

Best Rating Agency for Financial Institution Bonds

S&P Global Ratings

Three factors help explain the success of S&P Global Ratings in its financial institutions business during a year in which the Covid-19 pandemic has created unique challenges for the global banking industry and a huge degree of uncertainty over its future credit performance.

The first, naturally, is the base on which the rest is built: its surveillance of the key banking systems around the world and its credit analysis of the banks and other entities themselves.

In FIG, more so perhaps than in other areas, everything begins at the industry level, and S&P Global Ratings' Banking Industry Country Risk Assessments (BICRA) and its economic forecasts have been an important contributor to understanding the credit outlook for banks. While negative ratings actions have outweighed positive by three to one, BICRA and economic data are showing that pressures are accumulating in many countries.

But it's not just about conducting credit research. The second important factor is the emphasis S&P Global Ratings puts on being forward-looking — what Yann Le Pallec, global head of credit ratings, methodologies and research, calls thinking about not just tomorrow but the day after tomorrow.

And third, S&P Global Ratings has been making a concerted effort to give the market utmost transparency by being responsive to investor questions and anticipating the big topics of interest.

The forward-looking approach has seen it take on a country-by-country analysis of the impact of technological change on the established banking industry. It has developed a framework to assess the exposure to disruption in four key dimensions: technology, regulation, industry and preferences (TRIP) and has been publishing widely on the topic over the last 18 months in its *Future of Banking* series. It expects Covid-19 to speed up the digital transformation of consumer preferences, making it more important than ever for banks to be able to respond quickly to change. It is now spending a lot of time on the impact of low global interest rates due to Covid on banks in the longer term.

Investors have also appreciated its work in anticipating market moving topics this year. In early September it highlighted the impact of the pandemic upon European banks' holdings of government bonds, reviving the fears of the sovereign-bank doom loop that underscored the eurozone sovereign debt crisis of a decade ago.

"I think it's a great example of how we've been able to immediately react not just to topical issues in the



Chris Heusler,
chief commercial
officer



Yann Le Pallec, global
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market but to actually identify the issues that will become important," says Le Pallec. "Whenever we see that we can bring more transparency, we do it."

Sometimes it is the market that is looking for answers and the firm responding. For instance, when in May, regulators in Europe started to worry that banks were being too cautious about using hybrid capital instruments to cover Covid-related non-performing loan exposures, S&P Global Ratings was quick to clarify its stance.

"Our message was that if banks use those buffers for what they were originally put in place to do, why would we make a kneejerk reaction?" says Le Pallec. "What matters is understanding how it fits in with the bank's financial strategy and how the bank has flexibility to manage and rebuild the buffers over the next two to three years."

Chris Heusler, chief commercial officer, says that he is most proud of this ability to pivot quickly to support the needs of the market during the pandemic. "All of our clients, whether it is issuers, investors, intermediaries or other stakeholders, have required timely, accurate information. I'm proud of the way our teams pulled together to deliver not only in quality and depth, but also in the level of engagement we've had."

He says that work over the last few years building up its market outreach team paid off during the crisis.

"We were able to leverage the contacts and networks we had so when the crisis hit we were connected to the right people and then the entire team — events, marketing, technology, analysis, outreach and economics — came together to bring our views to the market," he says. **GC**