



# SSM supervisory priorities 2020

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Looking ahead, the ECB priorities give us a good indication of how the SSM will develop into the future.





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# Introduction

Every autumn, the ECB's supervisory priorities summarise its view of the leading challenges facing Eurozone banks, and define the supervisory landscape those banks can expect to encounter during the year ahead. October 2019's publication of the ECB priorities for 2020 marks the start of the 'next half decade' for the Single Supervisory Mechanism (SSM), almost exactly five years after it was implemented (see Figure 1).

The SSM's fifth anniversary is a good moment to reflect on how it continues to evolve. The size of the SSM, the complexity of banking supervision and the differences between the circumstances of individual banks make it difficult to generalise about supervisory trends. Even so, it's clear that the SSM has made major strides in strengthening and harmonising the supervision of Eurozone banks over the past five years. As a result of deeper and more intrusive supervision, banks have sought to reshape themselves – not only by strengthening balance sheets, but also by developing a culture of stronger governance and risk management.

Looking ahead, the ECB priorities give us a good indication of how the SSM will develop into the future. The ECB has arranged 2020's priorities into three major areas: Continuing balance sheet repair, strengthening future resilience and other priorities (see Figure 2 for how these priorities have evolved since 2016). This split in 2020 reflects the ECB's dual focus on restoring the strength and stability of banks' current balance sheets, while ensuring the sustainability of banks' operating models from politics, technology and new competitors in the banking industry.

That the ECB's priorities for 2020 are similar to those of 2019 and 2018 is not a surprise. The areas listed as priorities are broad enough to allow supervisors and JSTs to apply a more sustained, risk-based approach to bank-specific supervision. Furthermore, over the last five years the ECB has sought to establish a consistent and multi-layered approach for its supervisory practices that can include, inter alia, on-site inspections, analysis and horizontal benchmarking. This takes time to fully embed and assess, and means that many of these topics will continue to be priorities, albeit with a different and evolving level of intensity and focus.

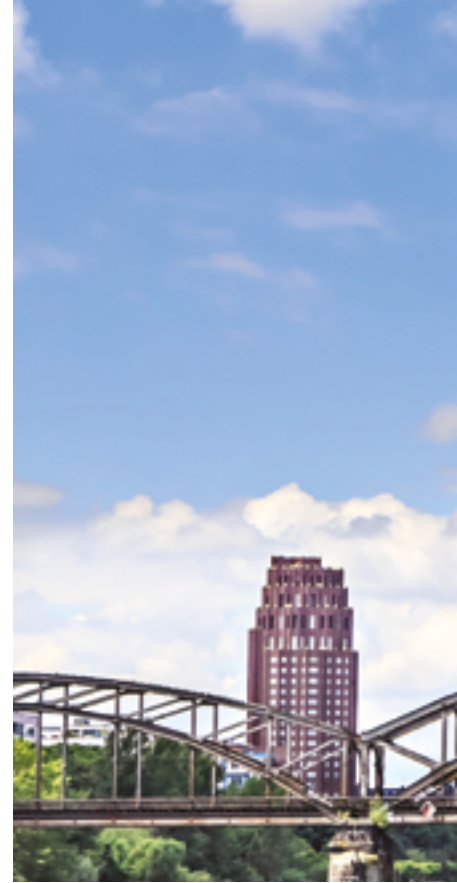


Figure 1:

## What is the SSM?

The SSM is the legal and institutional framework for banking supervision in the Eurozone. It began its role on 4 November 2014, with the overarching aim of ensuring the safety and soundness of the European banking system. The SSM represents the first (and so far, the most developed) pillar of the EU's Banking Union.

Within the SSM, the ECB takes direct prudential supervisory responsibility for 116 Significant Institutions (as of November 2019), accounting for more than 80% of the Eurozone's banking assets. The ECB is also indirectly responsible for the supervision of around 3,000 less significant institutions, making it one of the world's largest banking supervisors.

