



Insights into  
Concentration Limit Frameworks  
September 5, 2024

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# Panelists

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Truist
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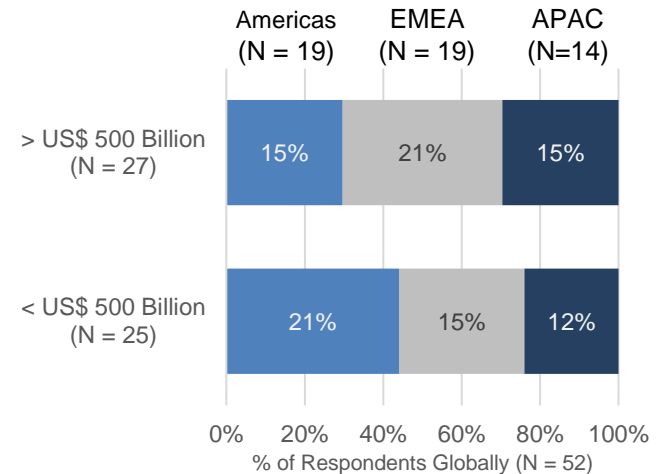
# Webinar Outline

- Background
- Linkages to Risk Appetite Frameworks
- Limit Setting Approaches
- Governance
- Evolving Themes' Practical Implications
- Emerging Risks
- Q & A

# Survey Background & Demographics

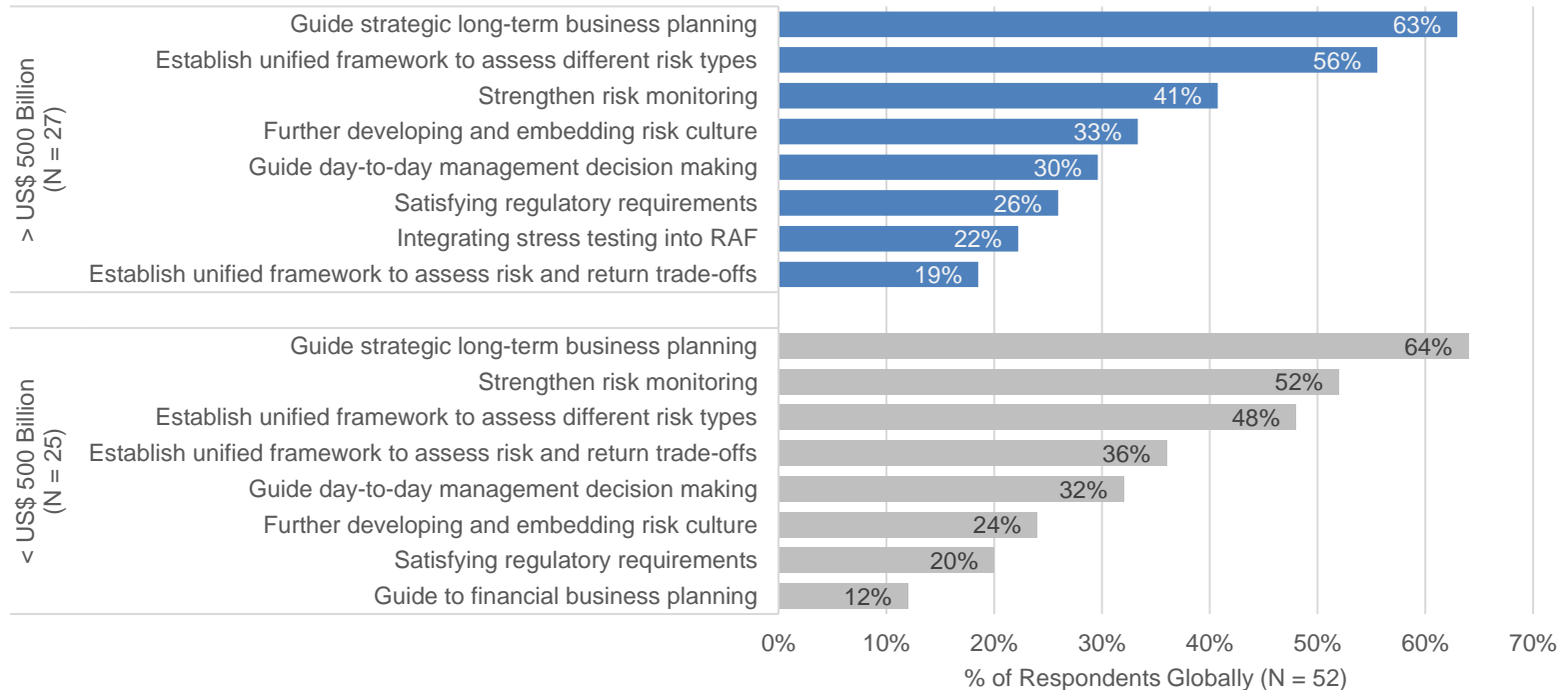
- IACPM conducts regular surveys on Concentration Limit Frameworks and Risk Appetite. Our most recent survey, conducted in early 2024, builds on surveys we ran in 2017 and 2020.
- Survey results form the backdrop of this webinar. Results highlight how frameworks and practices at IACPM member firms have evolved and identify latest industry (best) practices post the COVID crisis and failures of certain banks in the U.S. in Spring 2023.
- The data presented on the following slides has been collected from 52 member firms, including 49 banks, two insurance companies and one re-insurer.

*To Note: We also had nine participating development banks/export credit agencies participate in the survey who received their own aggregate results analysis.*



