ActiveViam

Atoti for IFRS 9

ActiveViam's IFRS 9 solution offers the comprehensive multidimensional analysis required not only to comply with IFRS 9 standards but also to transform credit management into a profit center, particularly in the face of high credit volatility.

Introduction

Credit management, an essential aspect of retail and corporate banking, now encompasses far more than merely monitoring potential defaults within a loan portfolio. It requires forward-looking assumptions driven by sophisticated cash flow analysis and credit models. Consequently, IFRS 9 analytics often become available only after critical business decisions are made, with most reporting systems delivering aggregated reports on a T+1, T+2, or even end-of-month basis.

The post-2020 COVID crisis economy has significantly pressured credit and expected credit losses, highlighting the challenges lenders face in anticipating which loans may default first. With non-performing loans now immediately impacting the income statement, the ability to drill down into minute details to accurately identify their impact and plan for provision requirements to cover expected losses has become crucial in financial reporting. Furthermore, precise loan risk classification enables the mitigation of excess provisions, maximizes profitability, and reduces funding costs, thereby allowing banks to gain market share in a competitive credit environment.

This is where Atoti, ActiveViam's flagship solution, becomes instrumental. Firstly, it aligns business, risk, and finance teams on a single source of truth, eliminating the need for reconciliation across different systems. The ability to slice, dice, filter, and segment loans helps identify patterns such as the probability of default and investigate the causes of changes in default ratings. Additionally, Atoti supplements your existing models by allowing instant updates to projections based on incoming cash flows or missed payments. This operational intelligence provides users with immediate impact analysis on carrying amounts and expected credit losses, enabling them to make proactive decisions before risks escalate into actual losses.

IFRS 9 in Practice

The "Significant Increase in Credit Loss" (SICR) is a fluid tenet of IFRS 9 based on both hard data and forward looking models. It requires a measurement of the trend in creditworthiness , for each loan credit since inception. In itself, the aggregation and monitoring at every level of granularity, and the ability to drill down to identify a root cause is a very data intensive exercise.

IFRS 9 has three categories for booking loan losses:

Stage 1	Stage 2	Stage 3
Account for expected credit losses (ECL) for the first 12 months when a loan is originated or purchased.	When a loan begins to show a "significant" increase in credit risk the bank must account for expected losses over the life of the loan.	Once the loan has been impaired, the bank must account for expected losses over the remaining life of the loan.

Curbing “Significant Losses” Before They Occur

The approach is very much contingent upon the individual bank’s criteria for each loan and loan portfolio.

Choosing a flexible solution that can support evolutions in data and risk models, implemented swiftly to properly calibrate potential losses will allow the bank to optimize provisions.

What’s important here?

Velocity

Analysts must frequently and proactively search to sort out a problem and move to find a non-performing loan.

De-siloed approach

Tracking a chain of data, processing it and signing off on it in one system, all while keeping a detailed audit trail.

KPIs

Identifying a trend of default on a subset of loans can help anticipate that same trend spreading to other subsets and allow for preventative action.

Management by exception

A solution that allows the user to easily set up alerts and be notified on a limit breach.

Atoti for IFRS 9 delivers all these features.

Part of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) in 2018, IFRS 9 focuses on financial instruments (debt/equity and derivatives). It went into effect in 2018.

In the event of a credit downgrade, loan reclassification can significantly increase the volatility of provision requirements. Proactive management of this risk is essential to mitigate its impact. Slicing-and-dicing loans according to a variety of parameters, performing multidimensional analysis on them and tagging outliers for further analysis is the most practical approach to anticipate such potential credit downgrades (or upgrades). Once a subset of loans falls into arrears and requires reclassification, this approach enables quick and easy identification of other parts of the portfolio at risk, as they may share similar parameters, thus facilitating preventative action.

Given the high uncertainty introduced by SICR, Atoti ensures accurate analysis from the outset, enabling you to anticipate potential loan degradations and avoid costly adjustments.

A collaborative framework between IT, Finance and Risk

Identifying default risk requires analyzing a large amount of data and the ability to drill down to granular level details. Atoti helps clients improve this aspect, alleviating the impractical constraints of pre-aggregated data calculated in batch, at the sector or subsector level. It provides users with the ability to perform daily analysis with maximum granularity. This reduces delay in communication between teams, and enables operationally actionable insights available right at the time decisions have to be made.

Furthermore, when a bank introduces a new product, Atoti helps understand its customer base in order to calibrate risks and offer the right price.

The IFRS9 requirements are managed by the accounting and finance department, in collaboration with risk. Atoti for IFRS9 facilitates this partnership resulting in improved tactical decision-making and strategy development.

Optimizing provision amounts

In order to properly measure the estimate of default risk, Atoti consolidates a single source of truth in data and a platform to share insights It allows to explain ECL impact on profitability, by drilling below data aggregates to examine and investigate the factors affecting loans.

Long term strategy

In the long run, historical matrix analyses can leverage the enterprise data lake, to identify patterns of default to re-calibrate credit models quickly and easily. It also supports stress testing of any sub-portfolio across specific geographies, industry sectors, borrower types, interest rates or any other dimension.