**In this report we take a closer look at the ECB's priorities for 2020, assessing how they are evolving and their potential implications for banks. We conclude with some overall observations on the ECB's ever-changing approach to supervision, together with some suggested actions that banks should consider for the year ahead.**








The ECB has arranged 2020's priorities into three major areas: Continuing balance sheet repair, strengthening future resilience and other priorities.



Figure 2:  
Overview of how the ECB's supervisory priorities have evolved

Areas	Priorities/Activities	2016	2017	2018	2019	2020
<b>Continuing Balance Sheet Repair</b> 	» Follow-up on <b>NPL guidance</b>	✓	✓	✓	✓	✓
	» Follow-up on <b>internal rating based models</b> <sup>1</sup>	✓	✓	✓	✓	✓
	» <b>Trading risk and asset valuation</b>	✗	✗	✗	✓	✓
<b>Strengthening Future Resilience</b> 	» <b>Credit underwriting criteria and exposure quality</b> (e.g. real estate, leveraged finance) <sup>2,3</sup>	✓	✓	✓	✓	✓
	» <b>Capital and liquidity management, ICAAP and ILAAP</b> and further integration into <b>SREP</b>	✓	✓	✓	✓	✓
	» <b>Business model sustainability</b>	✓	✓	✓	✗	✓
	» <b>IT and cyber risk</b> <sup>4,5</sup>	✓	✓	✗	✓	✓
	» <b>EU-wide (biennial) and/ or ECB stress test exercises</b> <sup>6</sup>	✓	✗	✓	✓	✓
	» <b>Governance</b>	✓	✗	✗	✗	✓
<b>Other Priorities</b> 	» Follow-up on <b>Brexit</b> work	✗	✗	✓	✓	✓
	» <b>IFRS 9</b> <sup>7</sup>	✓	✓	✓	✓	✓

**Key:** ✓ - priority    ✓ - not a priority in itself but included within    ✗ - not considered a priority

1 This includes the review of internal models under the TRIM project.  
 2 In 2016 the ECB indicated that exposure concentrations in certain areas, e.g. real estate, would be subject to greater supervisory scrutiny, and therefore is incorporated into 'exposure quality'.  
 3 In 2017 the ECB included its focus on NPLs and concentration levels in certain assets classes under the review of Credit risk. Therefore, concentration levels are incorporated into 'exposure quality'.  
 4 Although it was not a priority itself in 2016, the ECB indicated that IT risks would form part of the analysis of data quality and security under the thematic review in BCBS 239.  
 5 In 2017 the ECB indicated that the scheduled thematic review on Outsourcing would also include the review of banks' management of associated risks, including IT risks.  
 6 This section on ECB stress test also includes exercises others than the EU-wide stress test, such as the Liquidity Stress Test in 2019 (LiST 2019).  
 7 In 2019 and 2020, IFRS 9 is not a formal priority. Instead, it is mentioned as an example of its other 'ongoing activities' and therefore still important to the ECB and for banks.

# Continuing the journey

## Credit risk and exposure quality

Strengthening banks' credit portfolios has been a key goal of the SSM since its establishment. Regulation and supervision in this area continues to evolve rapidly, most recently with the ECB's decision to align its coverage expectations for non-performing exposures (NPEs) under the Pillar II regime<sup>8</sup>.

Another example of a supervisory initiative aimed at entrenching higher standards of credit quality among Eurozone banks is the ECB's credit underwriting exercise of 2019, which focused on six portfolios (residential real estate, commercial real estate, SME, corporate, large corporate and credit for consumption).

European institutions now have a well-established 'two-pronged' approach to reducing balance sheet risks. The first goal is to reduce current stocks of non-performing loans (NPLs). Here, the ECB's latest NPL guidance, the EBA's Guidelines on the management of non-performing and forborne exposures, and the ECB's expectations on provisioning the stock of NPLs – as set out in each bank's SREP letter – are crucial. These require banks to apply specific coverage ratios to NPE types, conceptualise and revise the capital plan to allow for the phase-in of ECB backstop rules, while also taking steps to sell NPLs via secondary debt markets if needed. Banks with a high level of NPLs must quantify NPL reduction targets and determine suitable reduction strategies. The uncertain economic outlook suggests that banks should focus on the latter goal sooner rather than later. That means creating business units to identify, track and package NPLs for disposal, if they have not done so already.

