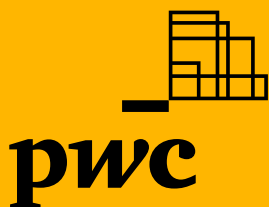# Credit Risk Insights: Proactive Monitoring Solutions

**Risk Reshaped**

pwc

# Why firms are proactively exploring credit risk monitoring optimisation solutions...

The performance of credit risk strategies, portfolios, and models (e.g. IFRS 9 and IRB models) is regularly monitored to manage and mitigate adverse performance risks, ensuring early issue identification and correction to minimise losses and stay within risk appetite. This monitoring ensures regulatory compliance, adhering to standards set by regulatory bodies and helps maintain sufficient capital reserves to cover potential losses, ensuring financial stability.

By validating credit risk strategies and models, banks can reflect current market conditions and borrower behaviour for precise risk assessment. Continuous monitoring provides insights for strategic decisions, such as adjusting credit policies and risk appetite.

Looking ahead, **as data volumes grow and regulatory requirements evolve, streamlined processes and automation will become essential**. Firms are exploring dedicated monitoring solutions to enhance accuracy and efficiency – **allowing for better resource allocation** while **maintaining necessary manual review**. Additionally, firms are starting to embed artificial intelligence (AI) and machine learning (ML) techniques as part of their monitoring to improve predictive accuracy and risk identification (through early warning indicators).

> **PwC's 'Risk reshaped: How are credit functions evolving?' 2024 market survey and PwC's 'Credit risk model monitoring' market survey**

We have examined both UK and European Banks and Building Societies to gain insights into their current credit risk monitoring practices, how credit risk monitoring is evolving due to the trend towards automation and the identification of potential areas for improvement.

**79%** of participants are **considering or currently implementing enhanced monitoring solutions**.

**75%** of participants are considering **optimising and automating** their data collection process for IFRS 9 or IRB model monitoring.

**40%** of time, on average, is spent on data collection for monitoring purposes, highlighting the **potential for optimisation**.

## Why firms are proactively exploring credit risk monitoring optimisation solutions

**Reducing processing time**
Monitoring is a time-intensive task and therefore optimisation will free up resources for other work.

**Minimising inconsistencies**
The manual nature of monitoring packs is prone to error. Automation would reduce this risk with a standardised process.

**Enhanced depth of insights**
Monitoring packs have grown in size thus utilising dashboards or open-source solutions will enhance the granularity of information.
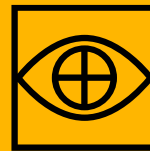
**Supporting regulatory compliance**
Full codebase transparency supports audit/compliance with regulations.

# Credit risk monitoring MI process
## The 3 key stages for developing a monitoring solution

Our segmented approach to developing a monitoring solution below outlines the key activities, considerations, and benefits across the data, calculation, and visualisation layers. In this way, we have supported Banks and Building Societies to enhance their risk management capabilities, ensure regulatory compliance, and empower stakeholders with actionable insights derived from reliable data.

### Data extraction layer – optimal data collection using open-source software **01**

We create custom open-source code to streamline data extraction, making it easy to integrate into your calculation engine and dashboard. This approach enhances decision-making with timely data, ensures regulatory compliance with accurate reporting, and boosts efficiency by automating data workflows.

#### Activities

1. **Data extraction and sourcing:** Identify relevant data sources, develop ETL processes for data extraction, and implement data integration pipelines for continuous data flow.
2. **Data quality assessment:** Establish data quality standards and validation rules.

#### Considerations

- **Integration complexity:** Managing diverse data sources and formats.
- **Data quality assurance:** Ensuring accuracy and reliability of data.
- **Scalability:** Handling large volumes of data efficiently.

### Calculation layer – metric generation using dashboards/ open source software **02**

We can enhance your monitoring processes with tailored support, improving metric generation speed and depth using dashboards and open-source software. This also contributes to better risk management and understanding of key performance indicators enabling informed strategic decisions.

#### Activities

1. **Creating relevant metrics:** Define and implement key credit risk metrics.
2. **Regulatory expected metrics:** Where applicable ensure alignment with regulatory requirements.

#### Considerations

- **Model accuracy:** Ensuring models reflect current market conditions.
- **Regulatory compliance:** Adhering to evolving regulatory standards.
- **Consistency and standardisation:** Ensuring metrics are aligned across different departments and use cases.

# Credit risk monitoring MI process
## The 3 key stages for developing a monitoring solution (continued)



**Visualisation layer – monitoring presentation** **03**

We can create a custom dashboard for exploring trends and filtering results, tailored to your specifications and stakeholder needs. The view-only dashboard enhances credit risk transparency, empowers stakeholders with actionable insights, and improves communication through data-driven discussions, accompanied by comprehensive documentation and user guides.