Ultimately, it helps assess the effect of a stress scenario on PD, LGD as well as EAD, as amortized cost can be estimated in light of a change in amortization behavioral models. This then helps improve the loan approval process and inform policy changes.

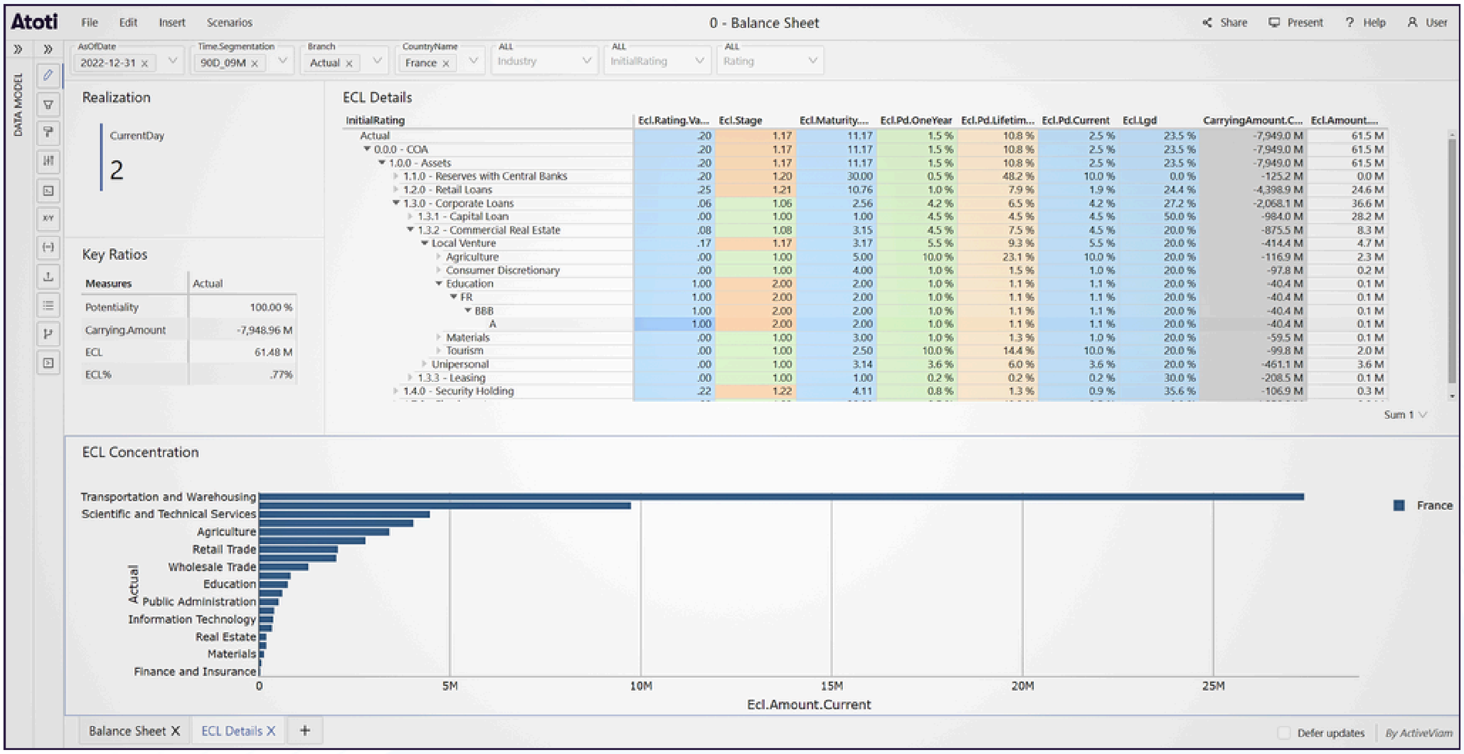
As a true multidimensional analytical solution, Atoti for IFRS 9 offers the ability to understand current risk to a much finer degree, by comparing past and present loan performances to create scenarios for predictive analysis.

At last, Atoti for IFRS 9 provides the C-suite and board with a clear view of the present and possible future outcomes, as well as mitigation actions to optimize the expected credit losses for the whole organization.

Key takeaways

- IFRS 9 compliance requires a technology that manages huge volumes of both historical and forward looking data, faster than ever before.
- ActiveViam's Atoti collaborative platform for risk and finance teams is instrumental to successfully manage credit risk, as well as emerging credit deterioration, as soon as they arise.
- This operational intelligence ensures loans are classified quickly and with complete accuracy, allowing our clients to save millions of dollars in provisions and write offs.

