

# WHAT RECOMMENDATIONS WILL YOU MAKE TO YOUR CRO AND RISK COMMITTEES TO BALANCE RISK AND GROWTH?

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# BRILLIANCE

FINANCIAL TECHNOLOGY

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## Automation and Analytics for Risk and Relationship Based Pricing

[www.bxfin.com](http://www.bxfin.com)



Integrated

Transparent

Strategic

Real-world Risk Management Experience  
Enterprise Risk Analysis, Strategy, and Governance

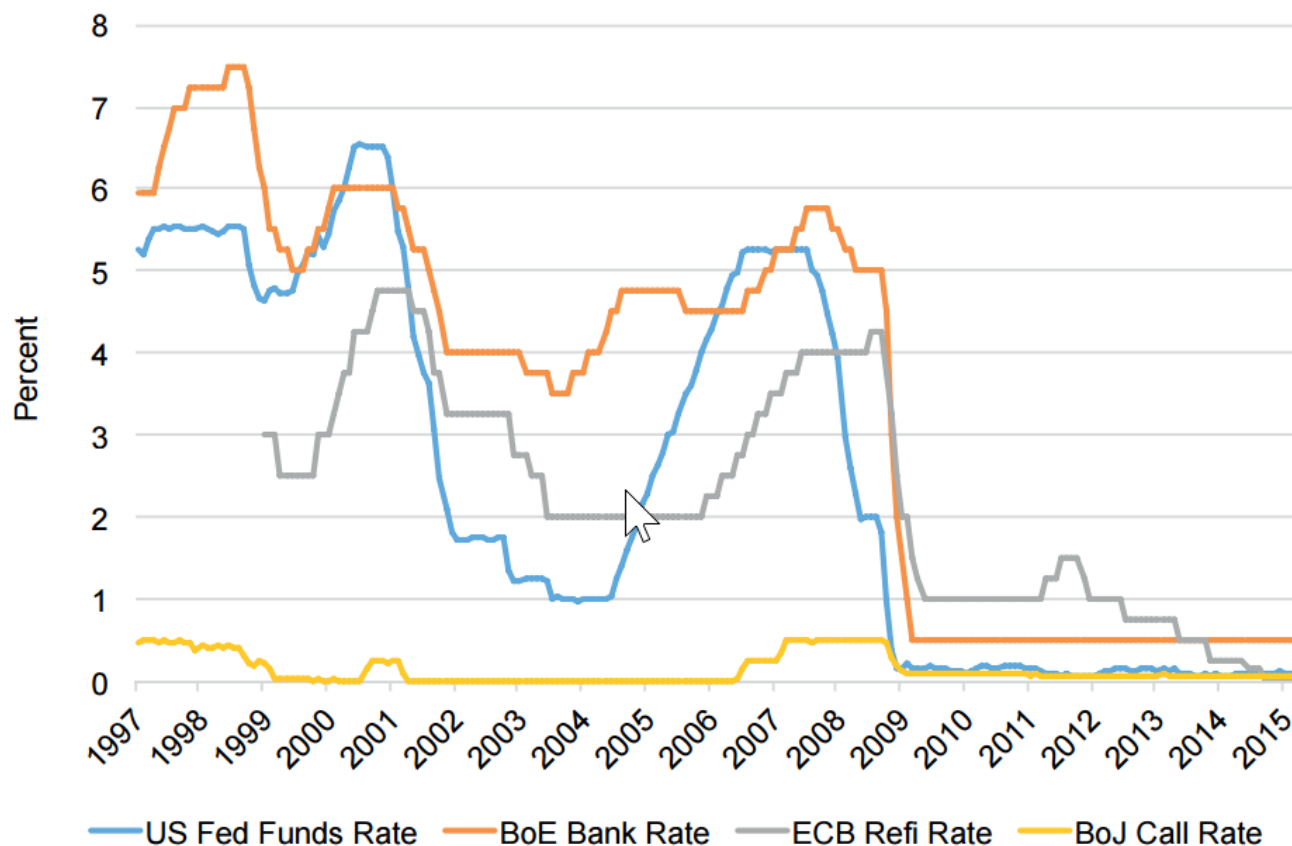
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## **Clifton Chang – Lead Consultant**

- Over twenty-five years in credit risk management
- Experience managing high yield bond and loan trading desks and bank credit portfolios
- Managing Director for JP Morgan Chase Credit Portfolio Management and Head of Credit Portfolio Strategies at MUFG Union Bank
- Participant in the IACPM since 2002

[advancedriskconsulting.com](http://advancedriskconsulting.com)

# Historically low interest rates persist



Source: Central bank websites.

