KPMG

Stress testing, financial analysis and forecasting in times of crisis

March 2020

Covid-19 and the associated containment measures being taken have created significant uncertainty. Banks, insurers, asset managers and other financial services companies need to react in an agile manner as these events unfold in order to fully understand and anticipate what means for their business. Regulators are also demanding scenario modelling that shows that regulated entities have an understanding of the potential impact on their customers, capital and liquidity bases.

Dynamic financial modelling and stress testing processes will be key to this understanding. We are helping our clients through this process and assist with all aspects of the required analyses, including the development of macroeconomic scenarios, credit loss modelling and impact analysis on regulatory ratios.

Immediate analysis required

- Establish scenario workshops to generate stress scenarios.
- At-risk sectors (e.g. hospitality, travel, tourism) should be identified, and cash flows stressed for these portfolios at as granular a level as possible.
- The scenarios could be applied to all remaining loans at portfolio level.
- The immediate impact of credit losses should be quantified:
  - How do the losses impact the capital position? Are current capital adequacy assessments still relevant?
  - How do the losses impact the liquidity position?
  - Will any RAS thresholds be breached?
  - Will the recovery plan be invoked?

Short-term analysis required

- Development of macroeconomic scenarios based on latest available information.
- Incorporation of macroeconomic scenarios into credit loss modelling.
- Assessment of capital and liquidity position over the short to medium term.

Medium-term analysis required

- Over the medium to long term, the impact of the credit losses on key bank reporting metrics should be analysed (i.e. credit risk RWAs, IFRS 9 provisions).
- Impact onto the liquidity position of the bank, and key regulatory ratios (LCR, NSFR).
- Assessment of market volatility, and how this will impact RWAs for counterparty credit risk, market risk, settlement risk, CVA risk.
- Longer term impact onto operational risk RWAs.

KPMG

How can KPMG help?

Development of scenarios

- Implementing stress scenario workshops.
- We can use our **proprietary Macroeconomic Forecasting Tool** to generate FLI based on the latest available information.
- This can include hypothetical scenarios, or historical scenarios (e.g. SARS).

Interpretation of scenarios

- Using the scenarios to stress asset cash flows and model credit risk losses.
- Generation of liquidity and market volatility impacts to align with the scenarios.

Impact of scenarios on key bank metrics

- Impact of stress testing on capital position, RWAs (including inter alia credit, market, operational) and IFRS 9 provisions.
- Impact on liquidity, and regulatory liquidity ratios (LCR and NSFR).

Regulatory reporting

- Assisting clients in responding to all regulatory requests.
- As part of a network of global firms, we can provide benchmarking and peer analysis from across the European banking industry.

Contacts:

Ian Nelson
Partner
Financial Risk Management
Tel:+ 353(1) 410 1989
Mob:+ 353(87) 744 1989
ian.nelson@kpmg.ie

Adrian Toner
Director
Financial Risk Management
Tel:+ 353(1) 410 4894
Mob:+ 353(87) 050 4894
adrian.toner@kpmg.ie

Jason Longmore
Associate Director
Financial Risk Management
Tel:+ 353(1) 410 4013
Mob:+ 353(87) 050 4013
jason.longmore@kpmg.ie