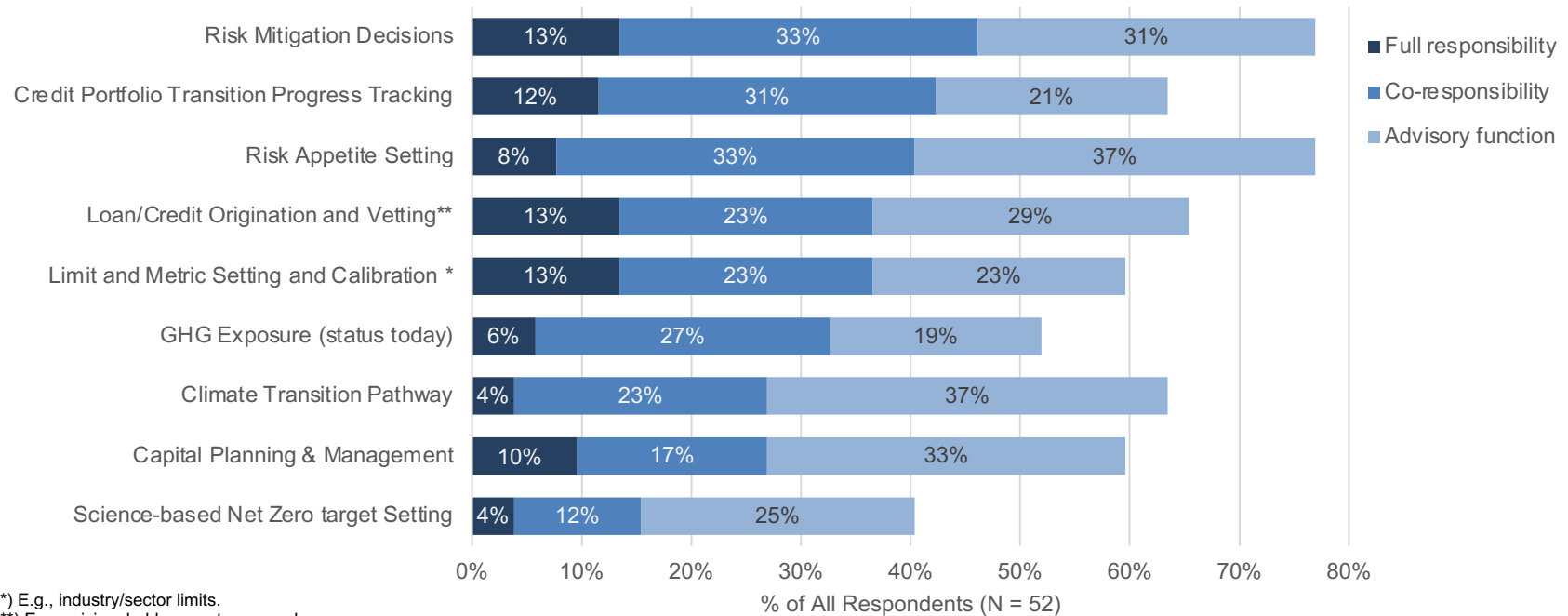
Source: IACPM ESG & Climate Risk Management Frameworks 2022 | Question: Please indicate ESG & Climate Risk governance frameworks your firm has in place or is planning to establish over the next 12 - 24 months. Please indicate all that apply. (Q2)

Areas Responsible for Integrating Climate Risk into Credit Risk Management Frameworks



Source: IACPM ESG & Climate Risk Management Frameworks 2022 | Question: Which areas within your firm are currently involved and/or responsible for integrating ESG & Climate Risk considerations into credit risk management frameworks? (Q3)