- FinTech market share will grow to 17% by 2023. (Citi)
- \$4.7 Trillion of \$13.7 Trillion at risk of being displaced. (Goldman Sachs)
- 20% of financial services provided by banks at risk by 2020. (PWC)



**HEDGE FUNDS**

**SPECIAL PURPOSE ENTITIES**

**STRUCTURED INVESTMENT VEHICLES**

**MUTUAL FUNDS**

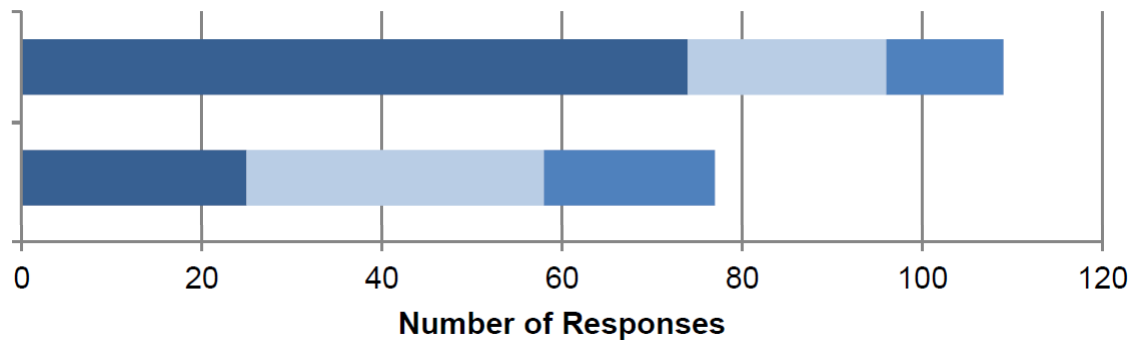
- Shadow banking sector in the EU holds 38% share of total assets (European Central Bank)

IACPM survey suggests that top concerns still revolve around regulation, regulatory capital and the **impact on earnings** (leveraged lending restrictions, cost of compliance, drag on ROE)

Reducing variation in credit risk-weighted assets – constraints on the use of internal model approaches; standardized credit approaches and floors

IFRS 9 Expected Credit Loss implementation

- Rank 1
- Rank 2
- Rank 3



**How can CPM and related functions manage through the upcoming changes in competition and regulation while balancing risk and returns?**

# Recommendation

Maintain long-term focus while preparing for short-term volatility

- US Fiscal stimulus
- Global macroeconomic policies
- US DFA roll-back
- Geopolitical risk