Looking ahead, banks also need to begin taking action to limit the inflow of new NPLs. The EBA's incoming Guidelines on loan origination and monitoring aim to ensure that new loans are of high quality, not only at origination but throughout their lifetime. The guidelines apply a range of new requirements to banks' governance, loan origination procedure, pricing, collateral valuation and monitoring activities<sup>9</sup>.

These requests coming from both the regulators and supervisors mean that demands on banks' data, IT system, governance and internal processes are increasing at every stage of the credit process. It's vital for banks to have a data infrastructure that enables them to collect, maintain, identify and report all relevant credit risk information (internally and to the supervisors if requested at short notice). That includes the ability to provide high level summaries, to dive into granular detail, and to 'slice and dice' credit data by loan type, vintage, maturity and collateral. Furthermore, banks must meet these challenges while implementing a new definition of default and changes to IRB models, and while monitoring the introduction of IFRS 9.

The many different initiatives aimed at improving credit portfolio quality – and the many different portfolios and business lines affected – mean that banks should use the experience of the ECB's recent credit underwriting exercise to spot key weaknesses and remediate them as soon as possible.

<sup>8</sup> ECB, *Communication on supervisory coverage expectations for NPEs*, July 2019

<sup>9</sup> EBA, *Guidelines on loan origination and monitoring*, June 2019







## IRB models

It's more than three years since the ECB's Targeted Review of Internal Models (TRIM) project began, with the aim of assessing the quality of banks internal models and further harmonising the manner in which supervisors interpret regulation relating to these models. Fast forward to today, and the TRIM project – which may be the SSM's longest and most resource intensive to date – is nearing completion. The ECB's guide on internal models has been largely finalised, and banks have seen the initial result of the horizontal TRIM review<sup>10</sup>.

As they look to the year ahead, banks' major focus should therefore be on implementing remediation actions arising from the review. But in doing so, they may struggle to balance changes from TRIM and challenges such as implementing the new definition of default and meeting the requirements of IRB reporting. Resource scattering is a risk, and poor or slow implementation of key actions might increase capital costs. Furthermore, given the interconnectedness of internal models and business decisions (the 'use test'), mistakes or failings in any one of these areas could quickly lead to knock-on problems in the others.

To mitigate these risks, banks should develop a clear action plan to address TRIM findings. Engaging with supervisors will help them to identify the greatest areas of priority, and to limit any potential reworking that could arise from future amendments to the Basel framework.

Looking ahead, the ECB is keen to ensure that the improvements achieved by TRIM should be incorporated into banks' ongoing processes - and into its own supervisory approach. In addition, the selective nature of TRIM meant that certain internal modelling topics were only lightly covered, or were not included in the scope of investigation. That does not mean banks should expect 'TRIM 2', but they should be aware that joint supervisory teams (JSTs) may scrutinise additional areas where they believe comparable banks are taking inconsistent approaches to internal modelling.



**Banks' major focus should be on implementing remediation actions arising from the review.**

<sup>10</sup> ECB, *Third update on TRIM outcomes* (as of October 2019), 21 November 2019



# Continuing the journey

(continued)

## Trading risk and asset valuations

To close out their aim to continue balance sheet repair, the ECB has once again indicated that on-site missions with an enhanced focus on trading and market risk aspects will continue. The approach so far by the supervisor has been for JSTs to conduct deep dives at a selected number of banks in advance, so that they can tailor the scope of any on-site activities. The ECB will continue to focus on ensuring that banks are taking appropriate steps to understand, monitor and mitigate their trading risks and asset valuations. Banks with high volumes of trading activity or derivative portfolios should therefore expect increased interest and scrutiny of their trading risk and valuation governance structures, and related topics such as levelling under IFRS 13, valuation adjustments and the recognition of Day one profit and loss. The coming year is also likely to see supervisors paying more attention to the decision-making and controls that underpin asset valuations. That could include making trading risks the subject of on-site inspections – something that is likely to put a strain on many banks' data aggregation and reporting capabilities.



