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# AnaCredit Gives Banks an Opportunity to Improve Data Management, but Challenges Remain

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The European Central Bank (ECB) decided on 24 February 2014[1] to build a granular credit database (the Analytical Credit Dataset; AnaCredit), a framework that will require banks to invest significantly in their regulatory reporting architecture. Complying with the requirements of AnaCredit will represent a significant investment in the first place, but, alongside other data initiatives (e.g. BCBS 239) it also offers the opportunity to fundamentally change banks' approach to data management towards a leaner, more efficient data infrastructure. However, AnaCredit poses three key challenges (1) the need to account for missing data; (2) the need to aggregate consistent and granular information from different sources within the bank (e.g. from finance or risk management); and (3) the establishment of robust and powerful reporting systems.

The recent financial crisis painfully highlighted European banks' inability to identify and aggregate information on credit exposures, despite the availability of a wide range of data on credit. This data was not only required for internal decision making in times of crisis, but also to submit the information to the national regulators for urgently needed micro-prudential supervision, allowing an early detection of potentially fragile institutions during this turbulent period.

In their search for reliable information to monitor and manage credit risk efficiently, supervisors turned their eye on central credit registers (CCR) as a potential source of data at a granular level.[2] These databases are a fundamental tool in many European countries to monitor and manage credit risk, as well as to provide an overview of credit exposure concentrations and the level of indebtedness of both resident and non-resident borrowers vis-à-vis national financial intermediaries.[3]

AnaCredit will collect information on a borrower-by-borrower or loan-by-loan basis from credit registers operated by the national central banks of the European System of Central Banks, or from other granular data sources.

1 As part of the creation of the Single Supervisory Mechanism (SSM).
2 European Central Bank (2010), Memorandum of Understanding on the exchange of information among national central credit registers for the purpose of passing it on to reporting institutions, p. 2.
3 Duarte Neves, P. (2014), Enhancing the synergies between the SSM and statistical reporting, p. 3.

The granular credit data will be required for the development and improvement of statistics that are needed for:

- monetary policy analysis and monetary policy operations;
- risk management;
- financial stability surveillance and research; and
- the prudential supervision of credit institutions and the stability of the financial system.[4]

Financial institutions under the supervision of the SSM will have to submit granular credit data to their national credit register comprising information about the lender, the borrower, data about the loan agreement as well as further quantitative credit data measures. The AnaCredit project is scheduled to be implemented in three stages; in the first stage, planned for end-2017, individual information for loans above a reporting threshold of €25,000 will be provided by credit institutions on credit granted to legal entities; in the second stage, planned for mid-2019, information will be collected on a consolidated basis on significant institutions under ECB banking supervision and in the third stage, planned for late-2020, anonymised information will be gathered on mortgage loans to households and credit granted to sole proprietors.[5]

The following illustration summarises the 12 segments for which the ECB expects – as per its May 2015 draft – ca 140 credit data items to be reported for each loan by each financial institution to its national credit register.

| | | | |
|---|---|---|---|
| Counterparty reference data | Instrument | Financial | Counterparty-instrument |
| Joint liabilities | Linked contract | Accounting | Collaterals and guarantees received |
| Instrument - collaterals and guarantees received | Counter-party credit risk data | Credit risk | Group of connected clients |

The final list of required data items as well as the reporting threshold is expected to be disclosed in a new ECB regulation late September 2015.[6]

4 European Central Bank (2014), Decision of the European Central Bank of 24 February 2014 on the organisation of preparatory measures for the collection of granular credit data by the European System of Central Banks (ECB/2014/6), p. 72.
5 European Central Bank (2015), Letter by Mrs Sabine Lautenschläger "Follow-up to your questions on AnaCredit posed at the ECON Committee of the European Parliament hearing on 31 March 2015" from 21 April 2015, p.2.
6 http://www.bundesbank.de/Navigation/DE/Service/Meldewesen/Bankenstatistik/AnaCredit/AnaCredit.html (as of 08 May 2015).

## Three key challenges for banks in Europe

The creation of the AnaCredit framework by the ECB represents three key challenges for banks in Europe that need to be addressed almost simultaneously in a rather short timeframe:

1. Missing information

   Even though the final list of required information about the banks' borrowers has not been published yet, the list with ca. 140 required data items published in May 2015 provided banks in Europe with an impression of the level of granularity the ECB plans to collect. In many instances, the data attributes have not before been required for external reporting purposes or are not even stored electronically in the systems of the bank (e.g. cumulative recoveries since default). Especially in the latter situation, the bank will have to very rapidly demonstrate to the national supervisor / the ECB its ability to source the information in order to meet the new reporting standard.

2. Sufficient quality and granularity of existing information

   The lion's share of the information required for the submissions to the AnaCredit framework already exists in banks' data warehouses. However, banks need to assess if the data is granular enough to meet the requirements of the ECB and whether the content is coherent i.e. if the data quality sufficient. For example, banks will be required to review the data for errors from a technical point of view (based on a check-error process) and from a financial point of view (based on a general-ledger reconciliation process).