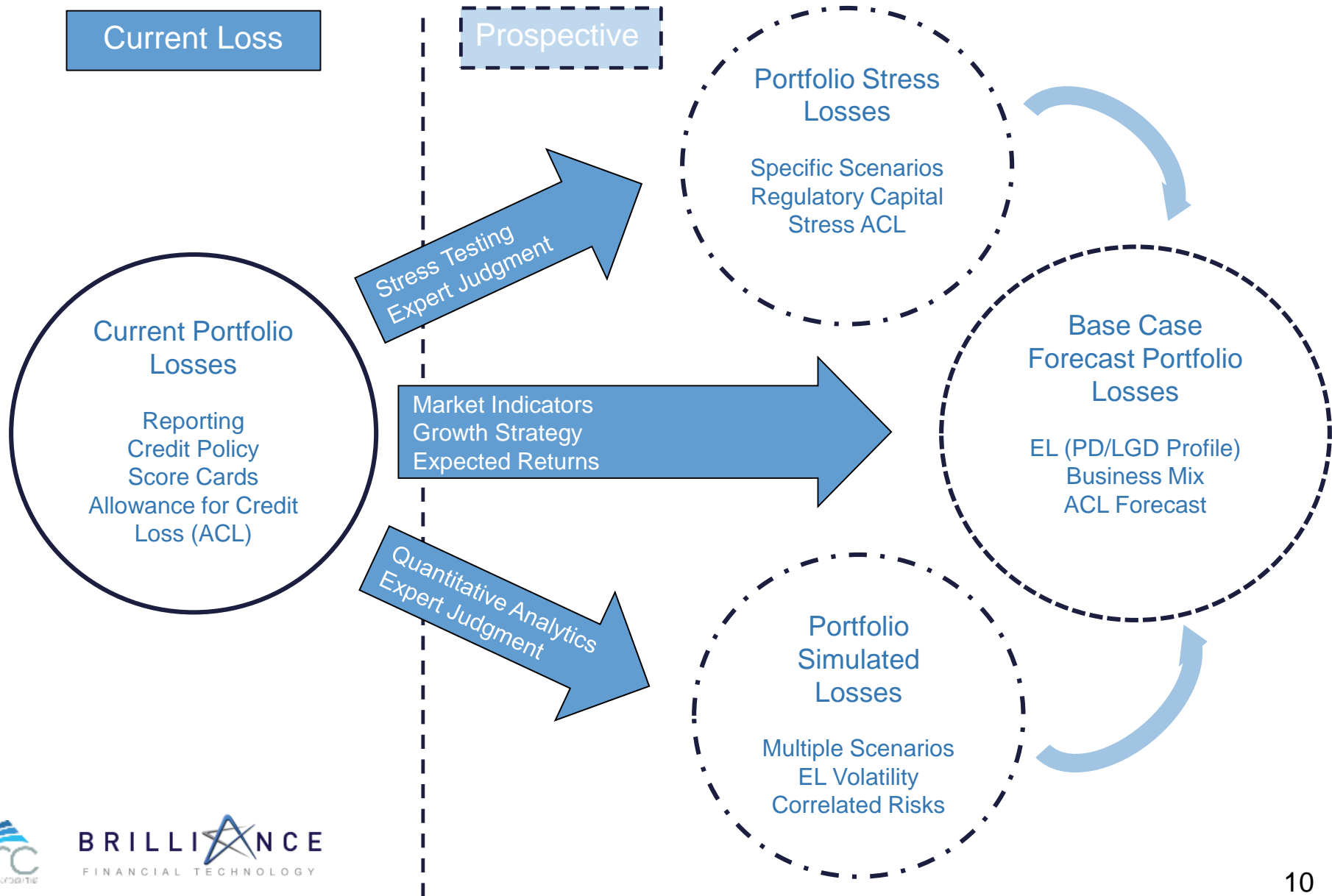


# How does CPM support a long-term focus for the CRO?

# Recommendation

Leverage macroeconomic uncertainty to promote the most risk-sensitive measure

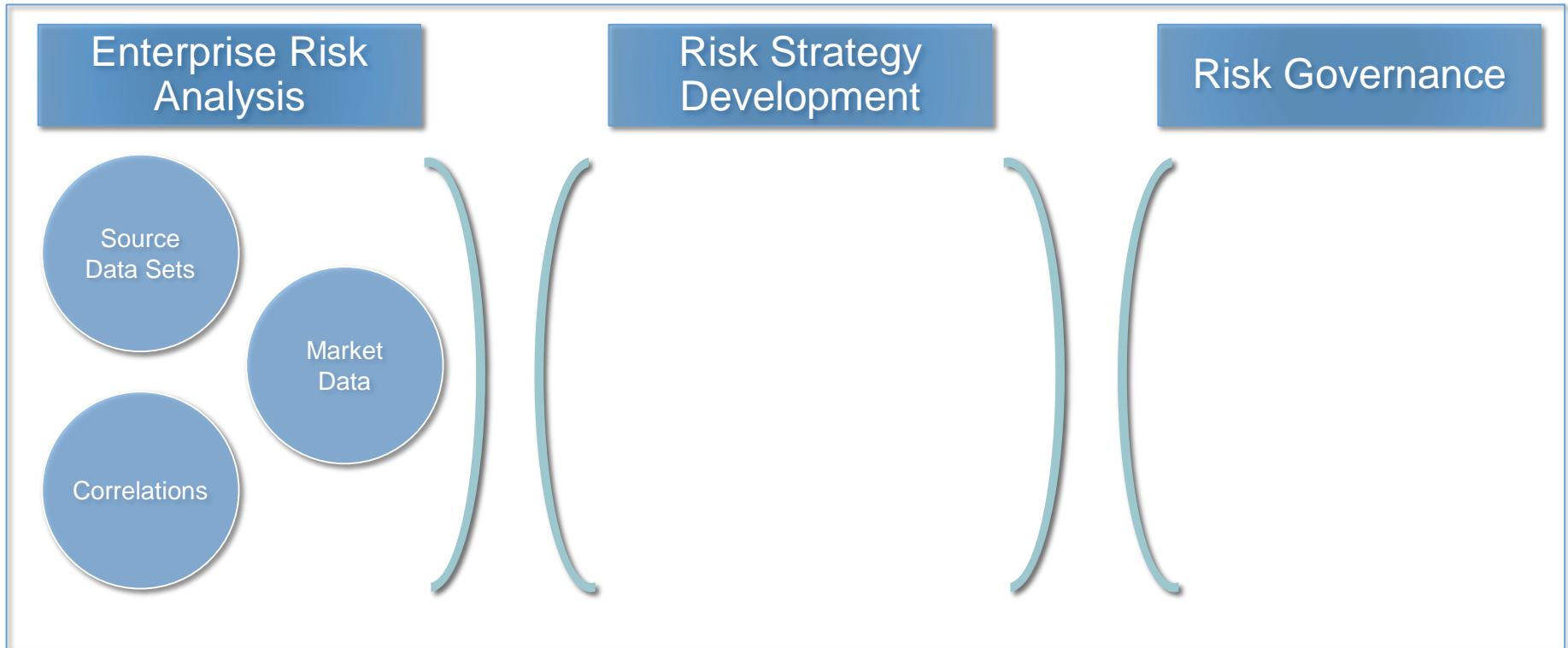
The portfolio you construct today will be the one that will be subject to the credit cycle tomorrow