The ECB will continue to focus on ensuring that banks are taking appropriate steps to understand, monitor and mitigate their trading risks and asset valuations.



## IT and Cyber risk

IT and cyber risks continue to climb the supervisory agenda. A look at the SSM risk maps from 2017 to 2020 shows the risk of Cybercrime and IT disruption steadily increasing, both in terms of probability and potential impact.

The ECB's increasing interest in this area is reflected in its recent activities. In addition to high-level co-operation with member states and other EU institutions, the ECB is making more frequent use of supervisory initiatives aimed at strengthening cyber resilience, covering not only supervised banks but also payments systems and financial market infrastructures, as exemplified by the publications of their cyber resilience oversight expectations (CROE), the TIBER-EU framework, and the launch of other market-wide exercises (UNITAS).

On the other hand, additional specific initiatives include the contribution to several EBA guidelines (for example, the recently published guidelines on ICT and security risk management in November 2019), thematic reviews (such as data quality in 2016, outsourcing in 2017), an annual comprehensive self-assessment IT questionnaire for significant institutions (SIs) since 2018, and most importantly targeted on-site inspections.

In 2019, these supervisory audits followed a campaign approach, whereby the same topic was inspected at several SIs on a comparable scale in order to facilitate a more efficient preparation and execution of inspections as well as comparison of results, and this approach is likely to continue into 2020. The high importance findings identified in such audits were mainly related to IT operations management (inadequate incident management processes, a lack of comprehensive and accurate asset inventories), access rights management (ineffective recertification processes, insufficient segregation of duties), data quality management (weak operational processes for validating manual inputs) as well as IT security management (delayed and improper detection and mitigation measures).

Banks should remember that perceptions of weakness by supervisors could trigger further on-site activities and may ultimately affect their SREP scores. It's also vital to ensure that IT controls encompass outsourcing, at a time when banks are making growing use of vendors, service providers and Fintech partners to access cutting edge technology. In any case of on-site inspections, advanced preparation and planning will be paramount to demonstrating a sound IT control environment, and to avoid additional demands in this significant area.



**In 2020, banks should expect the ECB's IT-focused scrutiny to rise and should prepare accordingly. In our view, the following actions will help banks both to manage IT risks and to meet supervisory expectations:**

- Increase awareness of IT risks and cyber threats – not only for IT staff, but also non-IT personnel, key function holders, the Management Body, and, where applicable, contractors;
- Incorporate IT and cyber risks into risk management frameworks, so that key decision-makers can take their potential dangers into account.
- This holistic institution-wide framework should also include vendor management, encompassing risks arising from all arrangements with third parties (such as **concentration risks** from outsourcing to a dominant service provider that is not easily substitutable, or the **step-in risks** that may result from the need to provide financial support to a service provider in distress) together with a consistent classification regarding the criticality of outsourced functions.
- On a more technical note, banks should aim to simplify their IT landscapes, not only because simpler IT landscapes have a smaller attack surface, but also because the easier these complex systems are to understand and maintain, the better they can be protected, and;
- Monitor the global cyber threat environment in real time, making appropriate adjustments to IT security in response to hackers' developing tool kits.



# Continuing the journey

(continued)

## ICAAP and ILAAP

The ECB considers the ICAAP and ILAAP as two of the most important risk management elements of SSM banks and thus a major part of the Supervisory Review and Evaluation Process (SREP). The ECB's focus on ICAAP and ILAAP is a natural continuation of its longstanding desire to improve SSM banks' resilience. This goal lay behind the multi-year ICAAP plan published in 2017 and the new ICAAP and ILAAP guide finalised in late 2018. That guide also made it clear that the ECB plans to intensify its assessment of banks' ICAAPs<sup>11</sup>.