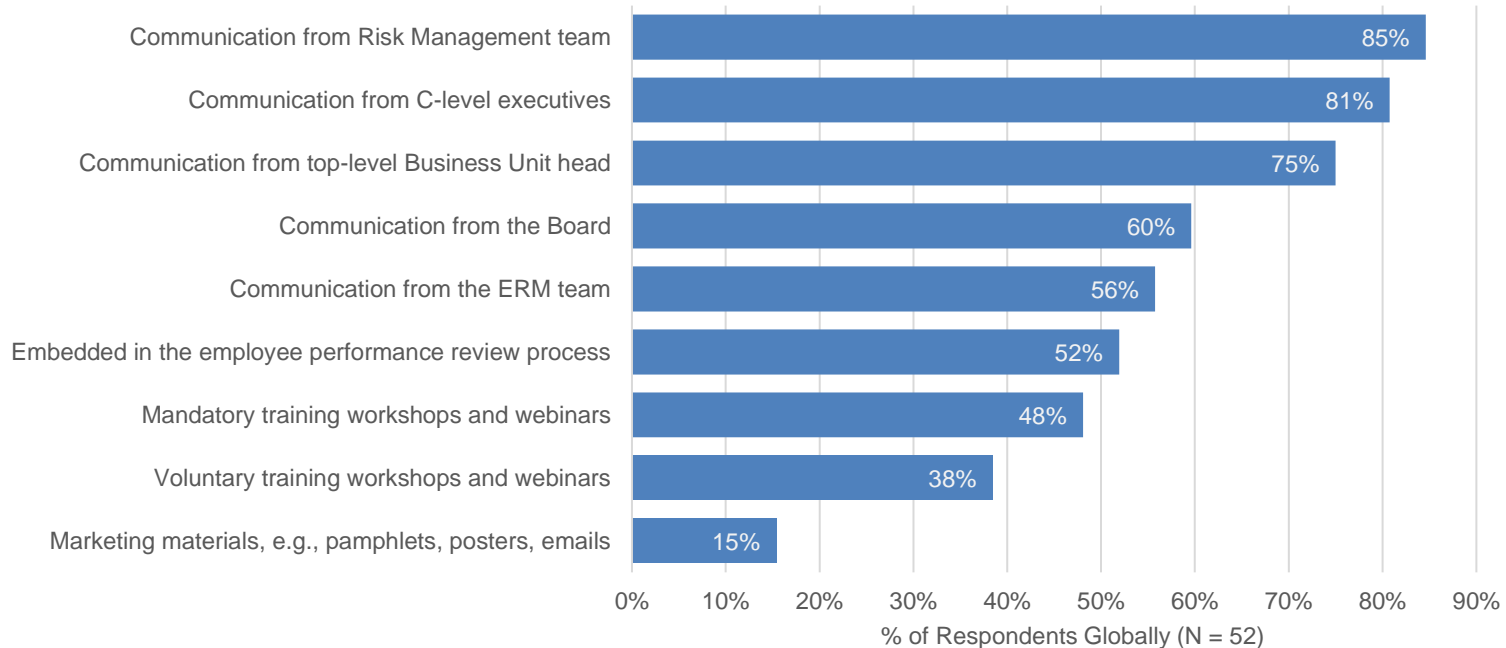
# Linkages to Risk Appetite Frameworks

# Risk Appetite Frameworks main objective continues to be the guidance of strategic long-term business planning at firms globally.



Source: IACPM Concentration & Limit Frameworks Survey 2024 | Question: Please indicate your firm's top 3 Risk Appetite Framework objectives. (Q2)

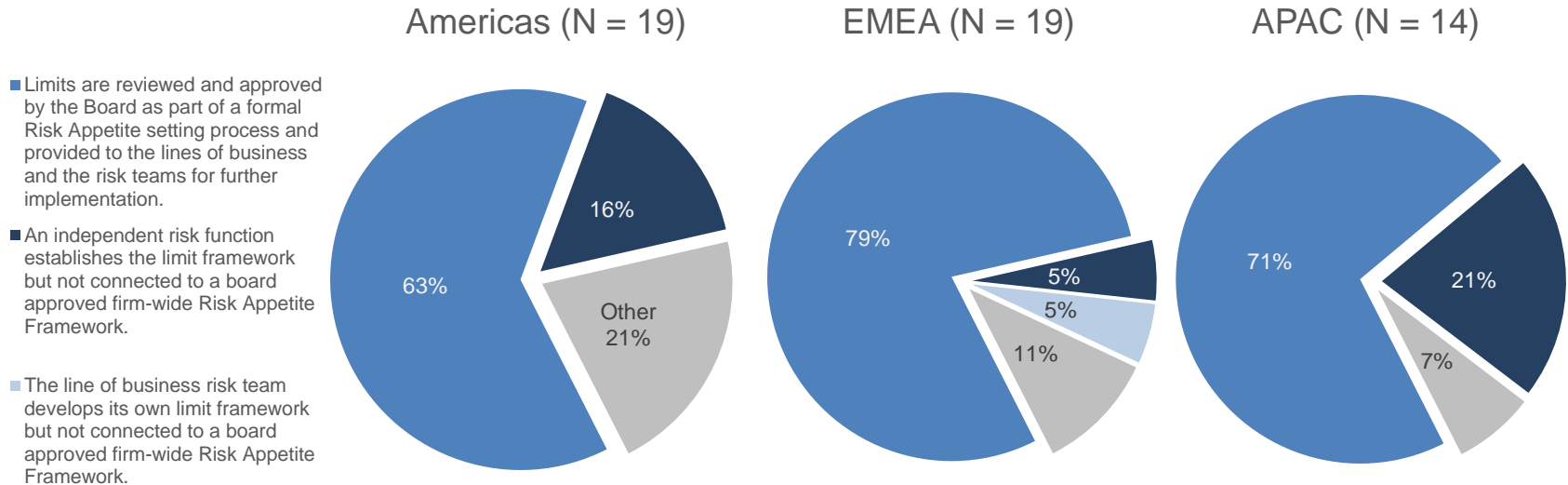
# Risk Appetite Frameworks: To promote a strong risk culture in support of RAFs, communication from risk management teams, C-level executives and top-level business unit heads are key.



Source: IACPM Concentration Limit Frameworks Survey 2024

Question: How does your firm promote a strong risk culture to support Risk Appetite Frameworks? (Check all that apply) (Q5)

# Framework Linkages: Formal Risk Appetite setting processes at many firms globally include the review and Board approval of limits, which are provided to the lines of business and the risk teams for further implementation.

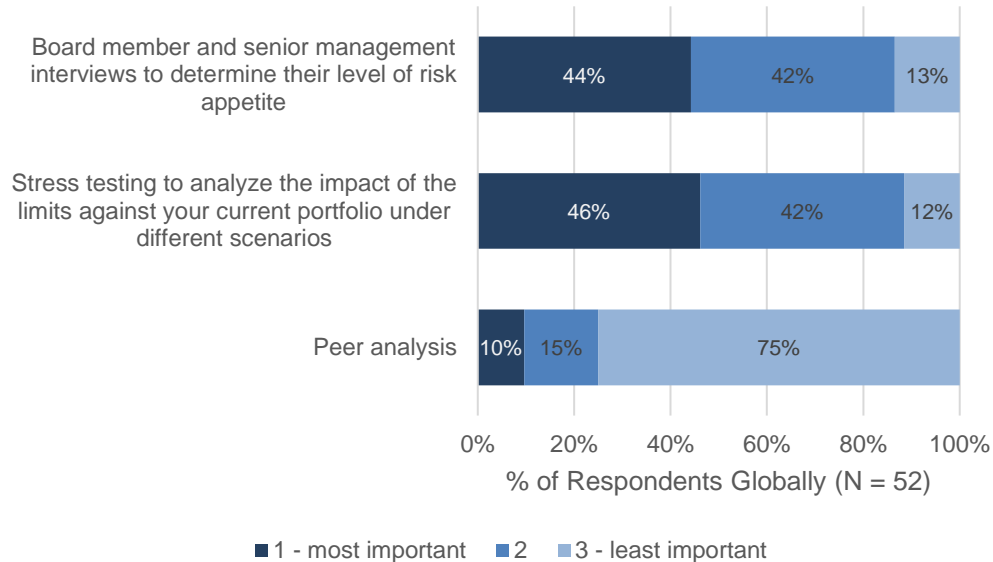


Source: IACPM Concentration & Limit Frameworks Survey 2024 | Question: Which function establishes the limit framework? (Q10)