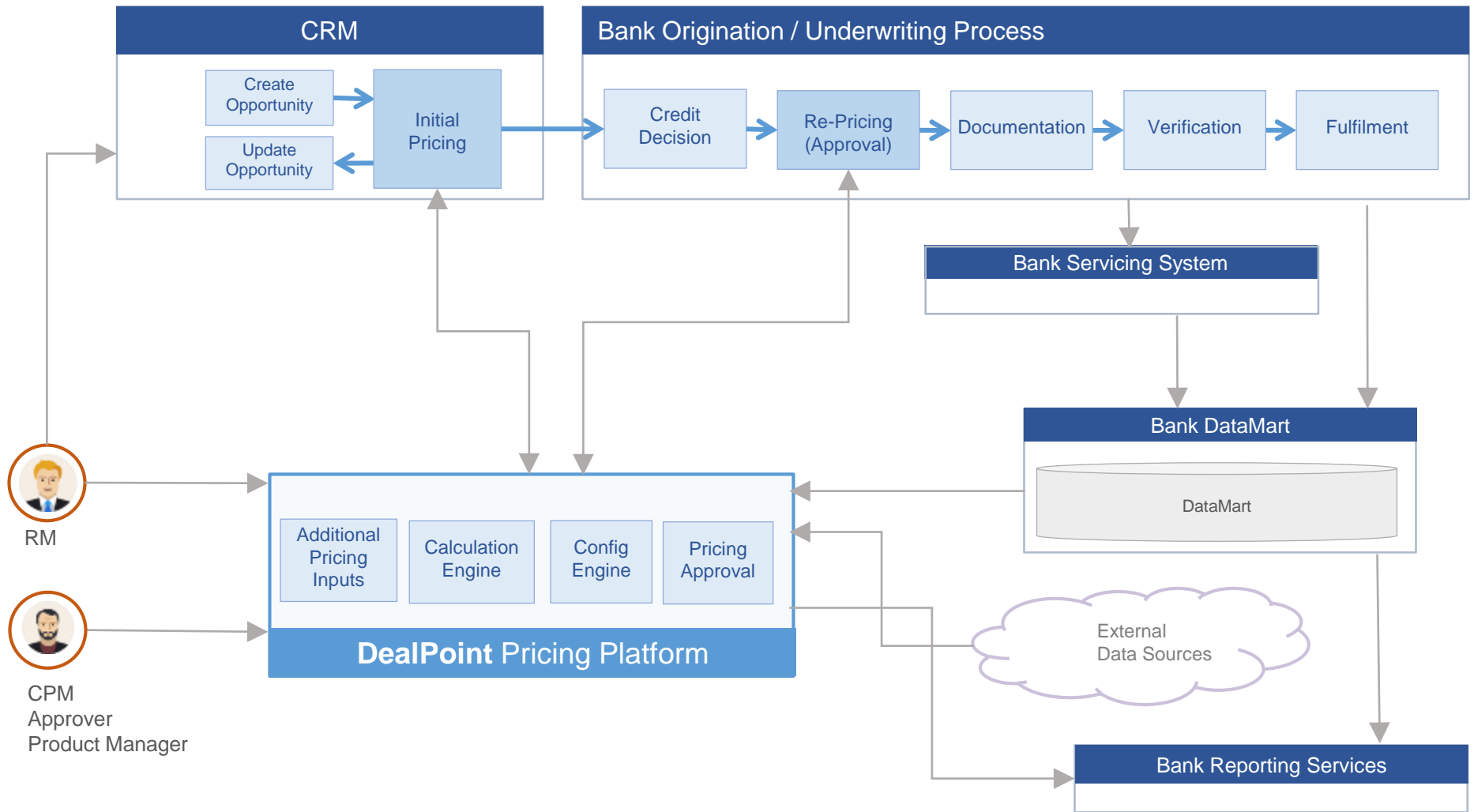
# Recommendation

Offer to your CRO analytics that can serve as the common view for all stakeholders in enterprise strategy

## Three key elements to fulfilling CPM's strategic role



# Integration Example



# Recommendation

Leverage the