The priorities for 2020 remind banks that the assessment of their ICAAPs and ILAAPs will play an increasingly important role in the annual SREP. The ECB is also planning to use on-site inspections in a wider extent to assess the quality of the ICAAP and ILAAP of SSM banks in 2020. This should give banks all the incentive they need to address the 'serious shortcomings' that the ECB found in more than half of Significant Institutions during 2018<sup>12</sup>.



The ECB is also planning to use on-site inspections in a wider extent to assess the quality of the ICAAP and ILAAP of SSM banks in 2020.

Since the publication of its principles-based guides on ICAAP and ILAAP in late 2018 SSM banks have been intensively monitoring ECBs actions. The adherence to the principles in the guides is for the first time subject to a review by the JSTs in the course of the 2019 SREP process.

The ECB has also gathered extensive amount of data from SSM banks in the past and is expected to implement an approach for determination of Pillar 2 own funds requirements on a risk-by-risk basis, following an individual assessment of each bank. The risk-by-risk approach is a clear sign of the rising importance of the ICAAP for the SREPs.

Taken together, these factors add up to a clear statement of intent from the ECB. Banks should prepare accordingly, with a particular focus on anticipating intensive data requests and focused on-site inspections



### Some of the most common actions that banks should focus on are believed to include:

- Enhance the integration of the normative and economic perspective;
- Alignment of ICAAP and ILAAP with other main risk management elements such as recovery plans;
- Strengthening stress testing frameworks; and
- Improving risk quantification methodologies.

<sup>11</sup> ECB, *Final guides for banks on their capital and liquidity management*, 9 November 2018

<sup>12</sup> Press release, *ECB Banking Supervision publishes results of 2018 SREP*, 8 April 2019



## Brexit

The fact that Brexit is the only 'Other' priority specifically identified by the ECB underlines the unusual nature of this issue. On one hand, uncertainty over what Brexit actually means that it remains a potentially significant challenge. Set against that, the fact that the ECB has previously carried out an extensive information gathering exercise to identify potential areas of risk, engaging with banks to understand their contingency planning, means there has been a strong response to this challenge.

What happens exactly next will depend on the political situation. Precise outcomes are impossible to predict, even in light of the recent UK election results, and could require a rapid response – especially in the event of a disorderly or 'no-deal' Brexit. Then again, the potential consequences of an orderly (or halted) Brexit scenario should be manageable by banks, based on their preparations to date. For now, banks and supervisors alike remain 'in a holding pattern', but must be ready to take further actions if and when required.

## IFRS 9

The ECB has not identified the monitoring of IFRS 9 implementation as a formal priority for 2020. Instead, it is mentioned as an example of its other 'ongoing activities'.

With initial IFRS 9 implementation over, most banks are increasingly focused on reporting under the new standard, and on developing more sophisticated and better calibrated 'Generation 2' models. As more yearly and half-yearly results appear under the standard, banks will be increasingly able to benchmark their impairment charges against those of their peers. In time, this could raise the possibility of banks 'gaming' the modelling requirements of IFRS 9 to keep their credit costs in line with rivals. Supervisors will be alert to this possibility, so banks will need to ensure they have fully documented and justified all of their assumptions. As long as banks continue to refine and recalibrate their IFRS 9 models, they could expect supervisory scrutiny from the ECB on areas such as modelling on credit risk management and regulatory capital calculations. Furthermore, as the overall Credit risk management framework remains very high on the ECB's agenda for on-site inspections, we expect that credit file reviews will play a key role as part of the ECB's review of IFRS 9.





# Refining areas of focus

## Business model sustainability

The inclusion of business models as a key priority for 2020 shows that this issue is returning to the top of the ECB's agenda. This has most importantly been highly influenced by the long period of low to negative interest rates. Along with this, the growing threat of digitisation posed by Fintech and 'Bigtech' firms and the need for banks to transform their existing technology.

