

Capital and liquidity management

Creating value and fostering trust



FINANCIAL RESILIENCE



The end of work/life balance?

The COVID-19 pandemic has proven the need for financial institutions around the globe, to rethink their plans to protect themselves, their customers, and their communities from the next major crisis. Since uncertainty will likely remain even after the pandemic has subsided, capital and liquidity management should be embedded into every organization's recovery planning.

Financial institutions should seek to fully understand what resilience planning means for them and build a recovery plan that doesn't just look good on paper but works during a period of stress.

Key focus areas for building financial resilience

Organizations should examine the disruptions caused by COVID-19 and use this event as a catalyst to take a more holistic, resilience-first approach to managing risk.



Realign risk appetite and risk profile: Redefine underlying risk management strategies, frameworks, policies, and procedures to re-assess risk capacity, appetite, and profile.



Enable proactive portfolio health checks: Conduct rapid and frequent portfolio health checks to evaluate the impact on provisions and manage associated credit/reputational risk.



Re-think the credit decisioning process: Calibrate borrower risk-rating models and streamline the process to achieve better and faster credit decisioning.



Perform olfactive segmentation: Differentiate between resilient and non-resilient customers by harnessing unconventional data sets and performing segmentation analysis.



Explore alternate collection strategies: Digital channels are becoming a crucial tool in addressing the challenge of future collection and recovery capabilities.



Augment support to distressed portfolios: To assist distressed borrowers, proactively negotiate restructuring terms. Develop ranked or bundled products based on the portfolio mix to minimize cost and consolidate debt.



Focus on active capital management: Adopt a forward-looking approach to capital management and explore avenues to maximize capital fungibility.



Enhance risk-response framework: Implement control towers to provide data visibility, proactive alerts and prescriptive insights.

Strategies to unlock capital and liquidity efficiencies

Board and executive:

Efficient capital allocation to maximize shareholder value

- Optimize bank-wide risk-adjusted return.
- Undertake targeted incentivization of products and business units earning superior risk adjusted returns.
- Identify divestment opportunities for non-core business lines with sub-par performance.

Group structure optimization

- Determine corporate structure changes to maximize capital and liquidity mobility.

Business heads:

Portfolio rebalancing to maximize risk-adjusted return

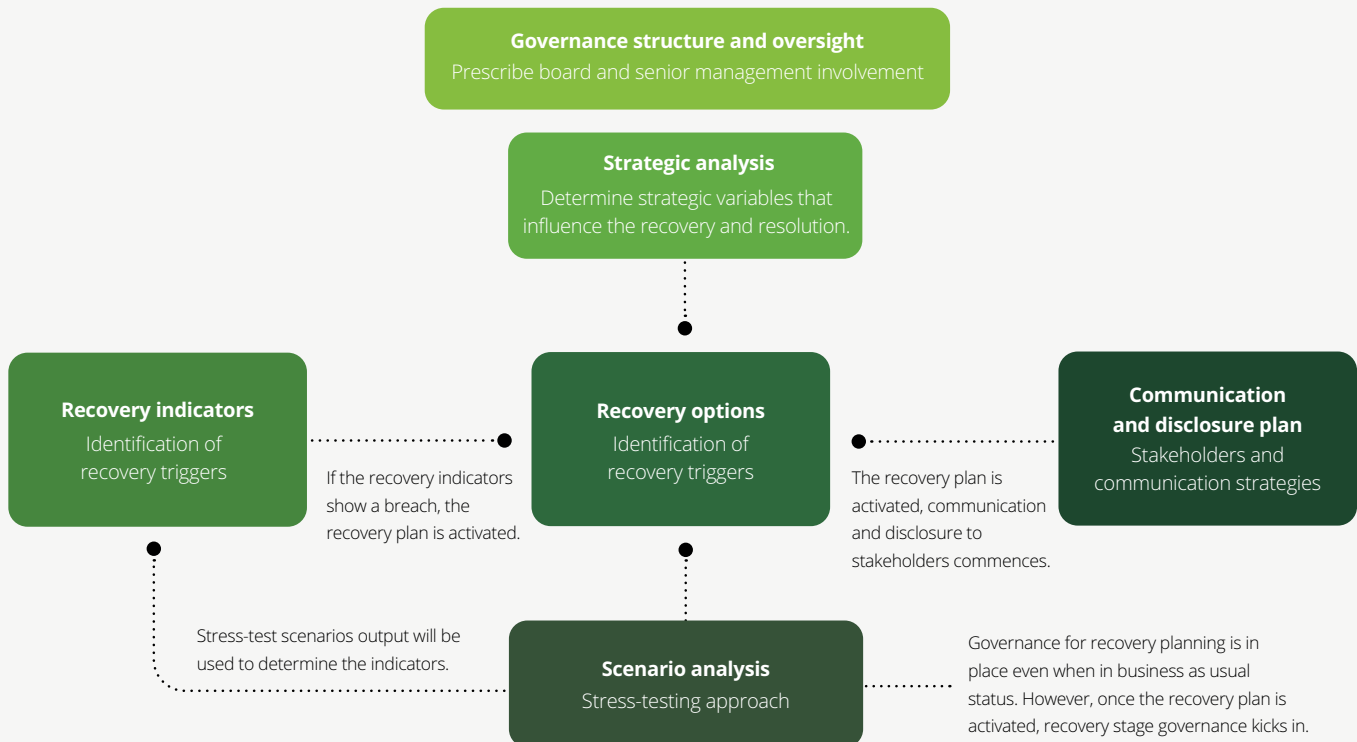
- Construct model portfolios based on capital allocation and actual vs. expected risk-adjusted return on equity from each sub-portfolio.
- Enable decision-making that corresponds to portfolio rebalancing (down-sizing or expansion).

Securitization as a tool to free capital and liquidity

- Enable opportunities to free up capital and liquidity for redeployment on higher-earning assets.

Revisiting recovery and resolution planning

Robust recovery and resolution planning are one of the major enablers of financial resilience. The following exhibit depicts the connections between its various components.



The way forward

Guiding actions to becoming resilient



2020-Learn from the impact of the pandemic and the uncertainties it caused.



Rethink resilience to operational and non-financial risks, taking a top-down, ecosystem-wide approach.



Optimize structural and intra-day liquidity to minimize funding mismatches.



Validate contingency funding plan and capital management plan to assess previously defined measures for feasibility.



2022-Devise robust, forward-looking strategies and risk-frameworks.



Capital and liquidity management is the cornerstone of financial resilience. Falling short in this area can threaten the organization's very existence

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