aggregated data and risk-adjusted return analysis to rationalize compensation structures to risk appetite and targets

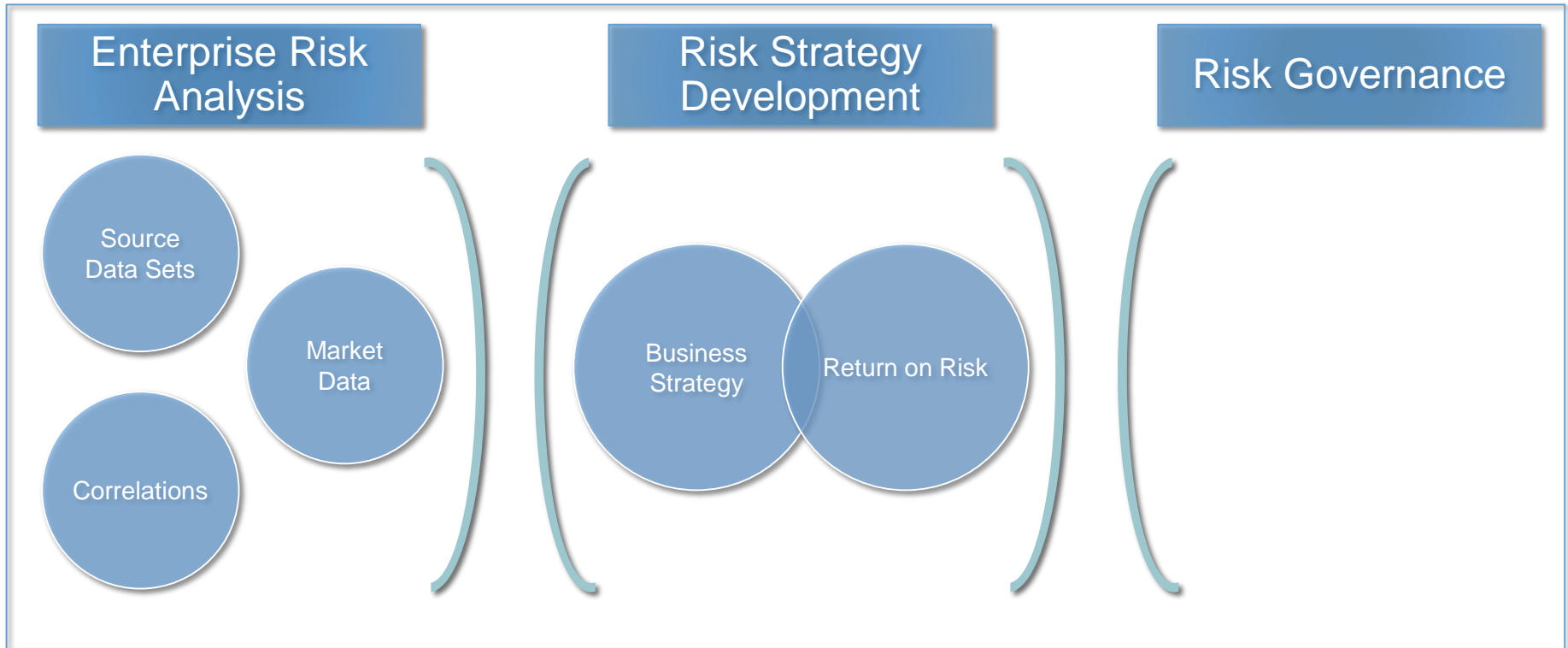
**How can CPM get management resource allocation and focus to ensure that it can fulfill its strategic responsibilities?**