The challenges posed by economic uncertainty, high NPLs and fast-changing customer preferences, are placing banks' operating margins under unprecedented pressure. Ten years after the last major financial crisis, it is troubling and remarkable that a recent speech by the vice-president of the ECB highlighted that around 75% of significant SSM banks are generating returns below the 8% benchmark return demanded by investors for holding bank equity<sup>13</sup>.

So what should banks expect from the ECB in this area during 2020? At a minimum, supervisory views of business models will continue to influence SREP scores, although the impact on Pillar II requirements will be hard to quantify. We also expect the ECB to take a closer interest than before in strategic planning. Banks should be ready for more enquiries on this topic as part of on-site inspections. Management can not only expect to be challenged on their current projections and assumptions – they may also find supervisors increasingly keen to understand how banks plan to adapt for the future and respond to increasing competition from disruptive, innovative new entrants.

In the longer term, the ECB has made no secret of its view that consolidation has a vital role to play in boosting the underlying profitability of European banking. Andrea Enria's recent speech to mark five years of the SSM was explicit on this point<sup>14</sup>, and highlighted the beneficial effects that greater concentration might have on banks' efficiency, and thus on their levels of investment in technology and digitalisation. We also believe the ECB would view more cross-border mergers as a vote of the confidence in the Banking Union. Whether or not individual banks agree with these views, it seems certain that the ECB will pay increasing attention to the threats banks face and to the future-proofing of their business models.

## Stress tests

The stress tests of 2020 will be the seventh biennial set coordinated by the EBA. Any ECB-supervised significant institution not participating in the EBA's exercise will be subject to a parallel ECB stress test. In both cases, the results will feed into the annual SREP process.

In many respects, 2020's stress tests will be similar in scope to those of 2018, which were the first to incorporate the effects of IFRS 9. In practice, the fact that 2020's tests will be run according to 2016's tighter timeline will make the process much more demanding. The tests will be very data intensive, requiring close, efficient cooperation between banks' business units and support functions. This will place inevitable strain on data infrastructures. On the upside, there is an opportunity for banks that can incorporate the output of the tests into internal processes like ICAAP.

Looking beyond 2020, banks should also be aware that future stress tests are unlikely to follow established 'bottom-up' methodologies. The ECB is developing new approaches, which could incorporate emerging risks such as those associated with climate change – something that the UK's PRA is already doing.

The overall direction of travel is clear; supervisors are keen to ensure that banks cannot manipulate their responses to achieve favourable test outcomes. Luis de Guindos' speech of September 2019 underlined the importance that the ECB attaches to ensuring that future stress tests inspire the full confidence of investors, politicians, the media and the public.



There is an opportunity for banks that can incorporate the output of the tests into internal processes like ICAAP.

<sup>13</sup> Speech by Luis de Guindos, Vice-President of the ECB, Frankfurt am Main, 18 November 2019

<sup>14</sup> Speech by Andrea Enria, Chair of the Supervisory Board of the ECB, Frankfurt am Main, 6 November 2019



## Governance

It's been a while since the ECB's Thematic Review on Internal Governance ("RIGA") of 2015 identified Governance per se as a supervisory priority. Recent years have seen the ECB focus on specific risk controls in areas such as NPLs and outsourcing, but governance in the broadest sense is clearly back on the agenda. Supervisors will focus on banks' governance frameworks around 2020's other future resilience priorities, with JSTs assessing governance from a range of perspectives including board functioning, organisational frameworks, internal control functions and data quality.

The experience of recent on-site inspections suggests that there are a few key areas where the ECB may be particularly alert for potential shortcomings. One is alignment between banks' business models, strategies and organisational setup. Historic structures and processes, abetted by recent cost-cutting, can make it hard for banks to develop consistent risk oversight. The ECB is keen to ensure that each bank has a firm-wide governance framework suited to its business model.

Another area is the role and status of CROs and central risk management functions. The EBA's guidelines on internal governance require banks to clearly define the roles and responsibilities of key risk control functions. This can help to identify gaps in the three lines of defence model which is increasingly seen as an obligatory standard for all business units.

