



# KPMG SSM Insights

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## January 2020

Welcome to KPMG's first SSM Insights of 2020 – the supervisory mechanism's sixth full year of operation. As discussed in our [recent paper](#), the ECB's Supervisory Priorities for the year show a dual focus on continued balance sheet repair and increasing banks' future resilience.

At a high level, 2020's priorities are not very different from those of 2019 or 2018. Key areas of focus include NPLs, the use of models, asset valuations, business models, technology risks and governance. But the priorities themselves only tell half the story. Supervisory attitudes and techniques are changing surprisingly fast too. Both the EBA and ECB are taking a more forward-looking, process driven approach to supervision, with an increasing emphasis on horizontal comparisons.

We therefore believe that banks should expect 2020 to be characterised by increasingly demanding data requests, by a wide range of on-site inspections and by the growing use of benchmarking. Data management, clear documentation, resource planning and the effective follow-up of previous findings will all be crucial to meeting supervisory expectations.

Of course, banks need to keep their eyes on the details of supervision as well as the direction of travel. In this edition we highlight five areas where we think banks should be aware of new findings, amended requirements or changes to supervisory thinking.

### Artificial Intelligence and banking supervision

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The fast-growing capabilities of artificial intelligence (AI) suggest that this powerful technology could play a crucial role in the fight against cybercrime, money laundering and fraud. The ECB is taking steps to develop its capabilities in this key area.

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### The future of stress testing

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This year's stress tests have barely begun, but the ECB already has one eye on the future. A new framework is in the pipeline. The details remain unclear, but banks should expect significant changes from 2022 onwards.

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## Model validation

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With model risks growing, effective model validation is an increasing priority for both banks and supervisors. The ECB's latest TRIM findings show that many institutions need to strengthen their validation processes.

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## ICAAP and ESG

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The closing weeks of 2019 saw some key changes in the EBA's and ECB's approach to ESG risks and sustainability. Despite the undoubted challenges, banks must act now to begin integrating ESG factors into their risk management processes.

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As we begin a new calendar year, the pace of supervisory change shows no sign of slowing. We wish our clients and readers a very happy and successful 2020, and we look forward to working with you all throughout the year.

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