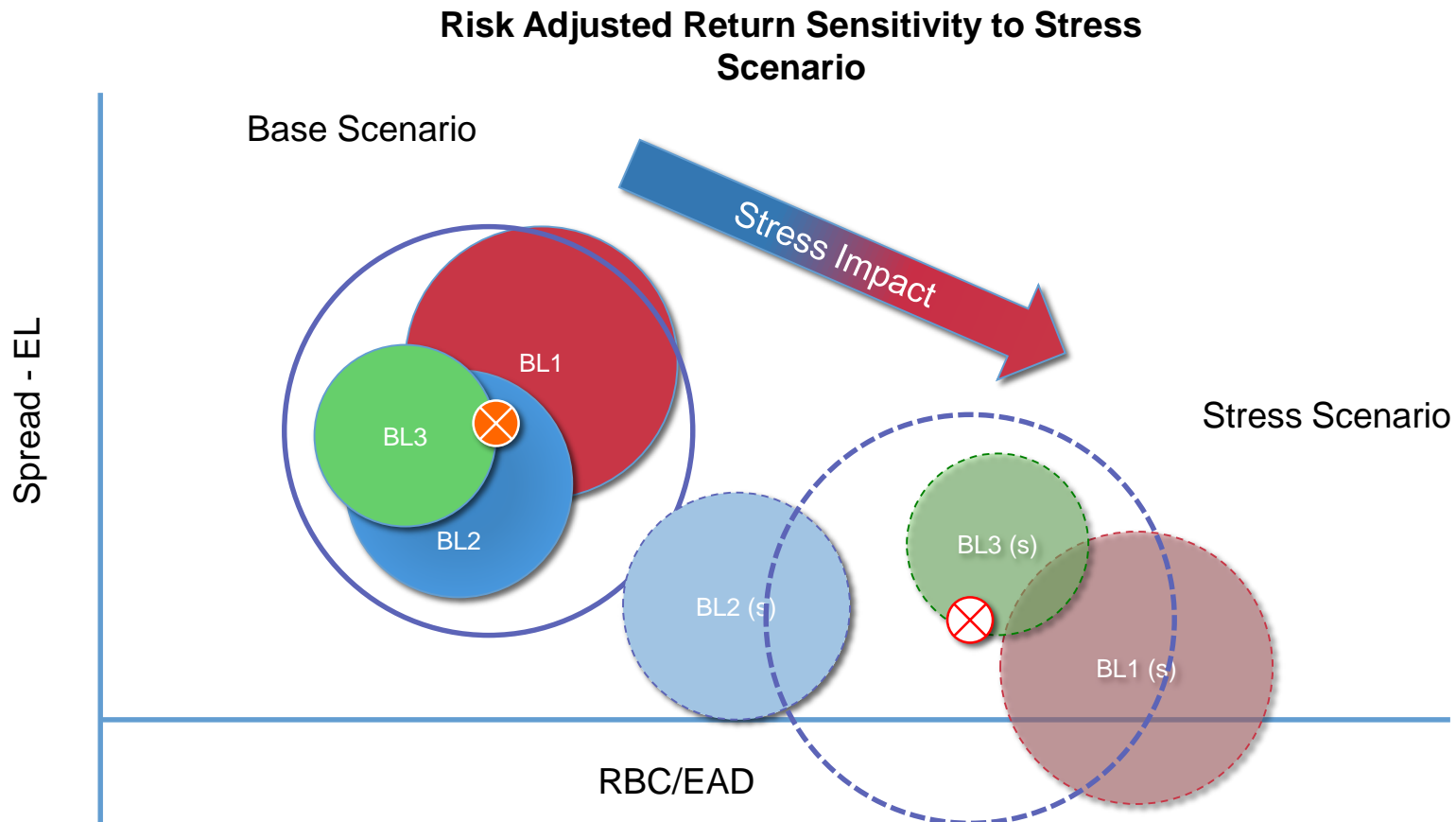
# Recommendation

Leverage the regulatory imperatives to seek resources to enable a proactive stance

