

Stress testing at the world's largest banks

A benchmarking analysis

In the wake of the global financial crisis, increased regulatory focus has necessitated significant efforts by the largest banking institutions to develop and enhance their existing stress testing capabilities. Pressure on banks to demonstrate not only financial resilience under adverse conditions, but also the robustness of controls, processes and the overarching governance framework that supports stress testing has intensified as a result.

In response to this ever-increasing regulatory focus and the intense scrutiny banks are under, KPMG International conducted a survey of 19 systemically important banks (SIBs) throughout the summer of 2016. The objectives of the survey were two-fold, firstly to assess the current state of stress testing globally and secondly, to form a view on the potential future state of stress testing in the years to come.

Key findings

Our report, [Stress testing: A benchmarking analysis of systemically important banks](#) shows that significant progress has been made by the industry in enhancing stress testing frameworks over recent years. However, it has been difficult for banks to achieve high levels of efficiency and effectiveness due to the constant evolution of regulatory exercises and the limited use of automation in processes. Additional findings include:

- The imbalance between regulatory and internal stress testing is limiting usage. Fewer than 30 percent of firms use external stress testing to support business planning.
- Understanding the true cost of stress testing is critical to investment plans. A quarter of those surveyed estimate annual spend exceeds \$100 million USD. However regular monitoring and assessment of stress testing costs is rare.
- More bodies on the ground is not the solution. While resource requirements remains a key challenge for the banks, many are looking for more wide-ranging changes to the way they run stress testing, including their target operating model.
- 80 percent of banks analyzed, list data quality as one of their greatest concerns. The introduction of new regulatory and accounting rules (for example BCBS239 and IFRS 9) provides an opportunity to enhance stress testing and data frameworks.
- The governance and use of stress testing models needs to evolve, with many institutions looking to develop challenger and benchmarking models. Surprisingly, a third of participants say that the majority of their stress testing models have not been validated.

Given the prevailing trend for ever-stricter regulatory supervision, stress testing will continue to evolve. We believe a more coordinated and aligned approach to regulatory stress testing exercises would significantly lessen the burden on banks thereby releasing resources to focus on internal risk management.

About us

Our team believes in knowledge and passion for what we do builds value. As such, we strive to proactively bring our clients top products to enable them to succeed in their business activities. At the forefront of advising banks on regulatory change, we are here to help you successfully navigate the complex maze of interlinked European regulations.

Let's meet and discuss on how we can add tangible value to your organization.

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