Beyond Compliance: Extending the Value of Risk and Finance Insights Strategically

Moderators:
Mehna Raissi, Moody’s Analytics
Irina Baron, Moody’s Analytics

November 5, 2019
Irina Baron
Director, Customer Success Management
Moody’s Analytics, Risk & Finance Analytics

Mehna Raissi
Senior Director, Product Management
Moody’s Analytics, Risk & Finance Analytics
Agenda

1. Risk Management Vision
2. Peer Roundtable Discussion
3. Key Take-Aways & Best Practices
1 Risk Management Vision (current and future state)
What are some of today’s risk management concerns?

- Data quality & availability
- Traceability
- Standardized process
- Ongoing monitoring/validation
- Balancing old and new technologies
- Internal expertise
- Complexity of models
- Missing governance structure
- Unforeseen Market Changes
- Internal priorities
- Execution timelines
- Lack of integrated frameworks
- Labor intensive process
- Systematic qualitative information

MOODY’S ANALYTICS
Beyond Compliance: Extending the Value of Risk and Finance Insights Strategically
And that is not all...

Persistent changes in regulation, accounting standards, and technology have left many firms struggling to develop internally consistent risk and financial planning solutions.
Banks are increasingly trying to integrate regulatory and economic capital for business decision making.

Clients are interested in understanding the impact of IFRS9 & CECL on portfolio composition as well as pricing.

Most of our customers are reviewing their technology plans looking to lower their total cost of ownership and foster seamless integration.
The ‘perfect’ world beyond compliance
The impact from regulatory compliance practices lead to transformation of models, innovation and growth

**Data-driven requirement** brings greater objectivity, while improving process accuracy and consistency.

**Confidence in employing data-driven decision-making** improves process efficiency, customer experience and ultimately drives towards greater competitive advantage.

**Granularity and precision** in calculating reserves should allow to free up money for revenue-generating investments.
3 Take-Aways & Best Practices
The changing business of lending landscape
Connected risk management value across the credit life cycle

**Credit On-Boarding**
- Pricing
- Structuring
- Origination Process

**Risk and Finance**
- CECL/IFRS 9 cornerstone
- Profitability Analysis
- Portfolio Management

**CFO and Controller**
- Peers analysis
- ROE Decomposition
- Portfolio Acquisition and M&A
- Capital Planning

Seamless Integration of Lending with Management of Credit Lifecycle

New compliance requirements drive need for data capture at origination and alignment of risk during on-boarding.

Reserving at origination changes the profitability equation requiring active portfolio management to drive performance.

Comparing portfolios against peers, assessing potential market expansion strategies within the capital planning frameworks provides an advantage.
Practices supporting strategic risk management

Documentation of Metadata
Critical to referencing, accessing, and consuming data and models

Monitoring & Validation
Document the evolution of your models and how they perform

Model Compliance
Frameworks that define your organization’s compliance standards relevant to business processes

Data Availability
Understand how data is generated and data availability for model development

Technology
Balance the cost of storage the data, performance requirements and tools to optimize practices

Model Scope
Document models for model transparency and purpose
VALIDATE INFORMATION RECEIVED IN THE RATING PROCESS OR IN PREPARING THE MOODY'S PUBLICATIONS.

INCLUDING, WHEN APPROPRIATE, INDEPENDENT THIRD-PARTY SOURCES. HOWEVER, MOODY'S IS NOT AN AUDITOR AND CANNOT IN EVERY INSTANCE INDEPENDENTLY VERIFY OR

OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES (“MIS”) ARE MOODY’S CURRENT OPINIONS

© 2019 Moody’s Corporation, Moody’s Investors Service, Inc., Moody’s Analytics, Inc. and/or their licensors and affiliates (collectively, “MOODY’S”). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY’S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES (“MIS”) ARE MOODY’S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY’S PUBLICATIONS MAY INCLUDE MOODY’S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY’S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY’S OPINIONS INCLUDED IN MOODY’S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY’S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATIONSHIP OPINIONS OR COMMENTARY PUBLISHED BY MOODY’S ANALYTICS, INC. CREDIT RATINGS AND MOODY’S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY’S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY’S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY’S ISSUES ITS CREDIT RATINGS AND PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY’S CREDIT RATINGS AND MOODY’S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY’S CREDIT RATINGS OR MOODY’S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY’S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY’S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY’S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided “AS IS” without warranty of any kind. MOODY’S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY’S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY’S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody’s publications.

To the extent permitted by law, MOODY’S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss or present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY’S.

To the extent permitted by law, MOODY’S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or in any contingency within or beyond the control of, MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY’S IN ANY FORM OR MANNER WHATSOEVER.