## Leveraging CPM Analytics to inform strategy

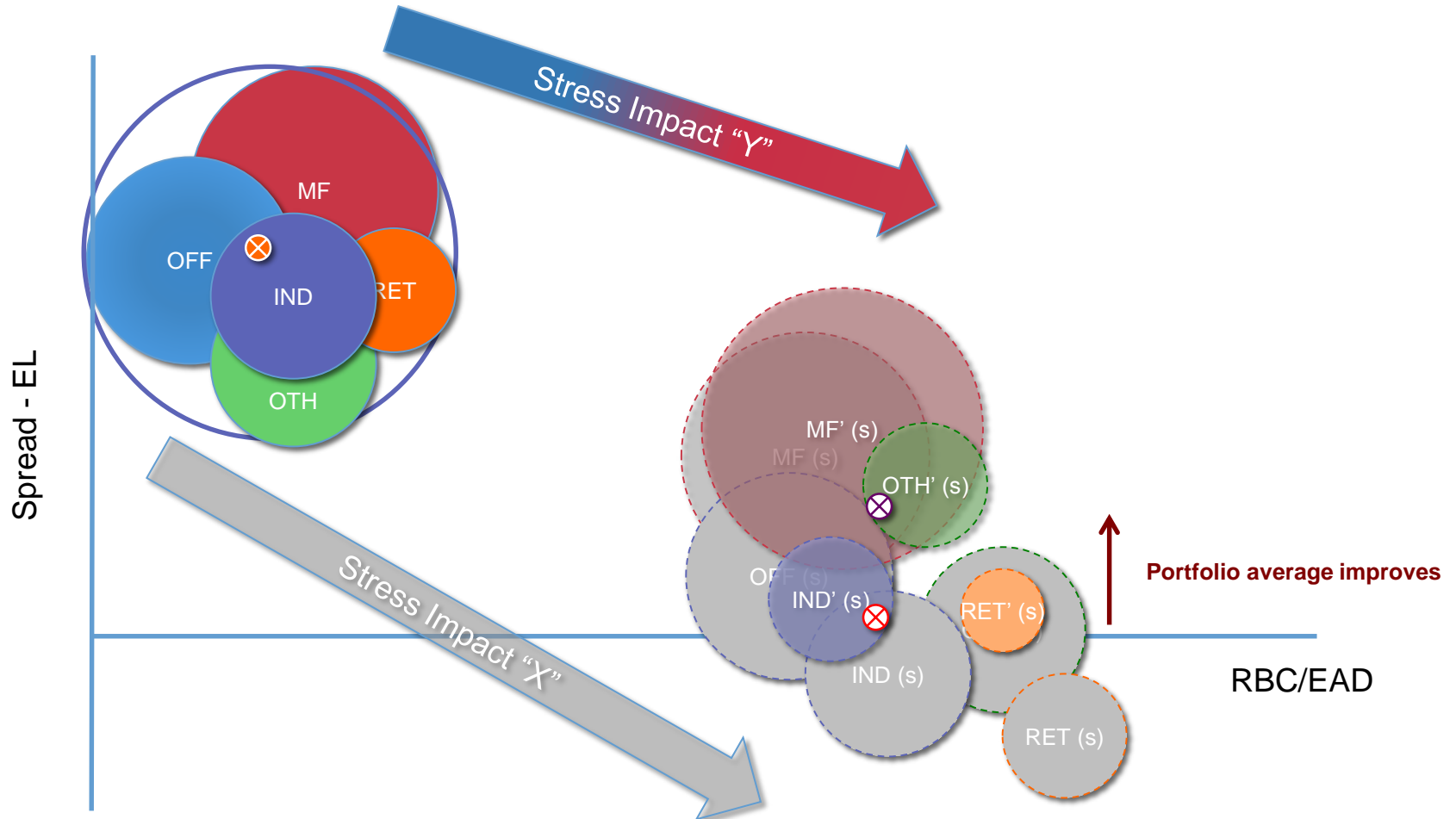


Incorporating Stress Testing into CPM analytics for risk strategy communication



Illustrative purposes only. No actual data used. Size of bubble proportional to Total Commitments for business segment; cross-hairs intersection is the portfolio average.