# Limit Setting Approaches & Observed Changes

## Frameworks: When designing limit frameworks, firms conduct interviews with board members & senior management to determine risk appetite levels and stress testing to analyze potential impact of limits on current portfolios.

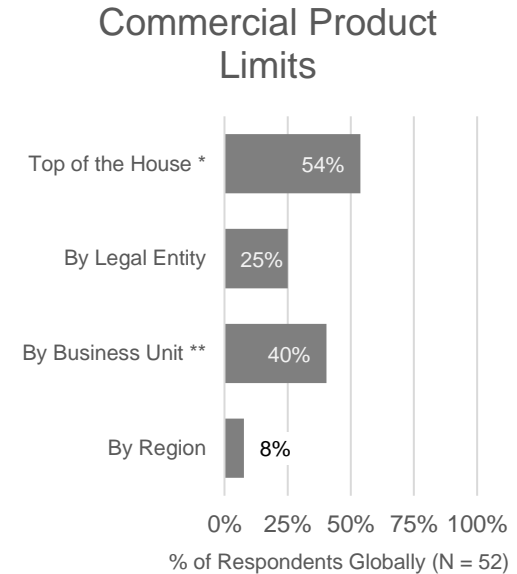
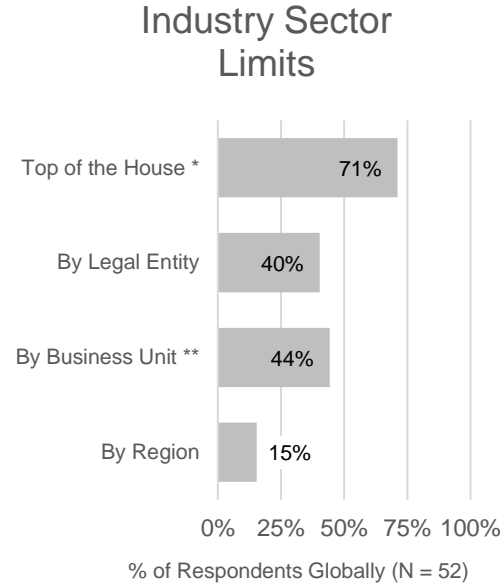
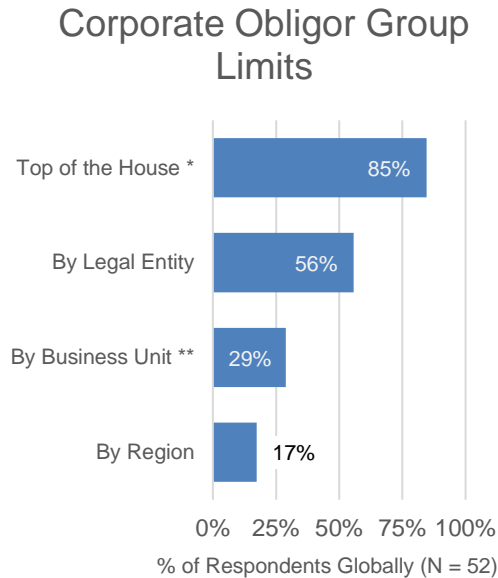


Limits are set at various levels of the organization, which for over half of survey respondents includes limits set and monitored at the Top of the House at the ultimate global parent level and across most credit books.

Source: IACPM Concentration Limit Frameworks Survey 2024

Question: Please rank the following actions by importance when designing your limit framework. (Q11)

# Frameworks: A Deep-Dive into Three Limit Types and the Levels at which Frameworks are Set and Monitored



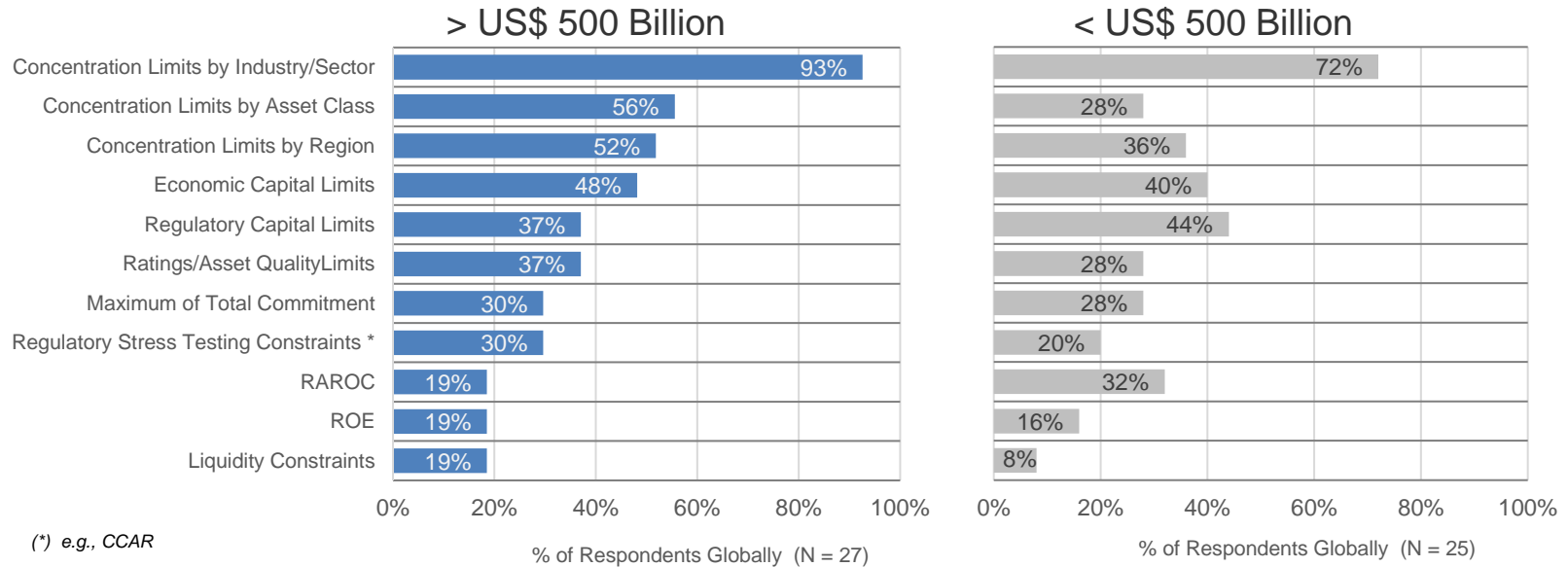
(\*) At the ultimate global parent level and set across all credit books. | (\*\*) E.g., Global Banking, Middle Market, Private Banking.

