



When Banking Hierarchies Outgrow Their Expertise

The uncomfortable truth about corporate restructuring, management authority and the erosion of specialist competence in banking.

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Executive Summary

The greatest governance risk in corporate NPL restructuring is not necessarily a shortage of expertise, but an organizational structure that places decision-making authority in the hands of those least equipped to exercise informed technical judgement.

When financial institutions consolidate specialist functions under management hierarchies lacking relevant credit risk and restructuring experience, they risk creating a fundamental disconnect between authority, expertise and accountability.

Corporate restructuring differs substantially from conventional retail collections. It requires sophisticated financial analysis, an understanding of distressed business economics, collateral valuation, creditor negotiations and the ability to evaluate competing recovery



strategies. While leadership capabilities can transfer across banking disciplines, technical competence cannot simply be assumed through promotion or organizational reassignment.

This distinction is also recognized within the European supervisory framework. The European Central Bank's Guidance to Banks on Non-Performing Loans (2017) emphasizes appropriate expertise, experience and specialist capabilities within NPL workout functions. The European Banking Authority's Guidelines on Management of Non-Performing and Forborne Exposures (EBA/GL/2018/06) establish expectations concerning NPE governance, operational arrangements, internal controls and performance monitoring. Together with the EBA's Guidelines on Internal Governance (EBA/GL/2021/05), these documents provide a framework for assessing whether an institution's organizational capabilities are proportionate to the risks it manages.

The economic consequences become particularly significant during institutional consolidation, acquisitions and portfolio wind-downs. Personnel reductions generate immediate, measurable savings, while the financial impact of weakened restructuring capabilities may only emerge years later through deteriorating recoveries, prolonged resolution timelines and additional credit losses. Moreover, as distressed portfolios shrink, their remaining exposures may become increasingly complex, making specialist expertise more important rather than less.

Ultimately, effective restructuring governance requires the alignment of technical competence, decision-making authority and accountability. **A leaner organizational structure is not necessarily a more effective one, and reducing the cost of managing distressed assets must never be confused with maximizing their recoverable value.**

Key Takeways

1. Management authority does not automatically establish technical competence.

Leadership experience is transferable across banking functions, but effective oversight of corporate restructuring requires sufficient specialist knowledge to challenge financial assumptions, assess recovery alternatives and recognize material credit risks.



2. Corporate NPL restructuring and retail collections require fundamentally different operating models.

While retail collections typically prioritize standardized processes and operational efficiency, corporate workouts involve complex financial, commercial and legal decisions aimed at preserving enterprise value and maximizing economic recovery.

3. Specialist capabilities are an established supervisory concern.

ECB guidance and EBA guidelines recognize the importance of appropriate expertise, governance arrangements, operational capabilities and effective oversight in managing distressed exposures.

4. Separating technical expertise from decision-making authority creates governance vulnerabilities.

When experienced specialists carry substantive responsibility without corresponding influence over strategy and execution, institutions risk weakening independent challenge, accountability and recovery decision quality.

5. Short-term organizational savings can conceal substantially greater long-term credit losses.

Reducing specialist headcount may improve operating expenses immediately, but poorly structured workouts, delayed enforcement and suboptimal settlements can destroy economic value far exceeding those savings.

6. Smaller distressed portfolios do not necessarily require less sophisticated expertise.

During acquisitions, integrations and wind-downs, straightforward exposures are often resolved first, leaving increasingly complex residual cases that demand deeper restructuring capabilities.

7. Boards must evaluate workout effectiveness through economic outcomes, not organizational convenience.



The quality of restructuring governance should ultimately be reflected in recovery performance, decision-making discipline, specialist oversight and the institution's ability to preserve recoverable value.

A bank can redesign its organizational chart overnight. It cannot manufacture decades of restructuring experience through a change in reporting lines.

The question for boards and senior executives is therefore straightforward: Are we strengthening the institution's ability to resolve distressed corporate exposures, or simply reducing the cost of the organization responsible for them?

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Imagine walking into a bank and discovering that the people responsible for corporate exposures restructuring have never worked in corporate credit risk, financial analysis, special assets management or corporate restructuring itself. One built a career in retail collections as an analyst, another in personal banking. Yet both now occupy management positions overseeing complex corporate NPL workouts, while professionals who have spent decades managing distressed corporate exposures are being recruited to report to them. The organizational chart looks perfectly legitimate. The question is whether the underlying governance structure is equally credible.

