



Good practice

DNB presentation

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# Agenda

- 1) Overarching results
- 2) Points of attention & good practices per element
  - Summary, organisational description & purpose of Governance
  - Indicators
  - Scenarios Recovery
  - measures Exit
  - measures
- 3) Follow-up steps
- 4) Questions

# 1. Overarching results

- Basis of most plans is good, but improvements are needed in a number of areas
  - *Clear description of organisation;*
  - *Governance mostly clearly described;*
  - *Mostly good indicators chosen, but need to be quantified;*
  - *Basis of scenarios and measures is sufficient, but needs further elaboration.*
- Content of elements needs further attention
- Evolving insights: two separate plans not necessary
  - A joint plan promotes consistency between plans
  - However, a strict distinction should be made between the different goals of the two plans

## 2. Points of attention & good practice

- One or more points of attention and good practices have been drawn up for each element
- Points of attention: observations/findings that apply to several institutions
- Good practices: components that certain institutions have developed particularly well. These serve as inspiration

→ Both will help you improve your recovery and exit plans.

## 2.1 - Summary, organisational description & purpose

### Point of attention

- Lack of financial statements

*Many of the plans do not include financial statements and projections, for example: Balance sheet / P&L account*

*Statement of cash flows*

*Core ratios*

*Historical values indicators*

### Good practice

- Explicit link between business model failure and indicators

*→ If the failure of the business model is related to profit or profit margin, then the recovery and exit plan will logically include a profitability indicator.*

## 2.2 - Governance

### Point of attention

- Specified roles & responsibilities

*Institutions generally have well-defined crisis governance. However, the roles and responsibilities for each crisis team member are often unspecified.*

### Good practice

- Summary of governance in table form is clear and specifies the roles *Such a table can be used both for governance regarding the plans and for the crisis management team. This should be thoroughly explained,*  
→ *which will also help in specifying roles and responsibilities.*

## 2.2 - Governance

### Process description of plans

Name / position	Prepare	Maintain	Authorise	Activate
CEO			X	X
CFO			X	X
Risk manager	X	X		
Compliance manager	X	X		

### Crisis management team

Position	Role in the team	Responsibilities
CEO	Chair	Activate recovery plan; Chair of crisis consultations; Communication; Monitor progress
CFO	.....	.....
Risk manager	.....	.....
Compliance manager	.....	.....

## 2.3 - Indicators

### Points of attention

- Indicators not set based on an early warning system with underlying limits\*

Indicator	Business as usual	Stress	Recovery	Exit
Return on assets	10%	5%	< 0%	Longer than 12 months < 0%
Monthly turnover	According to projection	10% < projection	25% < projection	50% < projection for 3 months
Regulatory capital	Minimum capital requirement + 50%	Minimum capital requirement + 20%	Minimum capital requirement + 10%	Minimum capital requirement

- Indicators are not clearly defined and/or quantified

*20% decline*

→ Decline relative to what?

*Significant decline*

→ What is significant?

\* *The limits shown here are only examples*



## 2.3 - Indicators

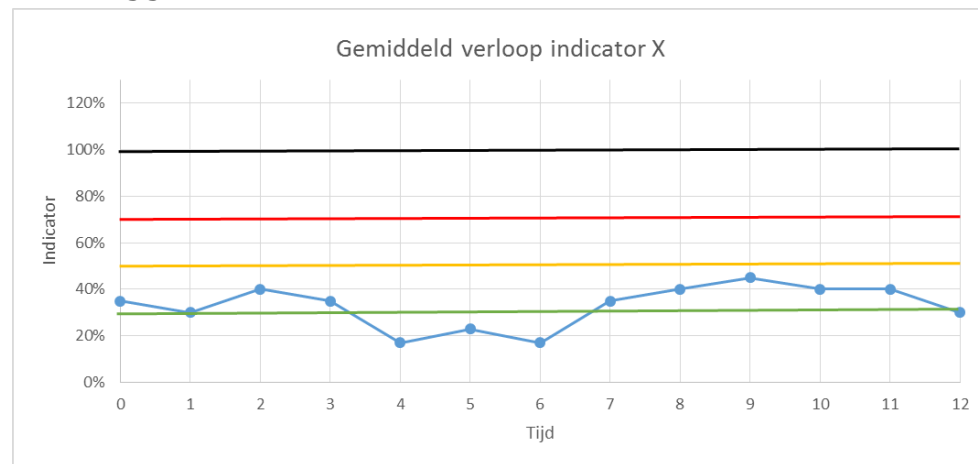
### Good practices

- Inclusion of indicators from the following categories

Profitability	Capital	Liquidity
Payments volume	Regulatory capital	Current ratio
Cost-to-income ratio	Equity ratio (EV / TA)	Operating cash flow

- Justification for the choice of indicators and the set trigger values

*Include qualitative (explanation) or quantitative (current/historical value) justification of the indicators*



# Three scenarios

## Points of attention

- Not every institution has included both internally and externally driven scenarios in the plans

**Internal scenario:** *Incident (IT systems failure, fraud, failure of major outsourcing partner); Consequence: reputation risk*

Core: affects only own institution

**External scenario:** *Increasing competition, falling demand for products/services, introduction of PSD2; Consequence: decline in profit margin*

Core: affects multiple institutions / the entire sector

- The scenarios mostly describe consequences. Underlying causes are forgotten.