## Evaluating CRE strategic options through Stress Test lens



Illustrative purposes only. No actual data used. Size of bubble proportional to Total Commitments for business segment; cross-hairs intersection is the portfolio average.

# Recommendation

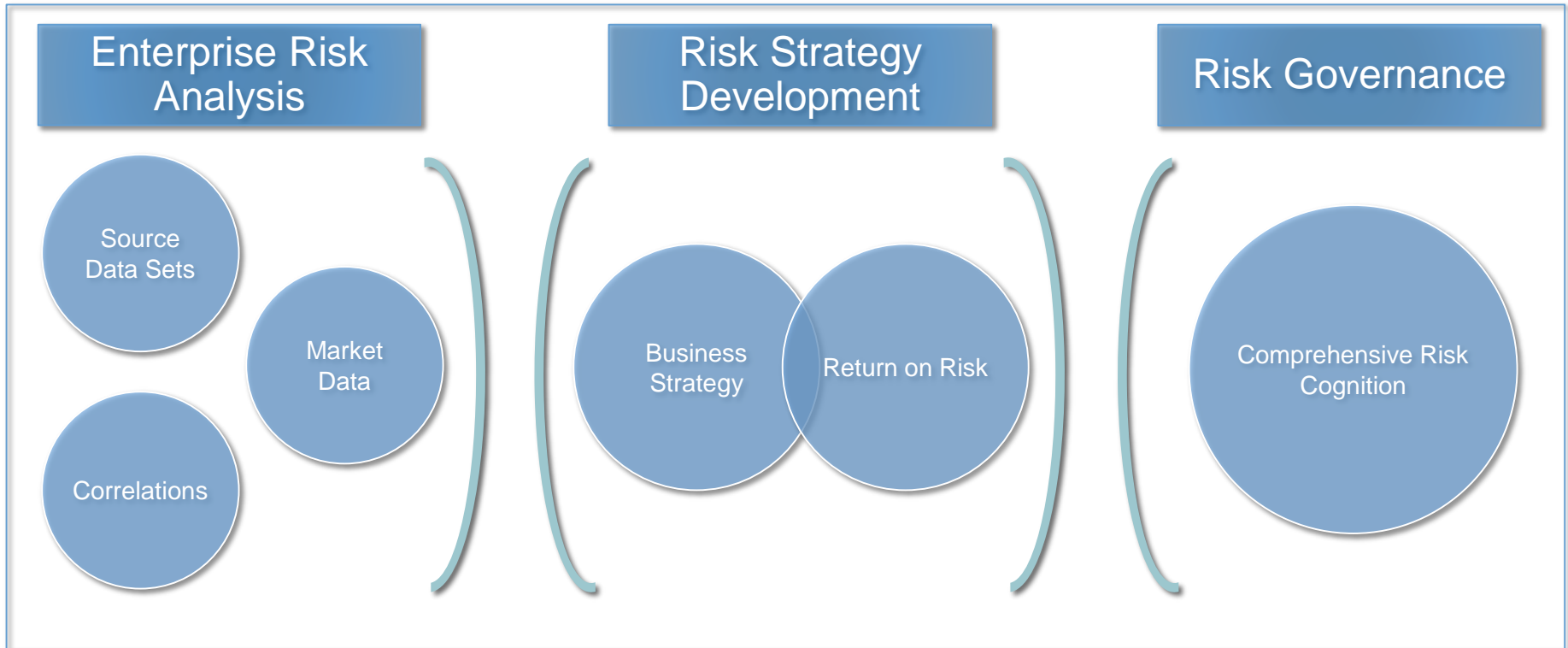
Support business strategies that improve the portfolio

**How do we make sure all of the risk infrastructure and strategy are implemented?**

# Recommendation

Embed CPM views into strategy governance process

CPM process provides transparency as part of overall governance



Risk and Return Data

Fully Integrated

Communicated



Data and Process  
Integration

EFFICIENCY

Management  
Engagement and  
Resources

GREATER  
TRANSPARENCY  
& COMPLIANCE

Proactive Strategy

SAFETY AND  
SOUNDNESS

# Q&A

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