3. Flexible reporting architecture and sound processes

   The requirements of the AnaCredit framework will force banks in Europe to critically review their current reporting architecture and regulatory reporting processes. Questions need to be asked, such as: Are the current systems capable of dealing with the increased amount of data owing to the low reporting threshold? Do the systems possess strong data aggregation functionalities that can aggregate data from different sources within the bank (e.g. risk management and finance)? Can the current reporting solutions submit more reports at more frequently intervals? Does the bank have to rely on manual workarounds for its regulatory reporting and how can they be reduced? Is the data governance strong enough to maintain consistency and quality of the reporting data?

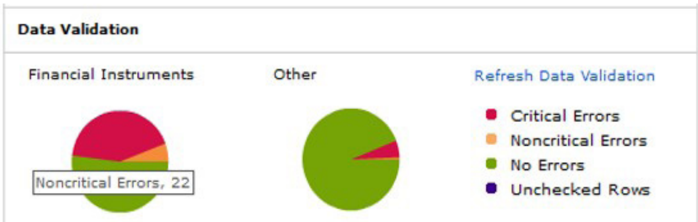
## Addressing the challenges and implementing a leaner, more robust data infrastructure

In a recent survey by Moody's Analytics among German banks on the current regulatory challenges, 67% of institutions consider AnaCredit as a major regulatory challenge and 43% of the banks that participated in this survey have already started projects around this initiative.[7] This is a prudent approach since – assuming the target date of 1 January 2018 – banks in Europe will have about 30 months to implement the changes that will be necessary to address the challenges that AnaCredit represents. Financial institutions should embrace this opportunity to enhance their regulatory reporting capabilities and implement a leaner, more robust data infrastructure.

Once the final requirements are published by the ECB, banks should initiate this transformation process with a gap analysis of their wider data-management capabilities – especially in light of potential synergies with other simultaneous initiatives that affect the regulatory reporting (e.g. COREP / FINREP implementation or the principles for effective risk data aggregation (BCBS239)). Based on the results of the gap analysis, banks will be able to outline any missing data attributes as well as the changes needed in their institution-specific data infrastructure and governance processes to achieve an end-to-end reporting framework that meets the requirements of AnaCredit.

### ADDRESSING THE NEED FOR DATA QUALITY & CONSISTENCY

The AnaCredit initiative demands very granular information about credit contracts on a loan-by-loan basis. In many instances, the quality of the data can vary quite significantly and loan information is scattered across multiple systems and needs to be aggregated before it can be submitted to the national credit register. To achieve a high level of consistency and data quality, banks have to apply validation rules that check the data for errors. Moody's Analytics Risk Foundation™ platform comes with over 4,000 business and data validation rules to help clean and enhance data coming from a bank's source systems, including loan-accounting systems, general ledger and collateral management. These validation rules automatically run check-error processes to verify data quality and identify errors from a technical point of view as well as financial point of view. The following screenshot illustrates the result view of such a data validation.




7 Moody's Analytics (2015), Are German banks ready for the next wave of regulatory reporting?, p.4.

## IMPLEMENTING A LEAN AND ROBUST REPORTING PROCESS

Following the concept of "lean"[8], banks should strive to implement a reporting process that avoids inefficiencies and reduces the complexity in the bank's IT infrastructures by focusing on a data flow and introducing an end-to-end data-management system that uses the available resources in the best way possible, thus achieving its objective with a minimum of time and resources. With this concept in mind, the regulatory reporting process for AnaCredit should be based off a powerful, yet flexible risk & finance datamart (such as Moody's Analytics RiskAuthority™) that consolidates risk and finance information from different source systems – including loan-accounting and credit-risk mitigants – into a single, common system of record. This allows the bank to automate the collection, processing and submission of reports to the national credit register. Moody's Analytics award-winning Regulatory Reporting Module supports such a streamlined reporting process from a technical perspective as well as from a governance perspective. The module allows users to capture and report on all changes made to the data, before, during and after the reporting process. Additionally, the solution enables banks to audit their reports down to transaction level, allowing them to understand precisely where their data is sourced, and what changes have been made. The following chart illustrates such a lean process that Moody's Analytics RiskAuthority™ and the Regulatory Reporting Module support.


Moody's Analytics offers tools and expertise that support banks in their efforts to establish a lean and robust reporting framework. The RiskFoundation™ datamart consolidates risk and finance data from different source systems into a single, common system of record that has been checked by over 4,000 validations rules helping to maintain data quality. The Regulatory Reporting Module of Moody's Analytics regulatory reporting solution – RiskAuthority™ – automates the entire end-to-end reporting process.

8 Brophy, A (2013), Financial Times Guide to Lean – How to streamline your organization, engage employees and create competitive edge, p. 3.

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