## Activities

1. **Interactive dashboard development:** Select and implement suitable visualisation tools (e.g., Tableau, Power BI), and design intuitive and user-friendly dashboards.

2. **Tailoring to stakeholders:** Identify stakeholder requirements and user personas, customise dashboard content and layout for different levels of stakeholders, and provide training and support for effective dashboard utilisation.

## Considerations

- **User adoption:** Ensuring dashboards meet user expectations and needs.
- **Data visualisation:** Presenting complex data in a clear and meaningful way.
- **Security and access control:** Protecting sensitive data while providing necessary access.
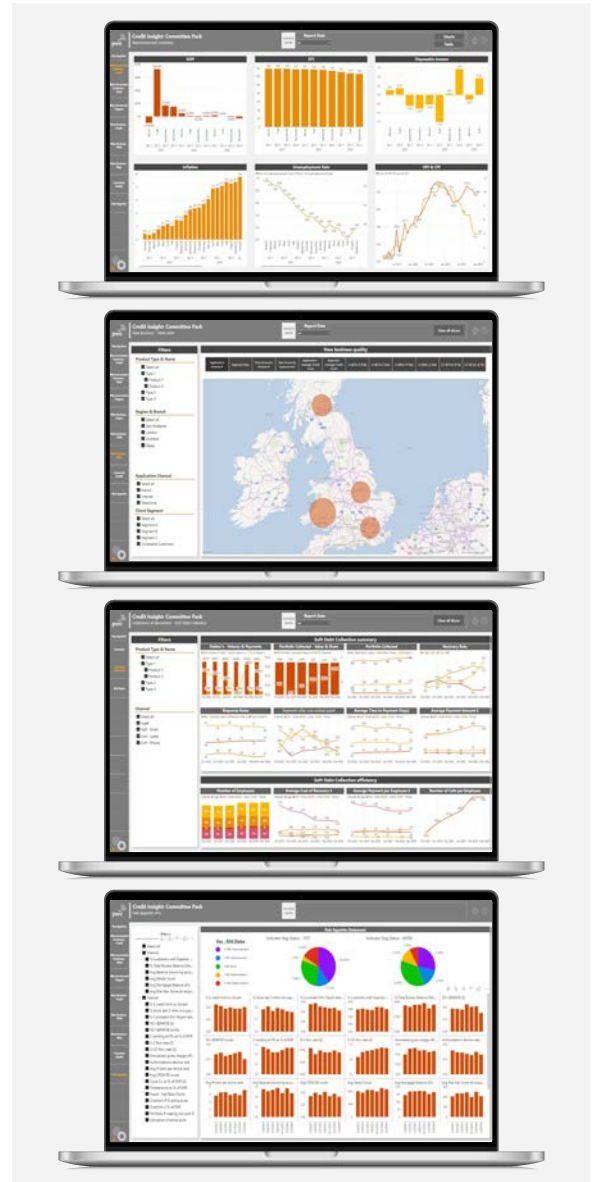
# How we can help?
## Our approach to embedding credit risk monitoring solutions

**How we have supported your peers**

## 01
### Monitoring ecosystem support

We can help you identify improvement areas and efficiencies in your monitoring ecosystem. Our diagnostic includes a gap analysis, identification of time-consuming areas, and recommendations for optimising your end-to-end monitoring.

## 02
### Bespoke solution

We can work alongside you to design, develop and implement a bespoke monitoring solution that you can then run in-house.

## 03
### Off-the-shelf solution

We offer a customisable interactive dashboard that lets you input your data and automatically generates insights and metrics tailored to various stakeholders.

## 04
### Monitoring as a Service (MaaS)

We can execute and present your monitoring in various formats on a periodic basis, enabling you to reallocate and utilise your resources effectively.

**Our toolkits and accelerators**

### PwC's off-the-shelf monitoring solutions

- Credit Risk MI for commercial portfolios.
- Credit risk insights dashboard.
- Credit risk model monitoring dashboard.
- IFRS 9 retail portfolio dashboard.
- And more.

### Access to PwC's market leading alliances

By combining PwC's expertise and our alliance partners' technology, we can help you solve your business critical-business challenges through their tried and tested solutions.

## Contacts:

**David Wong**
Partner

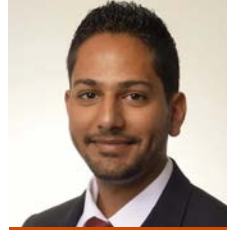T: +44 (0) 7739 449098
E: david.l.wong@pwc.com

**Symon Dawson**
Partner

T: +44 (0) 7483 422850
E: symon.k.dawson@pwc.com

**Stephanie Bower**
Director

T: +44 (0) 7535 476862
E: stephanie.x.bower@pwc.com

**Kishan Mistry**
Senior Manager

T: +44 (0) 7841 468719
E: kishan.mistry@pwc.com

# Thank you