Source: IACPM Concentration Limit Frameworks Survey 2024

Question: At what level(s) is your firm's limit framework set and monitored? Please check all that apply. (Q13)

# Frameworks: Concentration limits by industry sector are the most important Credit Portfolio Management target regardless of firm size or region.

## Respondents By Asset Size

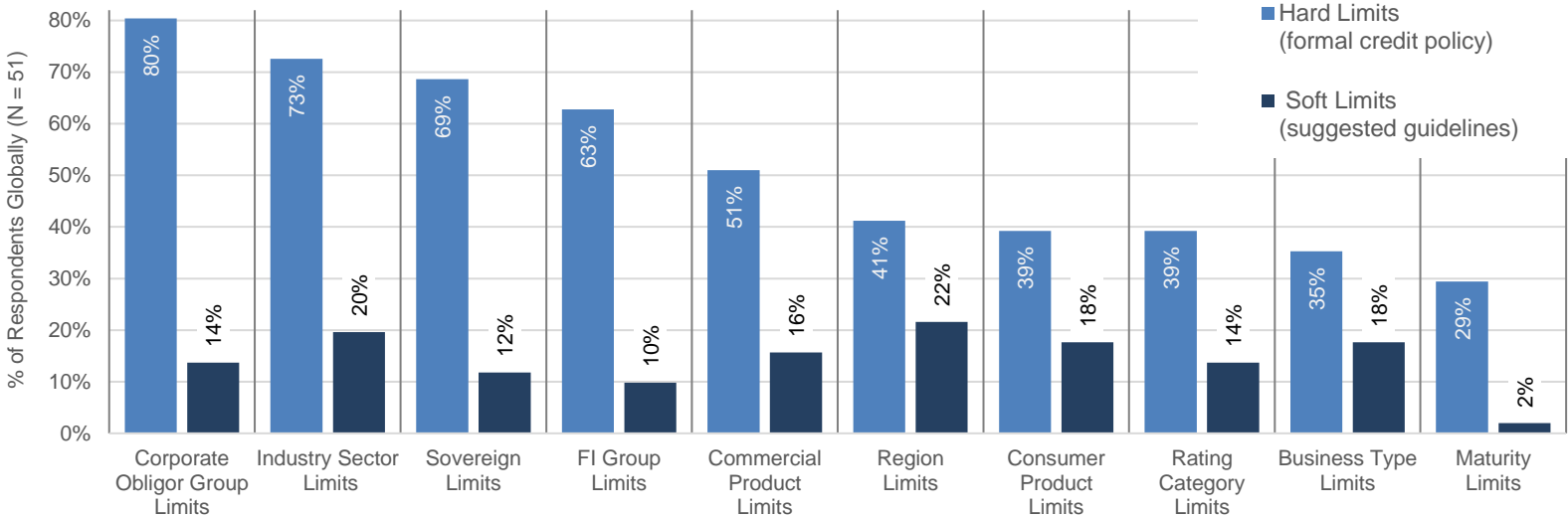


Source: IACPM Concentration Limit Frameworks Survey 2024

Question: Please indicate your firm's most important targets for the management of the Credit Portfolio? Check all that apply. (Q39)

# Governance

# Governance: Most limits are viewed as hard limits\* reflecting a formal credit policy and which require a mitigation or reduction plans when breached.



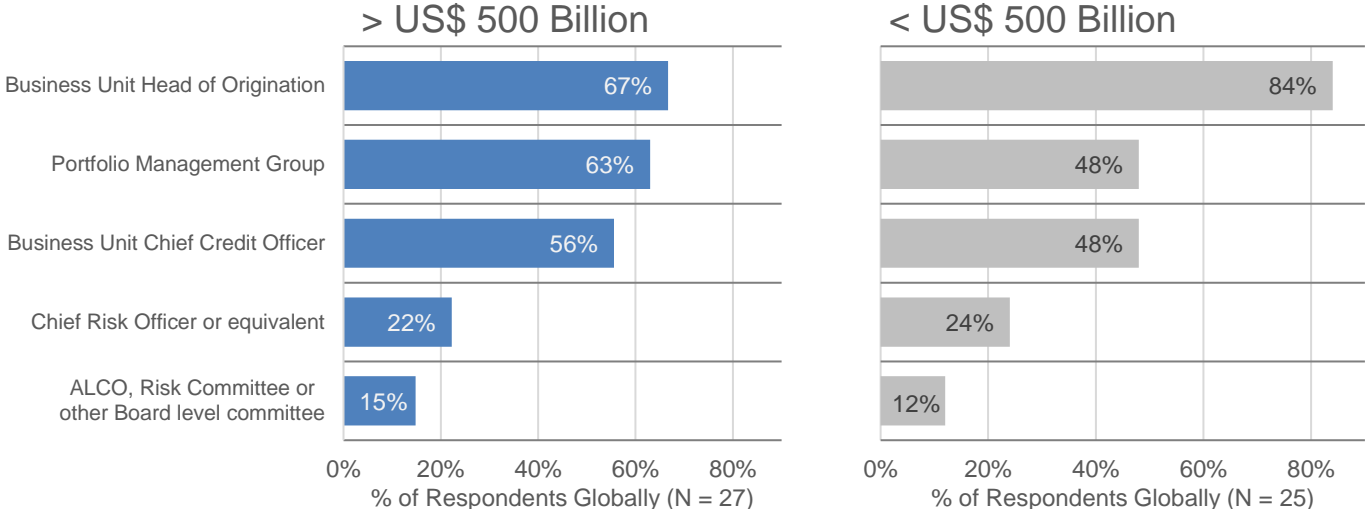
(\* In the context of this survey, "hard limits" are defined as requiring a mitigation or reduction plan, whereas "soft limits" will require only a discussion with the CRO/Senior Management but not necessarily a mitigation action.