Risk & CPM Involvement in Climate Risk Considerations

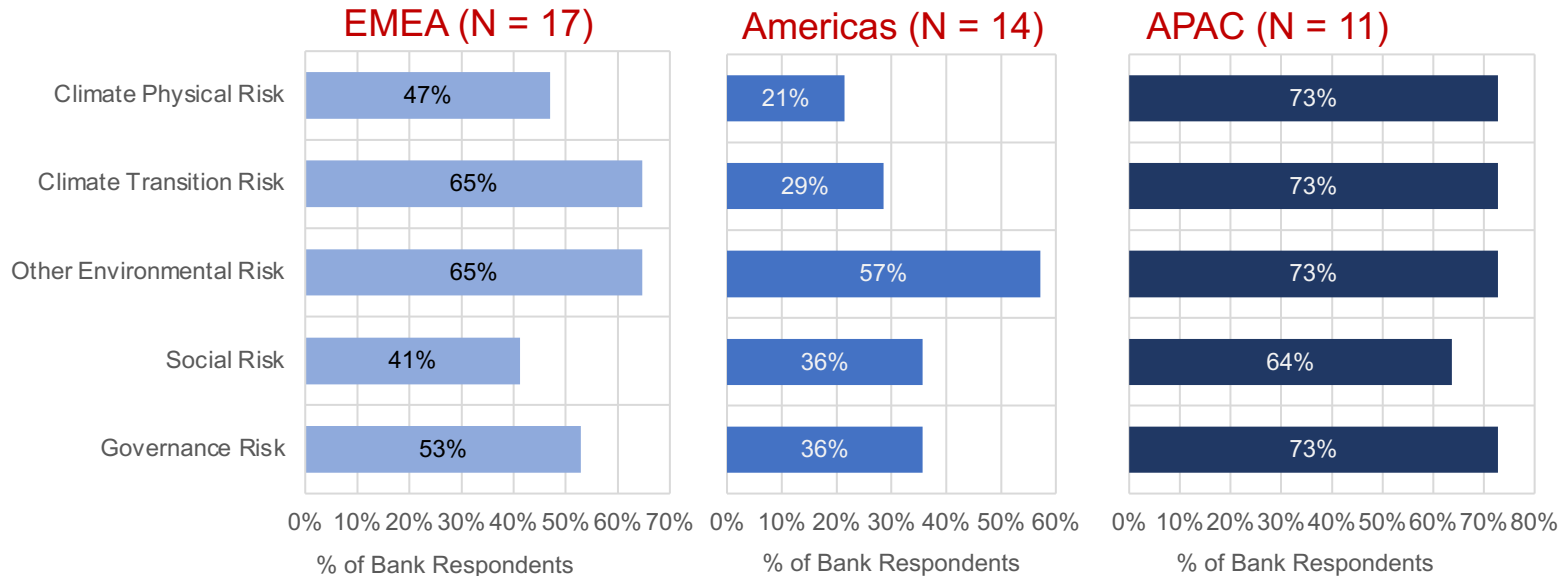


Source: IACPM ESG & Climate Risk Management Frameworks 2022

Question: Please indicate your firm's CPM function's level of involvement in Climate Risk considerations for the following areas. (Q10)

Banks' Current Consideration of ESG & Climate Risk Factors in CPM Decision Making, e.g., to Manage Concentrations

The participating Australian banks are ahead of their global peers in considering ESG & Climate risk factors in CPM decision making, while banks in Asia are slightly behind European banks. Surprising is the minor differentiation between risk types in APAC.

