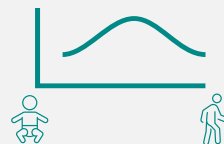


## The changing shape of the UK workforce

Although the UK economy is emerging from the pandemic with low levels of unemployment, the labour market looks very different and has shrunk by 529,000 (1.5%) since the start of 2020.

**Age related shifts seen with workers at opposite ends of the age spectrum are those who have most likely withdrawn.**

Some of the associated rise in inactivity is explained by more of those aged 18-24, entering or staying on in further education.



Older workers are also less likely to be employed, removing experience and knowledge from the workforce.

**An alarming number of workers suffering from long-term sickness**

Worryingly 201,000 more people are inactive because of long-term sickness. This may reflect 'long Covid' or other ailments that have not been suitably addressed over the past two years.

**Some of the reduction is likely to be Brexit related as workers return to the EU**

Some of the fall is likely associated with workers returning to the EU.

**Employment has become more accessible for some**

There are fewer people out of the workforce looking after their families/home. And little change in those not participating because they are discouraged or have short-term illness.

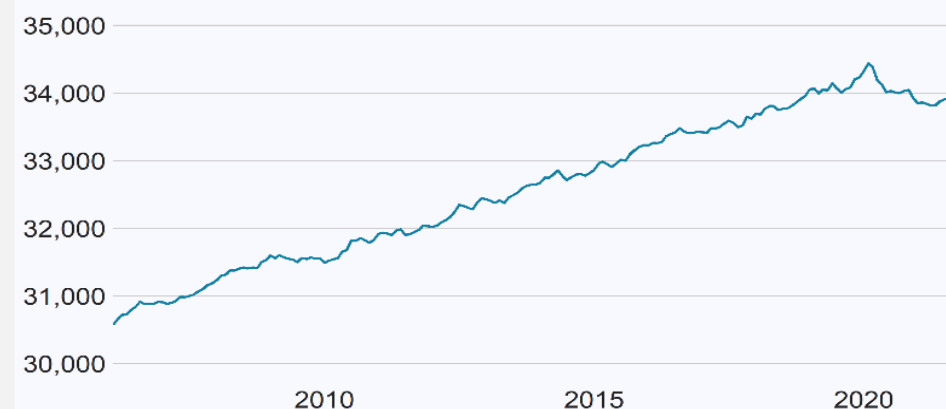


Whatever the reasons, this represents a major supply-side shock to the productive capacity of the economy and the ability of firms to operate as they wish.

Higher wages may bring some people back – a large chunk of the rise in inactivity reflects "other" non-specific reasons not identified above. But the biggest block to getting people back into the labour force may be that an additional 524,000 inactive people have stated in the Labour Force Survey that they are not interested in getting a job.

### The economically active population is still 529,000 lower than when the crisis began

000s, aged 16+



Source: ONS



# 4most Credit Risk Market Update

Keeping you up-to-date with our latest expert insights

February 2022



This update will focus on some of the PRA's thoughts on financial risks arising from climate change, credit and model risk and regulatory reporting and data quality.

## Climate Change



As expected climate change is high on the agenda for the PRA this year. Firms have made good progress towards embedding their expectations on climate change (SS3/19), but they have focussed on the business opportunities rather than the business risks posed by climate change.

The PRA intend to assess how firms quantify climate related risks and how these are incorporated within firms' strategies, decision-making and risk-taking.

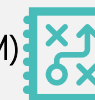
## IFRS 9



International Financial Reporting Standards is still a hot topic, and the PRA are keen to remind firms to continue to engage with the IFRS 9 thematic review (Dear CFO letter from September 2021 – see our November 2021 market update) and to ensure that high quality practices are embedded within ECL frameworks.

The PRA note that due to the official sector support schemes, the full impact of Covid-19 on firms' credit portfolios is yet to be seen. There are four further thematic reviews underway (wholesale problem debt management, unsecured personal loans, buy-to-let, and IFRS 9 retail models).

## Model Risk Management (MRM)



This will be another area of focus this year as the implementation of the Hybrid mortgage models (amongst others) has highlighted weaknesses across development, testing, validation, change management, and governance.

The PRA will continue to focus on the implementation of the Hybrid models, alongside the IRB Roadmap for non-mortgage portfolios but they will also be paying close attention to these MRM frameworks.

## Data Governance



Following the thematic review (Dear CEO letter from September 2021) the PRA expects all firms to consider the findings, and to ensure that their governance, controls, and regulatory reporting data are of a sufficient standard.

The PRA encourage firms to engage with their Transforming Data Collection initiative which they hope will support better quality reporting at a lower cost. However, in the meantime they will continue to expand their use of skilled person reviews to ensure accuracy of reporting.



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Digitisation of the customer journey continues to be a key priority of many organisations with modularisation and decoupled architecture, along with meeting of business objectives achieved through access to microservices