Source: IACPM Concentration Limit Frameworks Survey 2024 | Question: How are limits viewed/treated in your firm? (Q41)



# Responsibility for the development and implementation of remedy plans for exposure in excess of limits often lies with the Business Unit Head of Origination, in many cases together with the Portfolio Management Group.

## Respondents By Asset Size

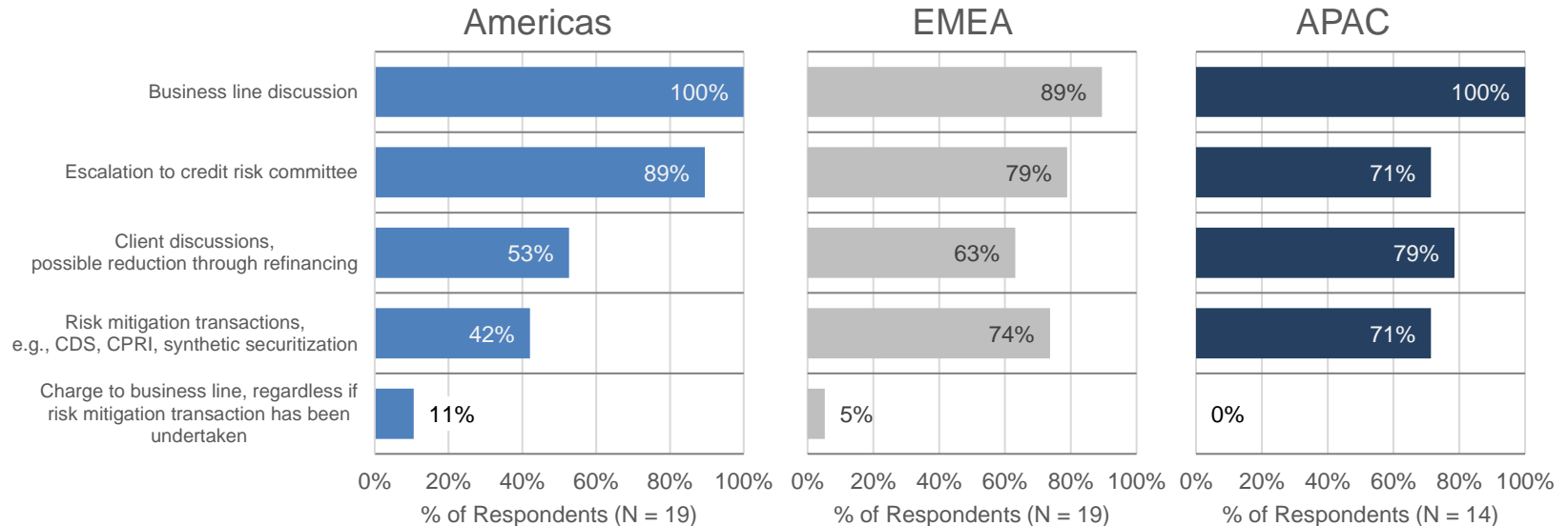


Source: IACPM Concentration & Limit Frameworks Survey 2024 | Question: Which individuals or groups are responsible for the development and implementation, and/or the decision to execute remedy plans for exposures in excess of limits? (Q45)



**Governance:** In case of a limit breach or approaching breach, firms utilize on average up to three strategies to decrease risk, typically including business line discussions and an escalation to the credit risk committee.

Respondents By Region of Domicile

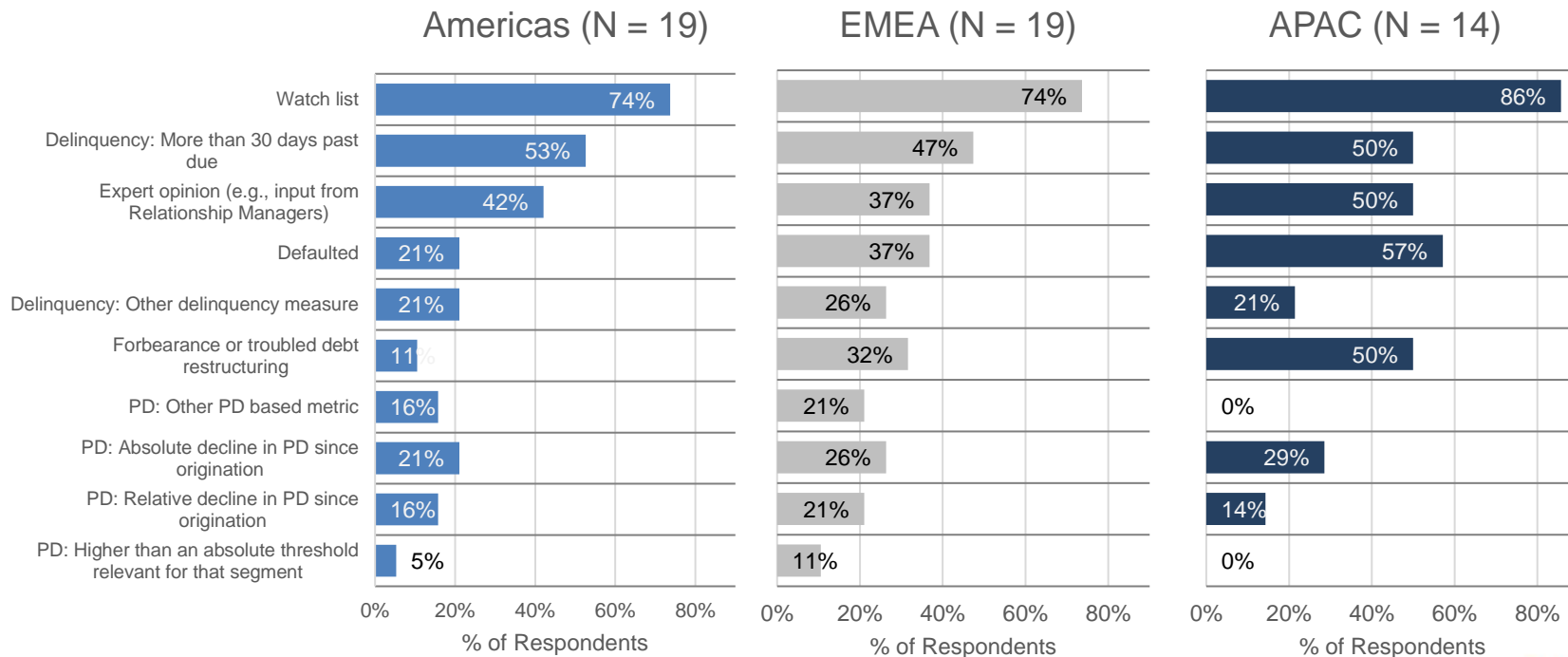


Source: IACPM Concentration & Limit Frameworks Survey 2024

Question: What strategies do you/your firm employ to decrease risk if a limit is breached or is approaching breach? Check all that apply. (Q46)



# Governance and Breaches: Watch lists are still widely used as early warning indicator to avoid breaches at firms globally. Delinquency measures as well as expert opinions are close seconds at larger firms.