This scenario illustrates a broader vulnerability in modern banking: the growing tendency to confuse managerial authority with the professional competence required to exercise it. Financial institutions have become increasingly sophisticated in redesigning reporting lines, consolidating departments and rationalizing operating costs. Yet the effectiveness of these structures ultimately depends on something far less visible than headcount or organizational efficiency: whether those entrusted with supervising critical financial



decisions possess the knowledge and judgement necessary to understand their consequences. A management title establishes authority within an institution. It does not, by itself, establish expertise in the function being managed.

The distinction becomes particularly important in corporate restructuring, where decisions are rarely straightforward and their financial consequences may remain hidden for years. Unlike many standardized banking activities, restructuring distressed corporate exposures requires a combination of credit risk expertise, financial analysis, commercial judgement, legal understanding and practical experience navigating situations in which almost every available option involves a potential loss. The objective is not simply to collect overdue payments. It is to determine which course of action preserves the greatest recoverable economic value under conditions of uncertainty, competing creditor interests and deteriorating borrower circumstances.

When Corporate NPL Restructuring Becomes Another Collection Function

One of the more consequential organizational misconceptions in banking is the assumption that retail collections and corporate NPL restructuring are essentially the same activity, differentiated primarily by the size of the outstanding exposure. In reality, they operate according to fundamentally different economic and operational principles. Retail collections are generally built around relatively homogeneous portfolios, standardized recovery procedures, delinquency segmentation, repayment arrangements and measurable operational efficiency. Corporate NPL restructuring, by contrast, is often an exercise in managing financial complexity, commercial uncertainty and competing legal rights, where the appropriate strategy must be developed individually for each significant exposure.

A distressed corporate borrower may operate through several legal entities, maintain financing relationships with multiple banks, rely on interconnected collateral arrangements and face simultaneous pressures from suppliers, employees, tax authorities and other creditors. Its apparent asset coverage may provide little indication of actual recoverability, particularly when collateral values depend on the continued operation of the business or when enforcement would trigger substantial value destruction. A restructuring specialist



must therefore assess not only the borrower's current financial condition but also its capacity to generate sustainable future cash flows, the credibility of management's business plan, the feasibility of operational adjustments and the economic implications of alternative recovery scenarios.

Decisions involving maturity extensions, debt forgiveness, collateral enforcement, debt-to-equity conversions or discounted settlements require a level of technical judgement that cannot be replaced by familiarity with standard retail collection procedures. Consider a restructuring proposal that offers a higher nominal recovery through extended repayments than an immediate collateral realization. Once the timing of cash flows, execution costs, refinancing risk and the probability of subsequent default are considered, the apparently superior proposal may produce a lower risk-adjusted economic recovery. Understanding this distinction is fundamental to restructuring judgement. A manager who cannot critically assess the underlying assumptions may approve a strategy that appears commercially attractive while exposing the bank to avoidable economic losses.

This does not mean that professionals from retail banking or collections cannot successfully transition into corporate restructuring. Banking careers are rarely linear, and some of the strongest executives develop their capabilities across different functions. The problem arises when an institution assumes that managerial experience in one discipline automatically provides sufficient technical competence to supervise another. Leadership skills are transferable; specialist judgement must be developed. An executive need not personally prepare every discounted cash-flow model or collateral valuation, but must possess sufficient understanding to recognize unrealistic assumptions, challenge proposed strategies and identify circumstances in which the recommended course of action may expose the bank to avoidable losses.

The Governance Problem Nobody Wants to Discuss

The deeper concern emerges when an institution creates a management hierarchy in which formal authority is concentrated among individuals without relevant specialist backgrounds, while the expertise necessary to manage the underlying exposures resides



almost entirely with their subordinates. Such an arrangement may function adequately when responsibilities are clearly defined, specialist recommendations receive independent scrutiny and decision-making mechanisms compensate for any gaps in managerial experience. But when these safeguards are weak, the organization can develop a dangerous separation between those who understand the economic substance of a decision and those who possess the authority to approve, modify or reject it.