MOODY’S INVESTORS SERVICE, INC., A WHOLELY-OWNED CREDIT RATING AGENCY SUBSIDIARY OF MOODY’S CORPORATION (“MCO”), HEREBY DISCLOSES THAT MOST ISSUERS OF DEBT SECURITIES (INCLUDING CORPORATE AND MUNICIPAL BONDS, DebENTURES, NOTES AND COMMERCIAL PAPER) AND PREFERRED STOCK RATED BY MOODY’S INVESTORS SERVICE, INC. HAVE, PRIOR TO ASSIGNMENT OF ANY RATING, AGREED TO PAY TO MOODY’S INVESTORS SERVICE, INC. FOR APPRAISAL AND RATING SERVICES Rendered by it FEES RANGING FROM $1,500 TO APPROXIMATELY $2,000,000. MCO AND MIS ALSO MAINTAIN POLICIES AND PROCEDURES TO ADDRESS THE INDEPENDENCE OF MIS’S RATINGS AND RATING PROCESSES. INFORMATION REGARDING CERTAIN AFFILIATIONS THAT MAY EXIST BETWEEN DIRECTORS OF MCO AND RATED ENTITIES, AND BETWEEN ENTITIES WHO HOLD RATINGS FROM MIS AND HAVE ALSO PUBLICLY REPORTED TO THE SEC AN OWNERSHIP INTEREST IN MCO OF MORE THAN 5%, IS POSTED ANNUALLY AT WWW.MOODY.COM UNDER THE HEADING “INVESTOR RELATIONS — CORPORATE GOVERNANCE — DIRECTOR AND SHAREHOLDERS AFFILIATION POLICY.”

ADDITIONAL TERMS FOR AUSTRALIA ONLY: ANY PUBLICATION INTO AUSTRALIA OF THIS DOCUMENT IS PURSUANT TO THE AUSTRALIAN FINANCIAL SERVICES LICENSE OF MOODY’S AFFILIATE, MOODY’S INVESTORS SERVICE PTY LIMITED ABN 61 003 396 675AFSL 336969 AND/OR MOODY’S ANALYTICS AUSTRALIA Pty Ltd ABN 94 105 136 972 AFSL 383589 (AS APPLICABLE). THIS DOCUMENT IS INTENDED TO BE PROVIDED ONLY TO “WHOLESALE CUSTOMERS” WITHIN THE MEANING OF SECTION 761G OF THE CORPORATIONS ACT 2001. MOODY’S CREDIT RATING IS AN OPINION AS TO THE CREDITWORTHINESS OF A DEBT OBLIGATION OF THE ISSUER, NOT ON THE EQUITY SECURITIES OF THE ISSUER OR ANY FORM OF SECURITY THAT IS AVAILABLE TO RETAIL INVESTORS. IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY’S CREDIT RATINGS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ADDITIONAL TERMS FOR JAPAN ONLY: MOODY’S JAPAN K.K. (“MKJ”) IS A WHOLELY-OWNED CREDIT RATING AGENCY SUBSIDIARY OF MOODY’S GROUP JAPAN K.K., WHICH IS WHOLELY-OWNED BY MOODY’S OVERSEAS HOLDINGS INC., A WHOLELY-OWNED SUBSIDIARY OF MCO. MOODY’S JAPAN K.K. (“MSFJ") IS A WHOLELY-OWNED CREDIT RATING AGENCY SUBSIDIARY OF MJKK. MSFJ IS NOT A NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (“NRSRO”). THEREFORE, CREDIT RATINGS ASSIGNED BY MSFJ ARE NON-NRSRO CREDIT RATINGS. NON-NRSRO CREDIT RATINGS ARE ASSIGNED BY AN ENTITY THAT IS NOT A NRSRO AND, CONSEQUENTLY, THE RATED OBLIGATION WILL NOT QUALIFY FOR CERTAIN TYPES OF TREATMENT UNDER U.S. LAWS. MKJ AND MSFJ ARE CREDIT RATINGS AGENCIES REGISTERED WITH THE JAPAN FINANCIAL SERVICES AGENCY AND THEIR REGISTRATION NUMBERS ARE FSA COMMISSIONER (RATINGS) NO. 2 AND 3 RESPECTIVELY.

MKJ OR MSFJ (AS APPLICABLE) HEREBY DISCLOSE THAT MOST ISSUERS OF DEBT SECURITIES (INCLUDING CORPORATE AND MUNICIPAL BONDS, DEBENTURES, NOTES AND COMMERCIAL PAPER) AND PREFERRED STOCK RATED BY MKJ OR MSFJ (AS APPLICABLE) HAVE, PRIOR TO ASSIGNMENT OF ANY RATING, AGREED TO PAY TO MKJ OR MSFJ (AS APPLICABLE) FOR APPRAISAL AND RATING SERVICES Rendered by it FEES RANGING FROM JPY200,000 TO APPROXIMATELY JPY350,000,000. MKJ AND MSFJ ALSO MAINTAIN POLICIES AND PROCEDURES TO ADDRESS JAPANESE REGULATORY REQUIREMENTS.