Source: IACPM Concentration Limit Frameworks Survey 2024

Question: Which early warning signs do you monitor to avoid a breach? Check all that apply. (Q44)

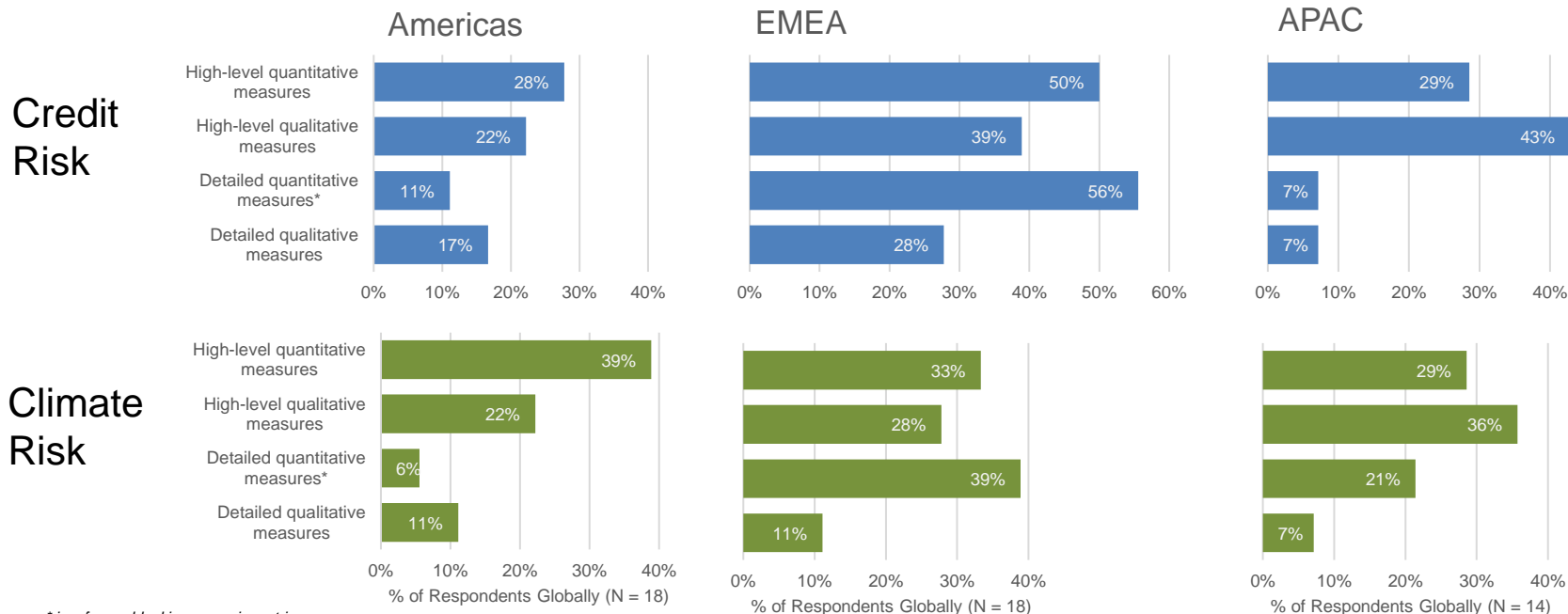


# Evolving Themes' Practical Implications

- for Framework Governance
- for Day-to-Day Decision-Making
- for Strategic Decision-Making

# Climate & Credit: Climate & ESG risks are generally considered as part of firms' Climate & ESG RAS. Significant regional differences can be observed.

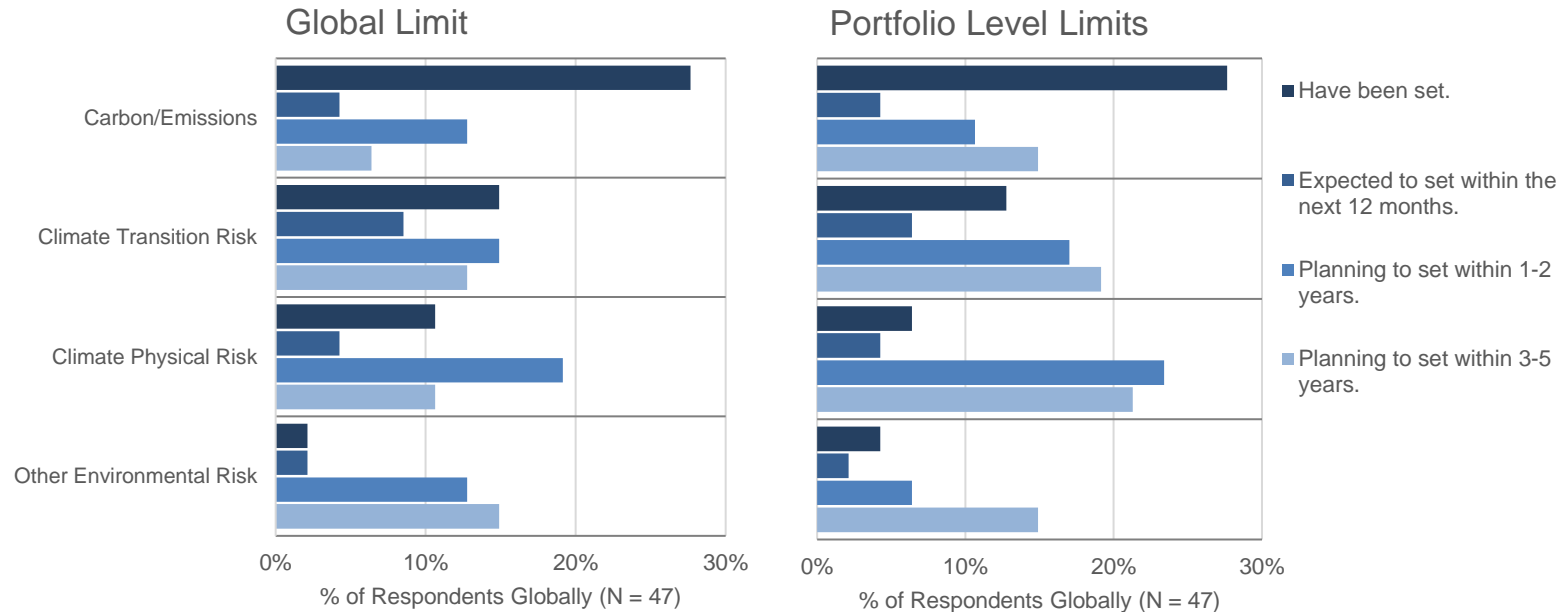
Qualitative and Quantitative Measures for Climate & ESG RAS by Risk Type and Region