The third area includes less tangible topics, such as risk culture and incentives. To the surprise of some banks, 2019 saw the first on-site inspections focused on risk culture. The ECB is keen for banks to involve all employees in creating a risk management culture that complements formalised lines of defence. In future that could see supervisors turn their attention to remuneration schemes embedded in governance structures.

Finally, the ECB is increasingly interested in the management of non-financial risks. We expect 2020 to see a growing focus on banks' ability to manage diverse non-financial risks, from cloud computing to climate change. The Bank of England's 'operational resilience' initiatives, which stress the need for a holistic view of non-financial risks, could give banks a useful hint of the ECB's future approach.



# Conclusion

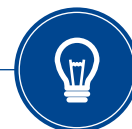
At first glance, the ECB's priorities for 2020 contain few surprises. Even if – as we have seen – they have a wide range of potential implications for SSM banks, the key themes are largely familiar.

That may mean that banks are tempted to view 2020 as bringing 'more of the same'. But this impression of predictability may be misleading; the priorities and their immediate effects are only half the story. In reality, supervisory attitudes and techniques are evolving surprisingly quickly. At a high level, the approaches taken by both the ECB and the EBA are becoming more forward-looking, more process-driven and more focused on horizontal benchmarking.

The overall effect of these changes is that the data requests banks receive will continue to become more demanding in their detail, frequency and complexity. Recent statements from the ECB show it is aware of the risks of data overload, and it is legitimate to ask whether the 'law of diminishing return' may apply to the seemingly inexorable growth of regulatory reporting. But it is hard to argue against the value of detailed, reliable management information, and for now it seems unlikely that the current trend in data gathering will be reversed.



The approaches taken by both the ECB and the EBA are becoming more forward-looking, and more focused on horizontal benchmarking.



## What other changes to the shape of supervision should banks be preparing for in 2020? At a high level, we expect to see:

- On-site inspections in a wide range of areas, even if many of these have yet to be scheduled. Preparation, documentation and resource planning will be key to successful outcomes. The priorities for 2020, together with SREP letters, should give banks a good idea of possible areas of focus.
- The increasing use of benchmarking by the ECB across a range of topics, going well beyond technical considerations. Banks should anticipate the results of this process by doing what they can now to compare themselves against their peer group and identify any potential weaknesses.
- Greater scrutiny of banks' follow-up responses to supervisory findings. Banks must show that they have taken ownership of past findings and addressed them fully, and that they are ready to implement future remediation steps in a timely manner.

Looking beyond 2020, banks should be prepared for further changes to supervisory strategy. We expect the next few years to see further changes to supervisory approaches as the current structures and objectives of the SSM are challenged by factors such as the disruption – both internal and external – of banks' business models as a result of technological change. The potential evolution of national options and regulatory discretions could also challenge supervisors, with some banks still sceptical of the application of a "level playing field". As the risks and challenges facing the SSM change (see Figure 3) so too will the supervisory priorities need to adapt. Evidently, the coming years will pose challenges for supervisors and banks alike as they work together to maintain stability and support economic growth. Banks should try to maintain a constructive view of supervisory scrutiny, for example by helping them to question their own assumptions about future risks and returns.

**That will not only maximise the value of compliance spending; it will ensure that banks are positioned to survive and succeed during the next five years – and beyond.**



### Figure 3:

#### **Where next for banking supervision?**

While the ECB has published its risk assessment for 2020, we have outlined below some potential topics of regulatory and supervisory attention that could emerge as areas of attention over the next few years. For SSM banks it may be worth considering these topics now, in order to be prepared for their potential effects:

- Climate change and related transition risks and its incorporation to an updated stress test framework
- The role of Artificial Intelligence and machine-learning within banks, in particular where they have a direct impact on business decisions and customers
- Operational risks were crypto currencies to become a more established part of the banking system
- The growth of shadow banking (financial activities carried out by unregulated entities) and its effect on the market for financial products
- Incorporation of social and good governance aspects into business models and granting policies
- Partnerships and alliances with technology companies to drive transformation and digitalisation strategies



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