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703-558-4440 info@omega-performance.com

High-Impact Credit Training Blog

How Credit Risk Training Reduces Financial Losses and Increases Customer Trust

By Editor | October 19, 2016 | Credit Culture | 0 Comments

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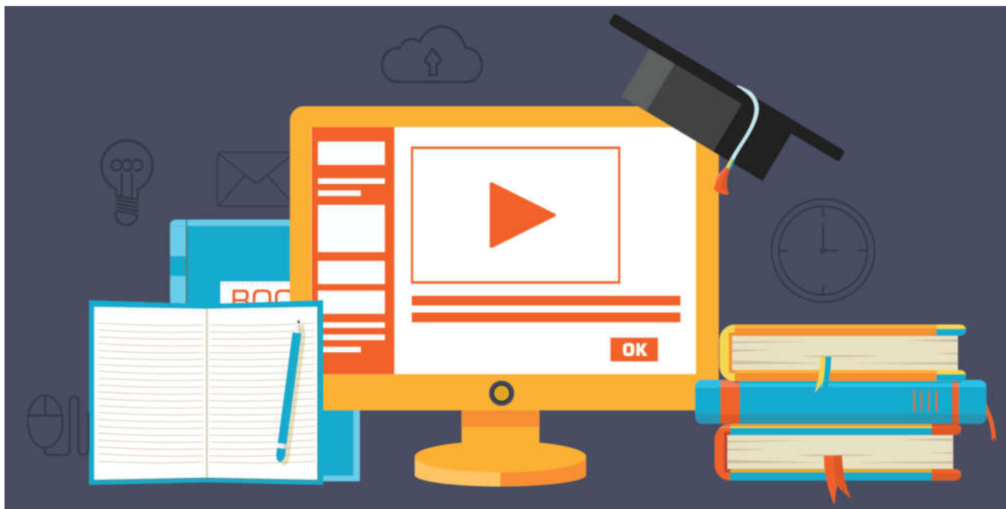

The last decade in the banking industry has been challenging. The US economy has rebounded, however, and consumers are obtaining more products and services from banks. Banks remain overwhelmed by the aftershocks of the economic meltdown.

Post-crisis, many financial institutions still are working through costly legal outcomes related to poorly structured lending policies and resulting wave of federal regulation enacted to prevent future financial collapses. Moreover, banks are facing increased competition from within and outside the industry and, according to the 2015 Edelman Trust Barometer, nearly 50% of consumers do not trust banks. Consumers also are more demanding than ever, and they are demanding is changes in the unsafe credit conditions still prevalent at many banks.

Those conditions have led to lax underwriting or bad credit policies that have become a source of both consumer distrust and regulatory pressures. These poor credit practices also have resulted in losses in the industry that banks must check if they expect to thrive in the environment they now face.

That is why credit risk training is more imperative for banks than ever. What follows is three ways credit risk training, particularly as it relates to creating a credit risk mitigation culture, can reduce financial losses to banks and increase customer trust.

Credit Risk Training Increases Bank Security

While it is true that many banks are experiencing substantial competitive and regulatory pressures, overall, the economic news is good for banks. However, it is often during the best times that banks make the worst loans. This is significantly more likely if your bank does not train all bank staff in credit risk mitigation. Such training enhances disciplined credit practices across the institution.

With loans being a bank's biggest and most risky asset, increasingly advanced credit training helps banks construct and maintain appropriate credit risk metrics. This is particularly important for banks with portfolios with a high-level of loss volatility, like development and real estate lending. Speculative portfolio types like these precipitated the last financial crisis. Banks in the volatile energy sector must take extra care in this area, too.

To ensure security, you must keep your bank sheltered from losses related to unsafe lending policies, which include loan charge-offs that require exponential effort to recoup that loss. However, losses also can include legal costs from stakeholder lawsuits or fines from regulators related to loose credit practices. As those challenges become public, that leads to loss of consumer goodwill. Banks must increase and not decrease their credit risk training activities. The more security you build into your lending practices, the safer your customers will experience your bank as being.

Credit Risk Training Facilitates Consistency in Bank Policies

One of the most important aspects of preventing lending losses and building customer trust is consistency. In fact, for bank consumers 'a brand they could trust' was a top consideration for choosing a financial institution. However, in recent years, aggressive lending coupled with inconsistent underwriting standards drove bank losses and hurt customers and shareholders.

Today, in a banking environment driven by the need for returned trust and reliability, your bank must have consistent bank policies that both shore up and streamline lending practices. Moreover, to be certain banks maintain capital stability, regulators require rigorous portfolio analysis and regular stress tests to determine credit risk. Banks then must assess results of those tests against their credit risk appetites and adjust lending levels and policies, if necessary.

To regulators, this helps ensure alignment between bank credit risk appetites and portfolio concentrations. Regulators focus especially hard on leveraged lending and vehicle finance underwriting to prevent those lending criteria from eroding in a strong economy leading to loans that financially injure banks and their customers.

Credit risk training precludes losses related to unclear or inconsistent underwriting standards by helping banks restructure and implement consistent lending strategies bank wide. Financial institutions that create a credit risk reduction culture established by senior leadership and employed at every level ensure lending consistency that substantially reduces credit losses.

Developing bank lending practices based on regular credit risk training also enhances consumer confidence in your bank. Your bank can ensure customers they can expect uncomplicated but consistent standards and processes that your bank applies across loan products. That will make loan management simpler for both the customer and bank and make loan repayment more likely. Additionally, that lending policy uniformity also makes meeting regulatory standards less complicated and can make document requests from regulators easier to answer.

Credit Risk Training Allows Banks to Address Regulations Strategically

Rather than viewing growing federal regulation as a persistent threat, financial institutions would benefit from identifying the new risks and opportunities raised by regulatory restraints. For example, for banks that held large commercial real estate lending portfolios, close regulatory scrutiny has precluded growth in the area despite demand for the loans.

For those banks to address market threats and opportunities under this regulatory microscope may require advantageously restructuring many aspects of bank operations. Those can include a financial institution's core business model, strategy, financials, and governance.

Credit risk training can facilitate this process. With robust and perhaps customized credit risk training, banks can consider their restructuring direction in the context of their credit risk framework. While regulatory encroachment is challenging, strategically rethought, it may also present new growth opportunities.

With those may come risk exposure banks must consider and credit risk training can help keep them safe from harmful financial exposure and prevent future loan defaults. Managing the concentration of risky loans and reducing them, if necessary, can prevent shareholder or customer panic about your potentially overleveraged real estate portfolio. When that happens, they want to sell off your bank's stock or remove deposits from your bank.

Credit risk training can prevent your bank from experiencing the exponential losses that just a few charged off large bank loans mean. Implemented correctly, across every business unit of your bank, credit risk training can not only help bank employees spot troubled loans, but it also can lead to the identification of new and profitable opportunities.

Finally, ongoing credit risk training can lead to customer trust and loyalty as your bank constructs solid credit practices that make customers committed to banking with you.

BEST PRACTICES FOR A CREDIT-DRIVEN FINANCIAL INSTITUTION

Learn best practices for *building a foundation of credit skill and knowledge* among all employees and *creating a strong risk management culture* to protect the financial safety of your institution.

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