Source: IACPM Concentration Limit Frameworks Survey 2024 | Question: Indicate the mix of qualitative and quantitative measures used for your firm's Climate & ESG Risk Appetite Statement for different risk types. Please check all that apply. (Q7)

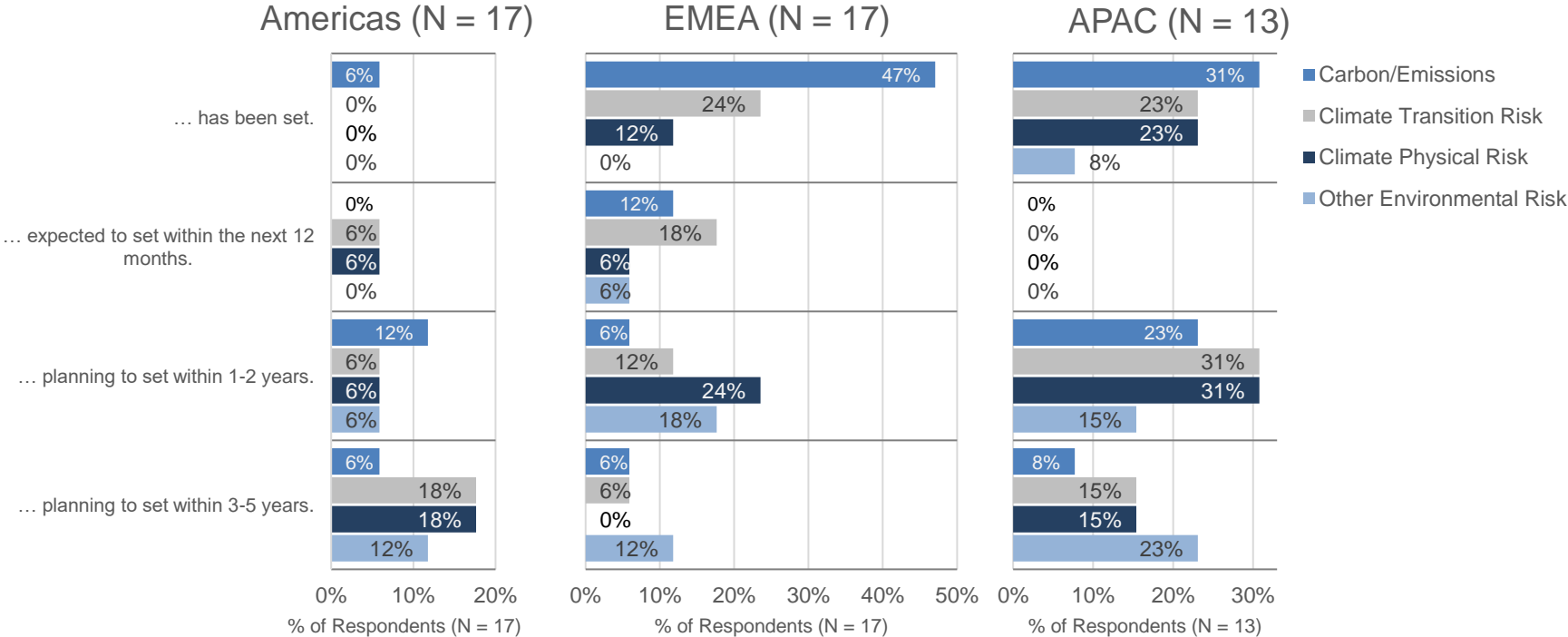


# Carbon Emission Limits have been established at almost half of firms globally, with clear regional differences. Some firms have established or are looking to establish limits on global and portfolio level.



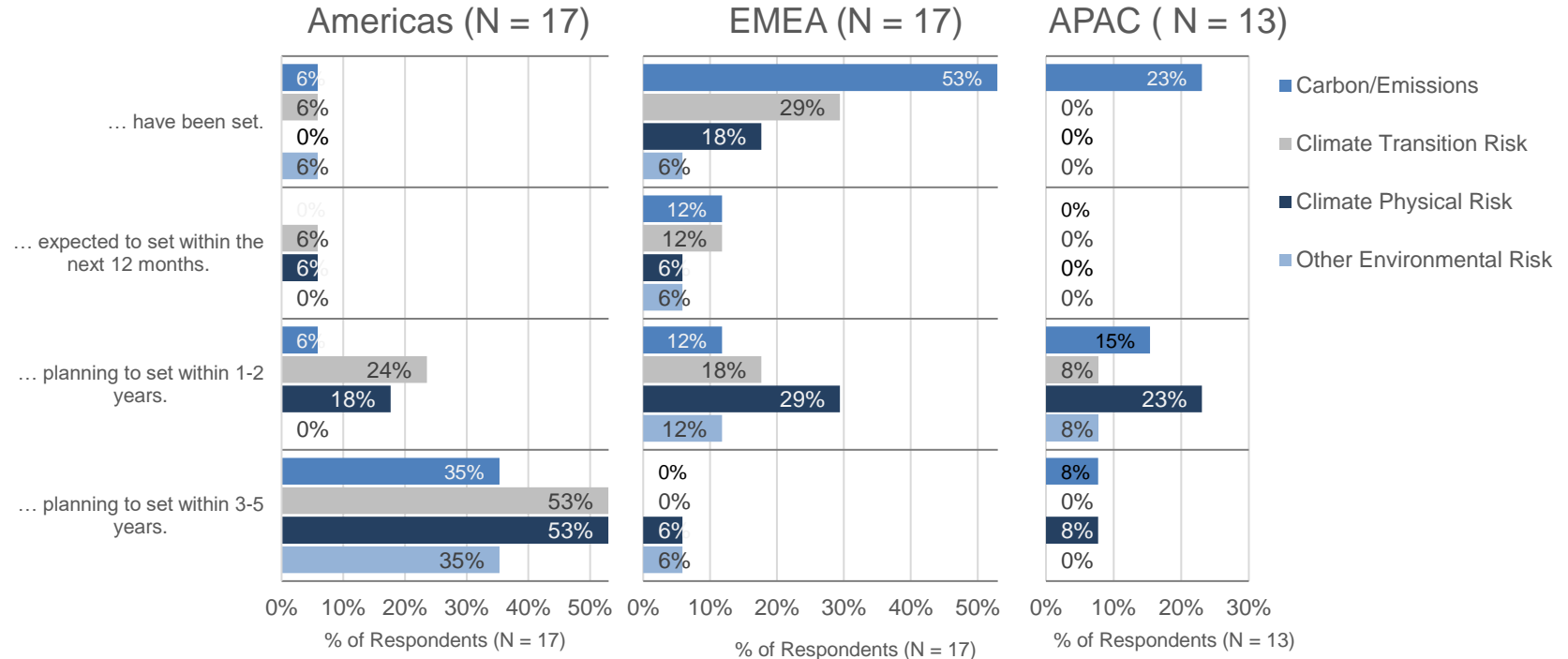
Source: IACPM Concentration Limit Frameworks Survey 2024 | Question: Please indicate if your firm has established or is planning to establish limits at global level and/or portfolio level for Carbon/Emissions, Climate risks and ESG risks. (Q15)

