



# KPMG's SSM Insights

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## October 2018

Welcome to the Autumn 2018 issue of KPMG's SSM Insights from the ECB Office.

As we approach the fourth anniversary of the Single Supervisory Mechanism, the recent Eurofi Financial Forum in Vienna provided a useful opportunity to stop and reflect on the evolution of the European banking industry.

Several of the key areas of debate – such as Brexit, the Banking Union and the Capital Markets Union – are heavily entwined with politics. But even if banks can do little to influence them, these are not topics they can afford to ignore.

In fact, supervisors are becoming ever aware of the importance institutional strength plays in maintaining financial stability. That accounts for their continuing focus on governance, and their growing interest in operational resilience.

Technology and related issues such as automation, FinTech and cyber threats were also major areas of discussion in Vienna. Banks' increasing reliance on technology, both to strengthen existing operations and foster innovation, is leading to greater supervisory focus on systems and data.

The articles in this edition pick up on several of these themes, while focusing on the practical implications for individual banks.

- One analyses the likely priorities of [supervisors' on-site activities](#) over the coming year, and provides practical insights into how banks can better prepare for these.
- Technology moves to centre stage in an article that highlights the significance of the ECB's recent [IT Questionnaire](#), and the need for banks to address any data weaknesses.
- ...While another highlights supervisors' interest in banks' increasing willingness to [outsource their NPL reduction](#) to external partners or service providers.
- Following the ECB Working Group's recommendation on successors to EONIA, we discuss the implications and potential cliff edges of [transition in the new euro overnight rates](#).
- A new ECB report on banks' recovery plans concludes that there is room for improvement to ensure quick and efficient action in times of crisis. Our article discusses [how playbooks and dry-runs](#) can be used to do this.

Whatever the future holds, we hope this edition of SSM Insights will continue helping readers to anticipate and react to changes in European banking supervision.

## Trends in supervisory on-site activities

As banks' business models evolve, on-site supervision is becoming more demanding. A new KPMG study compares the experiences of Eurozone banks, to identify trends in supervisory activities and to help banking clients better prepare for potential forthcoming on-site inspections.



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## Outsourcing NPLs: an emerging trend

European banks are turning to external partners for help in reducing total NPLs. Supervisors welcome deleveraging, but are also alert to potential risks. The ECB and EBA want to see that outsourced activities have suitable governance, due diligence and internal audit arrangements. Banks need to understand their focus and respond accordingly.



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## Definition of Default: The next hurdle

The ECB's new guidance on definitions of default has fired a starting gun for banks. This 'material' change will require many credit models to be revised and re-approved. The timetable is tight - submissions are due before the end of 2018. The new definitions could also have material effects on profitability and regulatory capital. Urgent action is required.



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## Raising the bar for ICT risk assessments

Supervisory interest in banks' IT risks has never been higher, and the ECB's recent IT questionnaire is a significant indicator of increasing focus. KPMG's own study suggests that data quality is a key area of concern. Banks should act now to address any such weaknesses, and to prepare for on-site scrutiny of their questionnaire responses.



## The IBOR reform

Following the ECB Working Group's recommendation to introduce ESTER as a new euro risk-free rate, the issue now is how the term structure of the new overnight rate is going to be built and how potential transition paths from EONIA should be achieved. Depending on the transition agreement, banks will then need to decide how they adopt the new overnight rates by 2020. But is the current timeline achievable?



## Playbooks and dry-runs: How to improve recovery planning across Europe

A new ECB report on banks' recovery plans found that the complexity of recovery plans could prohibit banks from implementing in a stress situation. We summarise the objectives and findings of the report, share the lessons learnt and introduce our approach to support banks by improving the effectiveness of their recovery plans.



## Useful Links

Visit [KPMG's ECB Office website](#) for the latest views and publications on pressing issues related to the Single Supervisory Mechanism (SSM).

Visit our [portal page](#) to find resources and materials regarding banking supervision under the SSM, and to [register](#) for all future alerts from the ECB Office.

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