News release

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**Banks need to employ more people to prepare for tougher regulatory stress tests**

**London, 31 Jan 2014**‑‑A new report from PwC has revealed that banks do not have enough employees dedicated to preparing for tougher regulatory stress tests. The report, *Passing the stress test*, based on a global survey of 24 mainly non-US banks, found that, overall, participating banks are confident that they meet current regulatory requirements but that they underestimate the amount of resource needed to meet the demands of a tougher regulatory stress testing regime.

90% of respondents have fewer than 20 people dedicated to stress tests. This is less than half of that typically seen in comparable US banks (some US banks have significantly more), which have increased staff levels in response to demands imposed by the Federal Reserve. None of the respondents to the survey planned to recruit more than 20 people to work on stress testing in the next three years.

Most respondents acknowledge additional investment will be required. Only 13% of respondents reported they already have sufficient, adequately skilled staff to conduct regulatory stress testing with most others citing some gaps in existing staff capabilities and, more typically, numbers.

Keith Ackerman, partner at PwC, said:

“The way global banks prepare for stress testing needs to change. Past experience has shown that very demanding regulatory stress testing regimes require larger teams with the appropriate skills to deliver value.

“In order to meet future regulatory demands, banks need to move regulatory stress testing from a standalone process to one that has more resource and is integrated with other parts of the business and its strategy. Banks face a complex challenge in simultaneously managing the delivery of stress tests and improvements to their stress testing processes, made more challenging by the changing regulatory landscape.”

Richard Barfield, director at PwC, said:

“The way banks carry out regulatory stress tests is becoming more critical, simply because of their power to set capital buffer levels, determine management actions and restrict dividends and employee bonuses. Stress testing sits squarely on the agenda of CEOs.

“For most banks, stress testing will require sustained focus over a long of time and employing more people dedicated to stress testing will be needed. But the rewards are potentially great as those banks that pass stress tests and don’t lag behind their competitors could achieve a relatively lower capital buffer.”

Other findings from the report include:

More comprehensive Board engagement is required: while Boards and senior management are heavily involved at the results stage, they are rarely involved in the end to end process of stress testing. This means they are likely to fall short of the increasing regulatory requirement for more comprehensive involvement.

Results could have wider use in informing and managing the business: while banks agree regulatory stress tests provide useful insights, 95% have never or rarely revised business plans in response.

**END**

**Notes to Editors**

To download a copy of *Passing the stress test*, please visit www.pwc.co.uk

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