

## The SBR application

An immediate feeding of CRD IV risk engine in banks



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# Agenda

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3. Strategic objectives
4. Lending capabilities are an enabler for this strategy, so what are the lending challenges?
5. The SBR concept re-use already defined taxonomies.
6. Expected loss will drive the development of the Banking Taxonomy further
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# About ING



## Empowering clients

Serving over 33 million  
private, corporate and  
institutional clients



## European roots, global reach

Present in over 40  
countries in Europe,  
North America, Latin  
America, Asia, and  
Australia



## 52,000 employees

Dedicated in  
empowering people and  
businesses to stay a step  
ahead in life and in  
business

The lending game changer; the XBRL impact on capital



# Strategic objectives

## Purpose

Empowering people to stay a step ahead in life and in business.

## Customer Promise



Clear and Easy



Anytime, Anywhere



Empower



Keep Getting Better

## Strategic Priorities

### Creating a differentiating customer experience

- 1 Earn the primary relationship
- 2 Develop analytics skills to understand our customers better
- 3 Increase the pace of innovation to serve changing customer needs
- 4 Think beyond traditional banking to develop new services and business models

## Enablers

Simplify &  
Streamline

Operational  
Excellence

Performance  
Culture

Lending  
Capabilities



# Lending capabilities are an enabler for the strategy, so what are the lending challenges?

## Challenges in Business Lending

- Obtain an **accurate view of the risk rating** of clients because the capital for Expected loss is still high
- Identify opportunities to **grow the share of wallet** of their customers
- Find **the most efficient and fast way of servicing customers** in providing and extending business loans given the general

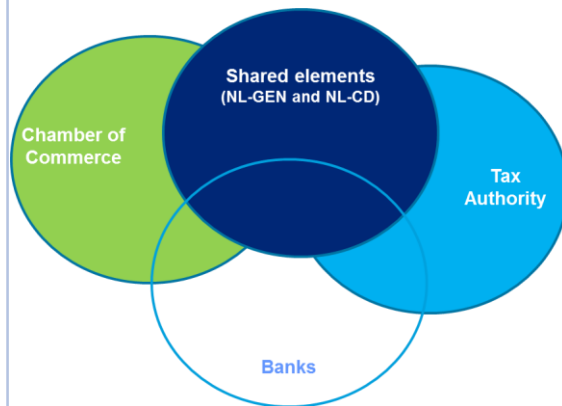
## Today's lending process

- Companies: required to provide their financial information to banks which happens in different formats
- Banks: **manual, time-consuming and error-prone data entry** of financial information into IT systems and **no standardized way of data exchange** This is the case for (annual) figures.... and there is a world to win in information about assets.



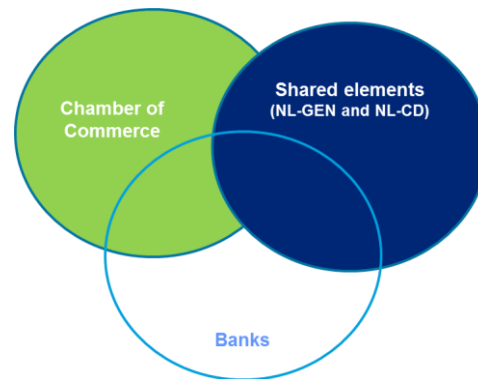
# The SBR Concept; re-use already defined elements from other taxonomies

Report : Natural Persons



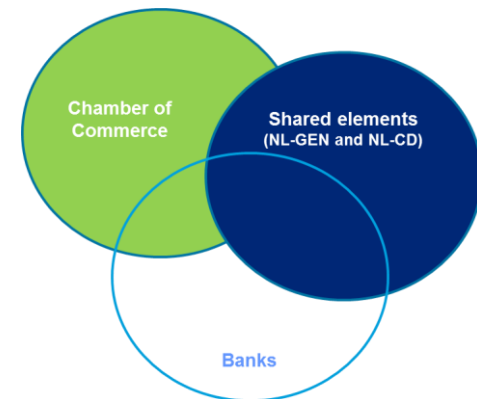
Total elements	537 <sup>1</sup>
# shared elements	83
# CoC elements	23
# Tax elements	94
# Bank elements	337

Report : Small enterprises



Total elements	639 <sup>1</sup>
# shared elements	168
# CoC elements	105
# Tax elements	0
# Bank elements	366

Report : Medium & large enterprises



Total elements	850 <sup>1</sup>
# shared elements	348
# CoC elements	213
# Tax elements	0
# Bank elements	389

<sup>1</sup> excl. abstracts

# Expected Loss will drive the development of the Banking Taxonomy further

$$\text{EL} = \text{PD} \times \text{LGD} \times \text{EAD}$$



Expected Loss on a borrower.



The likelihood that a loan will not be repaid and will fall into default.  
Input for the calculations are annual figures, quarterly figures and prognoses.



The Recovery Rate (RR) is defined as the proportion of a bad debt that can be recovered. The base is the value of Collateral that is given to bank e.g. the value of a building. Input for the calculations are taxation reports, information from (rental) contracts etc.



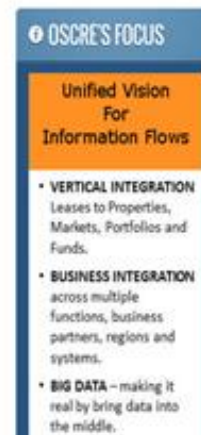
Amount that the borrower owes to the bank at the time of default  
Input are the figures from the bank own systems.





# Can banks leverage again on other taxonomies?

- The SBR concept is all about re-using and sharing processes, infrastructure.
- There are already international taxonomies open standards available e.g. OSCRE for leasing, identification and Legal Entity Identification.
- So XBRL will be used new domains





# All regulators are interested in the collateral part

- A lot of the data required from the collateral part is requested for reporting to regulators e.g. the Assed Quality Review, Ana Credit, CRD IV
- For Valuation of Real estate (the most important cover) four different standard are used:
  - RICS
  - IVS
  - EVS
  - Open Standard Commercial Real Estate – OSCRE
- All these standards have overlapping definitions (approximately 400.000-500.000 unique elements).
- Regulators are not aware of the different standards, manual filling problems and the DQ issues involved.
- Process game.....



## Governance of the real estate Working group

In the Netherlands the bank work together on retrieving information from clients in XBRL. For retrieving data a joint Venture the FRC was created.

- ▶ A special working group is started with four banks and two vendors
- ▶ Flux works for banks and real estate valuation companies
- ▶ REXDEX manages the Dutch extension and definitions of OSCRE
- ▶ We start with the AQR report (only 200 elements max)



**Rabobank**



# Lessons learned

- ▶ Define a simple report and start from there. Entrepreneurs are not prepared to pay for the additional work to be performed by accountants for extra information
- ▶ The reporting process is the problem not the taxonomy
- ▶ Senior Risk Management commitment is required.
- ▶ Promote and encourage software suppliers and intermediaries that are XBRL ready.
- ▶ Keep repeating the message, communication is key....



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