Consider a complex corporate workout involving a financially distressed borrower, several secured creditors and a restructuring proposal supported by optimistic cash-flow projections. The specialist responsible for the case may identify weaknesses in the underlying assumptions, question the sustainability of projected EBITDA, assess whether major customers and suppliers are willing to maintain their commercial relationships, challenge collateral valuations or conclude that an orderly enforcement strategy offers a superior risk-adjusted recovery. The manager reviewing that recommendation must be capable of evaluating the reasoning, testing alternative scenarios and understanding the consequences of disagreement.

If meaningful technical challenge is impossible because the relevant expertise is absent from the supervisory structure, the approval process risks becoming an administrative formality rather than an effective element of risk governance.

The implications extend beyond individual decisions. Over time, experienced professionals may find themselves carrying substantial technical responsibility without corresponding authority over strategy, resources or execution. Their knowledge becomes indispensable to the institution, yet their position within the hierarchy may prevent them from exercising meaningful influence over the decisions for which they are expected to provide professional justification. This imbalance can discourage independent judgement, complicate escalation and create uncertainty over accountability when recovery strategies fail. It can also encourage a culture in which technical disagreement is perceived as a challenge to managerial authority rather than an essential safeguard against poor credit decisions.



An organization does not become well governed merely because every decision has an authorized signatory. Effective governance requires that authority be supported by competence, independent challenge and genuine accountability for economic outcomes.

Regulatory Expectations: Specialist Competence Is Not Optional

The importance of specialist competence in distressed asset management is not merely a matter of professional preference. It is explicitly recognized within the European supervisory framework, which places considerable emphasis on the adequacy of institutions' NPL management capabilities, governance arrangements and operational resources.

The ECB's Guidance to Banks on Non-Performing Loans (2017), particularly Chapter 3 on NPL governance and operations, addresses the organizational arrangements and specialist resources required for effective NPL management. In its discussion of expertise and experience, the guidance states that banks should develop the relevant capabilities required by their NPL operating models, including their workout units and control functions. It also emphasizes the recruitment of professionals with dedicated NPL expertise and experience for key workout activities wherever possible. Where such resources are unavailable, institutions are expected to place greater emphasis on dedicated training and staff development to build the necessary capabilities internally.

This is a significant supervisory expectation. It recognizes that distressed asset management is not simply an administrative process that can be transferred between organizational units without considering the competence required to perform it effectively. The ECB also highlights the importance of reviewing the adequacy of workout resources, addressing staffing gaps and maintaining access to qualified external expertise where appropriate. These expectations are particularly relevant when banks consolidate functions or reduce specialist capacity as part of broader organizational restructuring.



The EBA's Guidelines on Management of Non-Performing and Forborne Exposures (EBA/GL/2018/06) reinforce this approach through their provisions on NPE governance and operations. Chapter 5 addresses the responsibilities of management bodies, the organization of NPE workout activities, internal controls and performance monitoring. The guidelines recognize that effective NPE management requires more than an approved organizational structure: institutions must establish arrangements capable of supporting appropriate decision-making, implementation and oversight.

Importantly, the EBA framework also connects workout performance with the quality of technical execution. Its provisions on performance management recognize qualitative dimensions such as financial analysis, the structuring of proposals, the quality of recommendations, monitoring of restructured exposures and negotiation capabilities. These considerations are directly relevant to the distinction between operational collection efficiency and the professional judgement required in complex corporate workouts.

The broader governance framework is provided by the EBA's Guidelines on Internal Governance (EBA/GL/2021/05), which reinforce the need for organizational arrangements, responsibilities and control mechanisms appropriate to the nature, scale and complexity of an institution's activities and risks. Read together, these supervisory documents support an important principle: the adequacy of a restructuring function cannot be assessed solely by the existence of reporting lines, managerial positions or formally documented approval procedures. Its operational capabilities and governance arrangements must be capable of addressing the actual risks and complexity of the exposures under management.

There is, however, an important distinction between supervisory expectations and individual appointment requirements. These documents do not establish a universal rule that every restructuring director or team leader must have spent a prescribed number of years in corporate credit risk or workout functions. Nor does appointing a manager from retail banking automatically demonstrate a regulatory deficiency. The relevant question is whether the institution has established an effective operating model with sufficient specialist expertise, informed oversight, appropriate decision rights and meaningful mechanisms for independent technical challenge.



The supervisory concern is therefore not where a manager began their banking career. It is whether the organization can demonstrate that the competence required to manage its distressed exposures is genuinely embedded in the decisions that determine their economic outcome.