# Global Carbon Limits have been or are expected to be established at most firms in EMEA and APAC. Firms in the Americas are still evaluating.



Source: IACPM Concentration & Limit Frameworks Survey 2024 | Question: Please indicate if your firm has established or is planning to establish limits at global level and/or portfolio level for Carbon/Emissions, Climate risks and ESG risks. (Q15)

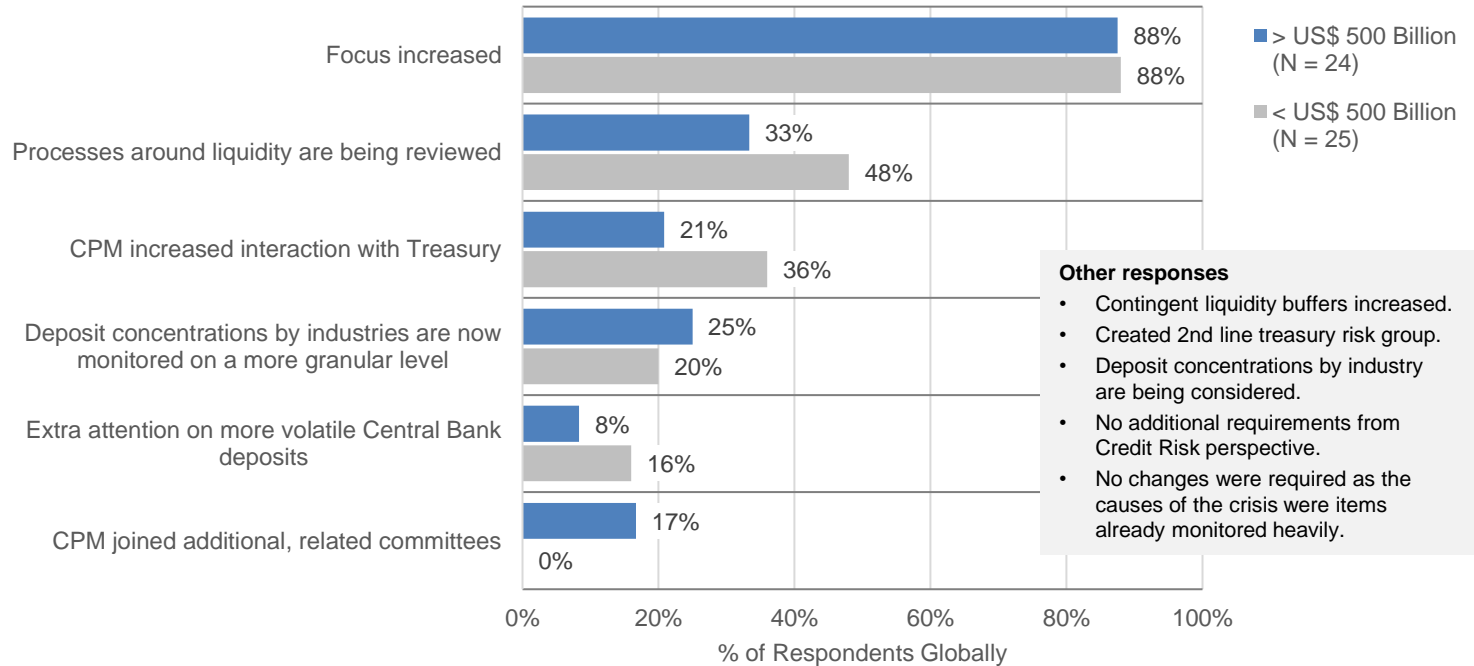
# At the Portfolio Level, carbon emission limits have been set at more than half of firms in EMEA and almost one quarter of APAC firms. Implementation is moving more slowly in the Americas.



Source: IACPM Concentration & Limit Frameworks Survey 2024 | Question: Please indicate if your firm has established or is planning to establish limits at global level and/or portfolio level for Carbon/Emissions, Climate risks and ESG risks. (Q15)

# Emerging Risks (and how to address)

# Liquidity: The banking crisis in early 2023 increased firms' focus on liquidity management at almost 90% of participating institutions.



Source: IACPM Concentration & Limit Frameworks Survey 2024 | Question: How has the banking crisis in early 2023 impacted your firm's liquidity management, including loan/deposit ratio and funding considerations? Check all that apply. (Q47)



Q & A

## Current Research

- Concentration Limit Frameworks and Linkages to Risk Appetite - White Paper available on IACPM's website <https://iacpm.org/concentration-risk-management-remains-a-top-priority-for-cpm/>
- IACPM / McKinsey & Company joint study on Generative AI, AI, and Advanced Analytics for Credit Risk <https://iacpm.org/generative-ai-applications-in-credit/>
- Survey to explore how firms are Measuring Financed Emissions to Follow Decarbonization Targets

## Upcoming Meetings

- September 23 : IACPM Canada Regional Meeting in Toronto
- October 15 : IACPM Africa Regional Meeting
- October 24 : IACPM Asia Regional Meeting in Hong Kong
- November 13-15 : IACPM Annual Fall Conference, Miami, Florida  
<https://iacpm.org/event/iacpm-2024-annual-fall-conference/>

For more information on the IACPM, please visit: [www.iacpm.org](http://www.iacpm.org) or email us.



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