ARTICLE

How robust banking book collateral management can reduce Risk-Weighted Assets by 25%

Luke Nestor, *Founder and EVP of Rockall, a Broadridge Business*

To stay competitive in a global market, banks need an accurate, up-to-date picture of loan collateral.

With profit margins historically low, limitations in a bank's collateral management capabilities create urgent problems. Consider, for example, that some banks leave millions on the table because they can't adequately demonstrate security over their loans. The culprit: manual, fragmented systems that foster inconsistent and badly maintained collateral data.

There's good news, however. Banks are finding that systematizing collateral data management enhances the ability to trace accurate Loan-to-Value (LTV) ratios and credit event histories. As a consequence, these banks can substantially reduce risk-weighted assets (RWAs).

> The complex maze of disparate credit systems and inaccurate reporting makes it hard to see the whole picture.
>
> That's why more banks are using a consolidated banking book collateral management solution to deliver value.

Broadridge®

COMMON APPROACHES TO CREDIT RISK CALCULATION

Models for credit risk calculations vary significantly around the world, but there are some key commonalities. Substantial banks are required to demonstrate reliable processes for credit data capture and integrity, as well as the ability to track and learn from credit default history. In any model, the application of out-of-date collateral values or the inability to prove that a loan has been secured will result in unused capital allowances and increased capital and opportunity costs.

PULLING RWA AS LOW AS IT WILL GO

High-quality banking book collateral management capabilities consolidate complex loan data, enabling more accurate credit risk and loan performance reporting. By capturing the right collateral data from the outset, it's much easier to maintain associated information, such as:

- Valuations
- Insurance coverage
- Flood status

In addition, consolidated data also simplifies the management of asset classifications and data aggregation across multiple business lines and jurisdictions. This helps banks achieve a complete picture of loan exposures, underlying collateral and associated relationships. Ultimately, these processes help to close gaps in loan data and reduce RWA.

PRIORITIZE COLLATERAL ACROSS YOUR ENTIRE LENDING LIFECYCLE

RWA over-estimations continue to put a strain on banking profit. Let Broadridge help. Our solution, COLLATE, is the only platform that puts a golden view of loan collateral at your fingertips. Close gaps in loan data and gain a complete picture of loan exposures at any level of granularity. COLLATE ensures that you can trace accurate LTVs and credit event histories over time. The result: substantial reductions in RWA.

ABOUT THE AUTHOR

Luke Nestor has been in the Financial Services technology business for over thirty years. An expert in credit and loan systems, Luke founded Rockall to create banking book collateral management products that deliver value both operationally and strategically. Over his career, Luke has designed and built retail banking systems across multiple divisions.

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