The Illusion of Efficiency

The temptation to consolidate specialist functions becomes particularly strong when banks face pressure to reduce costs, simplify operations or prepare for strategic transformation. Combining retail collections and corporate NPL restructuring under a common management structure may eliminate overlapping positions, reduce administrative expenditure and create the appearance of a leaner organization. These benefits are immediate, visible and relatively easy to quantify. They can be presented through lower personnel expenses, simplified reporting lines and improved cost-to-income metrics. From the perspective of short-term operational management, the restructuring may therefore appear entirely rational.

What such calculations frequently overlook is that the economic performance of a distressed asset management function cannot be measured solely by the cost of operating it. Its primary purpose is to protect and maximize recoverable value. A relatively modest reduction in annual personnel expenses can be economically insignificant compared with the losses arising from a single poorly structured corporate workout, an unnecessarily prolonged enforcement process or an incorrectly assessed settlement proposal.

A decision to accept a discounted payoff without adequately evaluating collateral realization alternatives may permanently crystallize a loss that could otherwise have been reduced. Equally, an aggressive enforcement strategy pursued without understanding the borrower's operational dependencies may destroy enterprise value and leave creditors with assets worth considerably less than the business they once supported.



These consequences rarely appear immediately after an organizational restructuring. Personnel savings are reflected in the next reporting period, while the financial impact of inadequate recovery strategies may take years to materialize. By the time weaker recoveries, prolonged resolution timelines or additional impairment charges become visible, the managers responsible for the original organizational decisions may have moved to different positions, and the institution may struggle to reconstruct how value was lost.

This asymmetry between immediate cost savings and delayed credit losses is precisely why specialist restructuring capabilities should be evaluated through economic outcomes rather than administrative efficiency alone.

A credible performance framework should therefore distinguish between operational activity and economic effectiveness. Collection volumes, case closures and staffing ratios may provide useful management information, but they cannot independently establish whether the institution has maximized recoverable value. More meaningful indicators include actual recoveries against approved recovery forecasts, deviations from expected resolution timelines, the economic performance of restructuring agreements, the frequency of subsequent defaults and the extent to which realized outcomes differ from the assumptions underlying original workout decisions.

These measures are not perfect. Recovery outcomes are influenced by macroeconomic conditions, legal proceedings, borrower behavior and market developments beyond the control of individual managers. Nevertheless, a disciplined framework for comparing expected and realized economic outcomes provides a more credible basis for evaluating restructuring effectiveness than administrative cost reductions alone.

Reducing the cost of managing distressed assets is not the same as improving their recovery. Confusing the two can turn an apparently successful cost-reduction exercise into a considerably more expensive credit risk problem.



Why Institutional Transformation Makes the Problem Worse

The risk becomes even more pronounced when a bank enters a period of ownership change, consolidation, portfolio disposal or institutional wind-down. During such transitions, management attention naturally shifts toward operational integration, balance-sheet reduction, capital efficiency and the elimination of functions considered non-essential to the institution's future business model. Specialist teams may be downsized, management positions consolidated and experienced professionals encouraged to leave. The underlying assumption is often that a shrinking portfolio requires a proportionately smaller and less specialized organization.

In distressed asset management, however, portfolio size and portfolio complexity do not necessarily decline together. The exposures that can be resolved through straightforward repayment arrangements, conventional refinancing or relatively uncomplicated asset sales are frequently addressed first. What remains may consist of the most difficult cases: borrowers with uncertain viability, disputed collateral, multiple creditor claims, complex litigation, cross-border enforcement issues or insolvency proceedings with unpredictable recovery timelines.

Consequently, the average complexity of the residual portfolio can increase even as its nominal value decreases. A smaller book of distressed corporate exposures may therefore require more sophisticated judgement per case than the substantially larger portfolio from which it originated.

This creates a particularly uncomfortable organizational paradox. At the very moment when the institution is reducing specialist capacity to reflect a declining portfolio, the remaining exposures may demand deeper expertise, stronger negotiation capabilities and more disciplined recovery strategies. If the bank has already weakened its internal restructuring competence, it may become increasingly dependent on external advisers or a small number of experienced employees who possess limited organizational authority.



The result can be slower decision-making, higher execution costs and reduced flexibility precisely when speed and professional judgement are essential to preserving recoverable value.