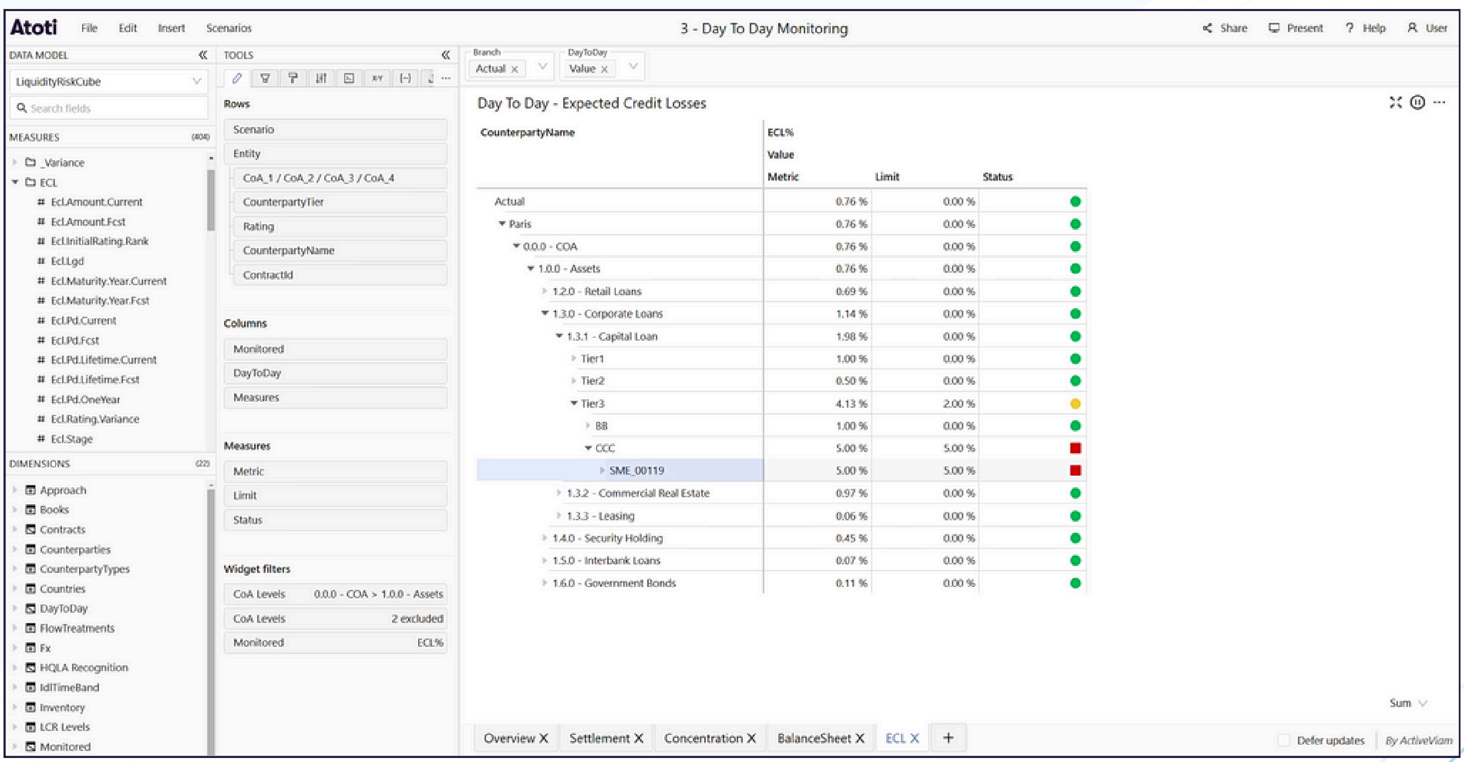
IFRS9 ECL - Current Day Report



This report shows a loan portfolio's Historical Increase in Credit Risk and related ECL per stage filtered down according to any chosen parameter

In the corner, the realization section indicates Current Day: 2. Indeed, all IFRS9 analytics projected by the bank's have been updated with actual cash flows and delayed payments from treasury and core banking, over the first 2 business days following the batch IFRS9 calculation made available by the bank regulatory reporting engine.

IFRS9 ECL - Day to Day Monitoring



This report shows an ECL limits breach, as a proportion to the carrying amount, following to a stress test on a Corporate Loan with a Brazil tier 1 counterparty, initially rated B. Limits are monitoring both the current value and variance against past reporting dates.

Need more details
or want to ask us a question?

Contact us on **activeviam.com**

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About ActiveViam

Founded by industry experts, ActiveViam understands the data analytics challenges faced by financial institutions across trading desks, risk, and compliance. ActiveViam pioneered the use of high-performance analytics in finance, helping the largest investment banks, asset managers and hedge funds make better decisions, explain results with confidence, and simulate the impact of their decisions.

ActiveViam's mission is to deliver train-of-thought analysis on terabytes of data in the most cost-effective way so clients can explain their results with confidence and model the scenarios that will optimize their business. ActiveViam specializes in risk data analytics for one of the fastest-moving and most regulated industries with a presence in the world's leading financial marketplaces – London, New York, Singapore, Sydney, Hong Kong, Paris, and Frankfurt.

ActiveViam's purpose-built analytics technology has been recognized as "FRTB Product of the Year" by Risk.net and as the "Best Sell-Side Credit Risk Product" by Waters Technology.

For information please visit
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