*Cause: 'Due to an operational incident, the systems are down for half a day. As a result, transactions cannot be processed. As this has occurred with some frequency recently, some merchants see the need to switch.*

*As a result, the payment volume will steadily drop if no action is taken.'*

*Consequence: 'Payment volume falls to recovery trigger level, triggering recovery plan'*

# 2.4 - Scenarios

## Good practices

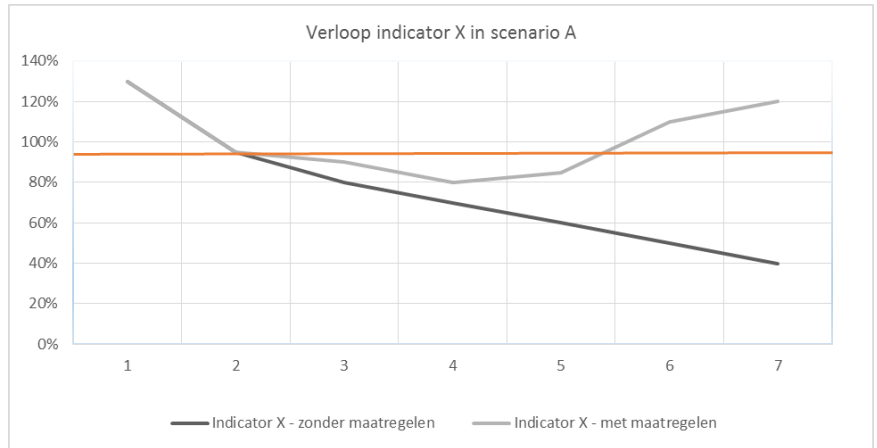
- Include four different scenarios with the following features

	Internal	External
Quick	Scenario 1	Scenario 2
Slow	Scenario 3	Scenario 4

- Both qualitative and quantitative descriptions

*Description with quantitative assumptions;*

*Graphical representation of indicator trends;*



## 2.5 - Recovery measures

### Point of attention

- Overall trend: lack of (or poor) explanation of sub-elements of recovery measures

*The tables provided by DNB are completed for each sub-element. A reliable substantiation with assumptions is lacking in many cases, however.*

**Example:** risk analysis by strategy

Risk	Probability	Impact	Risk mitigation
Large customers switch to other payment institutions	High	High	Maintain a good relationship and provide customisation
etc.	[...]	[...]	[...]

*"The recovery measure involves increasing the profit margin per transaction. This is disadvantageous to large merchants, as they have a relatively high number of transactions.*

*These merchants could potentially switch to another payment institution as other institutions offer more favourable terms to large merchants.*

*This is a high-impact risk, as these merchants account for a major part of turnover. This risk is mitigated by maintaining a good relationship with major merchants and applying customisation (e.g. price agreements)."*

## 2.5 - Recovery measures

### Good practices

- Inclusion of ongoing costs of normal business operations

*In addition to the cost of the recovery strategy, there is added value in including the cost of normal operations.*

- Quantitative assessment of impact of measures

*Alongside a qualitative description of the impact of the recovery measure on the indicators, a quantitative calculation based on the relevant indicators makes the recovery capacity of the relevant measure clear.*

	T - 2	T - 1	T	T + 1	T + 2	T + 3	T + 4	T + 5
<b>Payment volume per month</b>	€700,000	€650,000	€600,000	€575,000	€600,000	€650,000	€675,000	€700,000
<b>Cost-to-income ratio</b>	55%	56%	57%	58%	59%	57%	53%	51%
<b>Regulatory capital</b>	€2,000,000	€1,900,000	€1,800,000	€1,800,000	€1,900,000	€2,000,000	€2,100,000	€2,200,000

## 2.6 - Exit measures

### Points of attention

- Overall trend: lack of (or poor) explanation of sub-elements of exit measures

*The tables provided by DNB are completed for each sub-element. A reliable substantiation with assumptions is lacking in many cases, however.*

- Exit costs and funding not sufficiently elaborated
  - *Exit costs should be clearly identified and broken down*
  - *Sufficient funding to cover exit costs should also be demonstrated.*

Category	Costs
Ongoing operational costs	€ .....
Rent (x number of months)	€ .....
Severance pay	€ .....
External expertise	€ .....
(...)	(...)
Total exit costs	€ .....
Funding <ul style="list-style-type: none"><li>- Regulatory capital</li><li>- Capital contribution</li><li>- Other assets</li></ul>	€ .....

## 2.6 - Exit measures

### Good practice

- Multiple exit strategies

*An exit plan tends to assume a single exit strategy. Several strategies may be possible.*

- Wind-up of the company
- Sale of the company

*Depending on the scenario, several exit strategies may be possible.*

# 3. Follow-up steps

- 15 November submit second version if first version not assessed as 'sufficient'
- Assessment by DNB, written feedback within six weeks (no later than 27 December)
- After the second feedback round, we consider your recovery and exit plan to be the final version.
- You should update the plans according to your internal update cycle or in case of material changes in your operational management



Thank you very much  
for your attention.

Any questions?

# Disclaimer

- ✓ No rights may be derived from this presentation.