There is nothing inherently wrong with simplifying an organization during a wind-down or integration. Indeed, maintaining an oversized management structure for a declining portfolio would itself represent poor governance. The challenge is to distinguish between unnecessary organizational capacity and indispensable specialist competence. Eliminating the former can improve efficiency. Eliminating the latter may undermine the very economic objectives the restructuring was intended to achieve.

This is also where the ECB's emphasis on regularly reviewing workout capacity becomes particularly relevant. Resource adequacy cannot be determined by portfolio size alone. It must reflect the characteristics of the remaining exposures, the complexity of their resolution and the expertise required to execute credible recovery strategies.

The Responsibility Ultimately Rests with Senior Management

For boards, executive committees and senior risk officers, the relevant question is not whether every manager possesses the most extensive technical background in the institution. Nor should career progression be restricted to professionals who have spent their entire working lives within a single banking discipline. Effective leadership requires a broader combination of judgement, integrity, communication, organizational capability and the ability to make difficult decisions.

However, those qualities must be supported by an appropriate understanding of the risks being managed and by governance arrangements that ensure specialist expertise can meaningfully influence decisions.

An institution that appoints managers from outside corporate restructuring can still establish a credible operating model, provided that it invests in the necessary technical



capabilities, clearly defines decision rights and creates effective mechanisms for independent challenge. Experienced restructuring professionals must have an appropriate role in developing recovery strategies, assessing economic alternatives and escalating material disagreements.

The practical question for senior management is therefore whether the institution can demonstrate that its restructuring operating model functions effectively beyond the organizational chart.

That assessment should examine whether material workout proposals are subject to sufficiently informed technical challenge, whether recovery assumptions are independently tested, whether specialists can escalate disagreements without organizational obstruction and whether decision-makers understand the economic implications of the strategies they approve. It should also consider whether performance indicators capture the quality and sustainability of recoveries, rather than merely the volume of collections or the speed with which cases are administratively closed.

These are not abstract organizational considerations. They determine whether an institution can identify a deteriorating restructuring proposal before additional value is lost, distinguish a viable borrower from one whose financial position has become structurally unsustainable and recognize when legal enforcement is economically preferable to continued forbearance.

The real governance failure occurs when organizational design becomes detached from the economic substance of the activity being managed. A reporting structure may satisfy internal administrative requirements while remaining poorly equipped to address the complexity of the underlying portfolio. A manager may possess formal authority without the technical foundation or supporting governance arrangements necessary to exercise effective oversight. An experienced specialist may carry the practical burden of protecting recoverable value while having insufficient influence over the decisions that determine the outcome.



Each of these weaknesses can remain largely invisible until a significant recovery fails, a valuable restructuring opportunity disappears or a prolonged workout produces a loss that might otherwise have been avoided.

Corporate NPL restructuring is ultimately a discipline of judgement under uncertainty. Its effectiveness depends on the ability to distinguish temporary distress from structural insolvency, legal entitlement from economic recoverability, and apparent short-term savings from genuine long-term value preservation. These capabilities are developed through financial analysis, exposure to difficult cases, commercial negotiations and the experience of seeing how restructuring decisions perform over time.

They can be taught, strengthened and transferred across an organization, but they cannot simply be assumed to exist because a particular reporting line has been approved.

A bank can redesign its organizational chart overnight. It cannot manufacture decades of restructuring experience through a change in reporting lines.

And that is the question every board should be prepared to answer: is the institution genuinely strengthening its ability to manage distressed corporate exposures, or merely making the organization responsible for them cheaper to operate?

The difference may not be immediately visible in the financial statements. Eventually, however, it can become painfully clear in the recoveries.

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Regulatory References

1. European Central Bank (2017). *Guidance to Banks on Non-Performing Loans*. Chapter 3: NPL Governance and Operations, particularly the provisions addressing workout resources, expertise and experience.

2. European Banking Authority (2018). *Guidelines on Management of Non-Performing and Forborne Exposures*. EBA/GL/2018/06. Particularly Chapter 5: NPE Governance and Operations.

3. European Banking Authority (2021). *Guidelines on Internal Governance under CRD*. EBA/GL/2021/05.

Regulatory interpretation note: The references above describe supervisory expectations concerning institutional governance, NPE management and operational capabilities. They should not be interpreted as establishing a universal professional qualification requirement for every restructuring manager or as evidence of non-compliance by any particular institution.

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