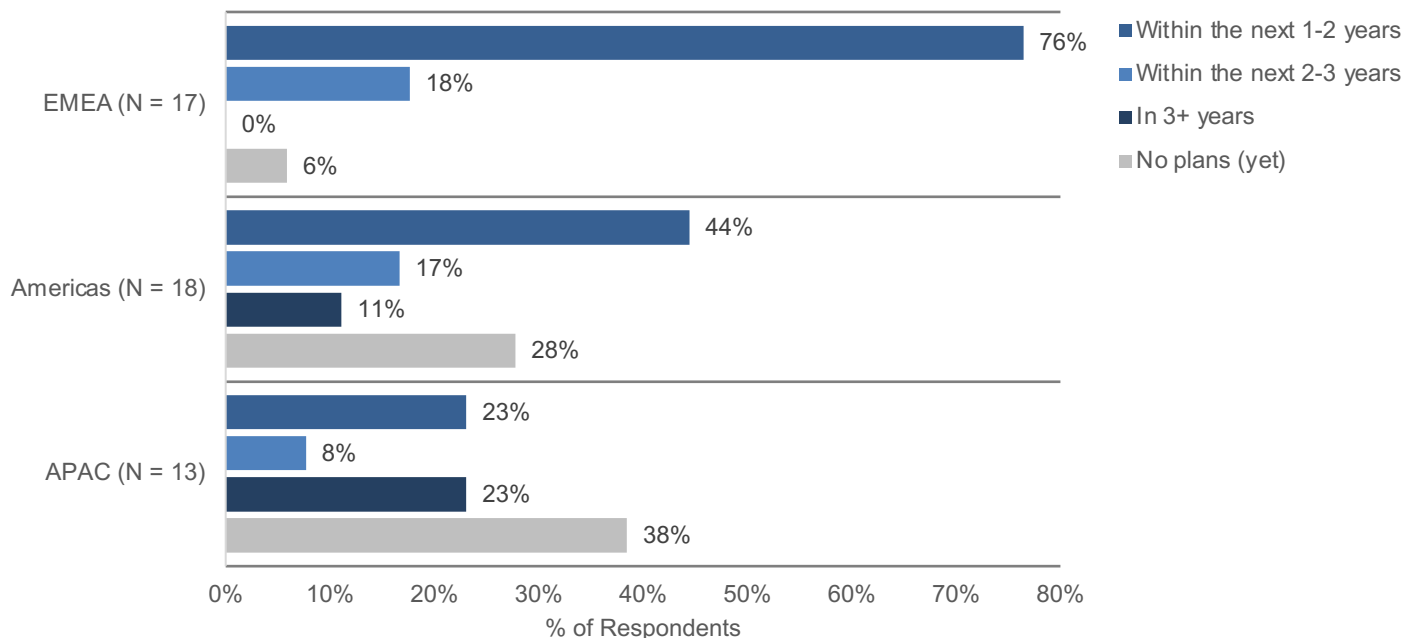


Source: IACPM ESG & Climate Risk Management Frameworks 2022

Question: Does your firm consider ESG & Climate Risk factors in CPM decision making, e.g., to manage concentrations? (Q4)

Incorporating Climate Risk Considerations into Financial Planning

Three-quarters of responding firms domiciled in EMEA are planning to incorporate climate risk considerations into financial planning within the next 1-2 years, while for their peers in APAC and the Americas this number is less than half. Interestingly not much variation can be observed across type and size of the participating institutions.



Source: IACPM ESG & Climate Risk Management Frameworks 2022/2023

Question: Does your firm have any plans to incorporate climate risk considerations into financial planning (revenues, reserves and/or capital projections)? (Q24)

Resources



FALL CONFERENCE



The IACPM 2023 Annual Fall Conference will be taking place at the **Loews Chicago Hotel**, Monday, November 6 through Wednesday, November 8, 2023.

[Learn More](#)

UPCOMING EVENTS

JUL Monday, May 8 - Thursday, August 31

30 **IACPM's Spring 2023 Online Educational Seminar**

JUL Monday, July 31 - Tuesday, August 1

31 **Risk and Credit Portfolio Workshop at National University of Singapore Sixteenth Annual Risk Management Conference**

NOV Monday, November 6 - Wednesday, November 8

6 **IACPM 2023 Annual Fall Conference – Save the date!**

[View Calendar](#)

LATEST NEWS

IACPM has submitted a comment letter on the proposed STS criteria in the EU

July 20, 2023

LATEST RESEARCH

IACPM 2016-2022 Survey Confirms that Risk Sharing is Becoming Mainstream

June 30, 2023

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- Calendar of events
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CREDIT MARKETS

Banks return to underwriting high-yield debt

Banks are steadily returning to underwriting high-yield corporate debt, after banking sector turmoil in recent months left many lenders on the sidelines. "Silicon Valley Bank and Credit Suisse hit just when we were catching a bid, slowing us down," but "you're starting to see the syndicated option come back," says Chris Blum, BNP Paribas' head of corporate finance. **Full Story:** [Financial Times](#) (5/29)



High-yield bond market resilient despite headwinds

The \$1.4 trillion market for high-yield corporate bonds remains resilient, despite concerns about elevated inflation and interest rates. Yields have declined significantly since 2022



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