Banks' resolvability has improved but more remains to be done

Produced by the Risk, Regulatory and Compliance segment of Be | Shaping the Future UK.

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Earlier this month the Bank of England (BoE) published its first public resolvability assessment of the eight major UK banks and building societies and their ability to resolve themselves in the event of another financial catastrophe or seismic market event. As is standard protocol for the BoE, there is no pass / fail assessment, but the highlighting of areas where they expect to see improvements and the severity of any identified deficiencies.

Following more than two years of working within recovery and resolution planning for Be | Shaping the Future UK (Be UK)'s clients we were very interested to see the BoE's findings. The table below summarises the BoE's findings and the definitions of each category can be found in the BoE's "Resolvability assessment of major UK banks" report.

Financial institution	No material issues currently identified	Area for further enhancement	Shortcoming	Deficiency	Substantive impediment
Barclays	• Co-ordination and communication	Adequate financial resources • Continuity and restructuring			
HSBC		• Co-ordination and communication	• Adequate financial resources • Continuity and restructuring		
LBG	• Continuity and restructuring • Co-ordination and communication		• Adequate financial resources		
Nationwide	• Continuity and restructuring • Co-ordination and communication	• Adequate financial resources			
NatWest	• Co-ordination and communication	• Adequate financial resources • Continuity and restructuring			
Santander	• Adequate financial resources • Continuity and restructuring • Co-ordination and communication				
Standard Chartered		• Co-ordination and communication	• Adequate financial resources • Continuity and restructuring		
Virgin Money UK		• Adequate financial resources • Continuity and restructuring • Co-ordination and communication			

Firstly, it should be noted that the banks have been working on resolution and recovery planning for several years prior to the RAF (resolvability assessment framework) regulations being published. Secondly, the adoption of improved financial planning, operational continuity and communications enable significant improvements and beyond mere compliance with the spirit and letter of the regulation.

No bank identified 'deficiencies' or 'substantive impediments'. However, banks highlighted that they will require continued efforts to bring themselves up to standard prior to the next formal assessment in 2024. This is largely a result of the complexity of the banks themselves.

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Areas of focus for UK banks

Addressing continuity and restructuring:

- The ability to deliver identified restructuring options is a priority for banks to improve upon, especially for the larger global banks, allowing them to demonstrate credible plans (including separations or break-ups) to react to external events or a failure of the as-is bank. This self-awareness is at the heart of the regulation.

- Ongoing access to financial markets infrastructure (FMI) needs additional consideration to ensure that key elements of the payments and other financial markets infrastructure continues to function. A failing bank, or one in resolution, must both be able to access FMI and also ensure access to their own FMI to ensure markets continue to function.

Addressing adequate financial resources:

- Although the BoE reports that there is over £500 billon of MREL (minimum requirement for equities and liabilities) resources available to recapitalise a failing bank, there is further work to do to maintain this capability as rules for future MREL calculations continue to evolve.

- Whilst the BoE recognises that substantial progress has been made in resolution valuation capabilities there is still further work for banks to undertake. This may include the automation of data production and modelling; banks are still required to reduce the time it takes to calculate these very complex valuations.

Addressing co-ordination and communications:

- The BoE looked at a bank's ability to continue to operate whilst the relevant authorities execute a resolution.
- The BoE suggests that banks need to continue to review existing contracts, including international contracts, to ensure that there is resolution-proof language within the agreement. Resolution-proof language should also be included in all new contracts.

- The ongoing continuity of FMI has been highlighted in the BoE report and banks should continue to develop their plans especially for payment networks.

What's next for the UK's banks?

The major banks will continue to improve their recovery and resolution planning capabilities. Tier II banks (as identified by the BoE) will need to deliver their self-assessment at the end of this year.

A second report will be published by the BoE in 2024 and in this case it is likely to include additional UK mid-sized banks (tier II). The BoE will start direct and independent testing of the banks in the following two years and the next report will not only include the results of the bank self-assessments but also the independent findings.

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Given the above, the complexity of the subject matter and the continued evolution of the market and resolution best practice itself, we can confidently predict that the next two years will continue to see banks investing their efforts to not only address the areas of immediately perceived weakness, but also to improve their overall practice, both in terms of effectiveness and efficiency.

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In particular, we see opportunities to also consider how to improve the efficiency of these processes and frameworks, which would allow for enhanced and timely management decisions.

Data gathering, quality and aggregation processes would benefit from more automation to reduce the time required for use. But we also see the opportunity to automate the production of MI and recommendations, enabling senior management actions: scenarios, triggers and available actions can be very complicated to manage in order to provide required direction for senior consideration and some banks are starting to consider the use of AI technology in this space too.

Be UK remains committed to helping our clients improve their capabilities in these areas.

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About us

Be | Shaping the Future UK (**Be UK**) is a subsidiary of Be | Shaping the Future, a well-established management and technology consultancy with over 1,800 consultants located across 12 European countries.

We work with the leading financial services organisations to shape their future through our transformation consultancy and advisory services, covering the following sectors:

- Cards and payments
- Retail and commercial banking
- Capital markets
- Finance
- Risk, regulatory and compliance

We take pride in building relationships with our clients and we work collaboratively to drive change for a bigger and better future.

The risk, regulatory and compliance team at **Be UK** is composed of specialists and advisors. Our key service areas include:

- Enterprise risk management
- Recovery and resolution planning
- Capital management and optimisation
- Financial crime
- Operational risk and resilience
- Sustainability, ESG and climate risk

Contact

For more information on how we can help with your risk, regulatory and compliance initiatives, please get in touch.

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Robin Hourican is a senior manager at Be UK, working within risk and regulation. For the past two years Robin has worked in a number of delivery roles supporting the implementation of RAF for a tier 1 bank. During this engagement he has also led a large team of Be UK consultants and SMEs working across the various barriers. Prior to working on RAF, Robin has consulted across financial services .

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