

Client	The client is an independent European financial sector regulator
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Project Name	Scenario Testing
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Project Start Date	January 2007	Project End Date	March 2007
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Industry	<input checked="" type="checkbox"/> Commercial banking	<input checked="" type="checkbox"/> Insurance
	<input checked="" type="checkbox"/> Investment banking	
	<input checked="" type="checkbox"/> Private banking	<input type="checkbox"/> Asset and wealth management
	<input checked="" type="checkbox"/> Retail banking	
		<input checked="" type="checkbox"/> Corporate

Category of Service	<input type="checkbox"/> Performance measurement and monitoring	<input type="checkbox"/> Regulatory compliance and reporting
	<input type="checkbox"/> Portfolio risk management	<input checked="" type="checkbox"/> Business process improvement
	<input type="checkbox"/> Specialised risks	<input checked="" type="checkbox"/> Training and people change
	<input type="checkbox"/> Data Quality	<input type="checkbox"/> System selection and implementation

The Challenge	<p>In the aftermath of the corporate scandals of 2002 – 2003 and the subsequent collapse of Arthur Andersen, the public interest mandate of the client required that an assessment be made of the implications of the collapse of one of the “Big 4” accounting and auditing firms. The ramifications of such a collapse on audits (i.e., upon the availability and quality of audits), the disruption to the economy and overall financial stability also required investigation.</p> <p>The client needed to be able to gauge at what point it would be appropriate to intervene and if so, what form such intervention should take. Any intervention by the client would have to be based on potential or actual damage to the confidence of investors and other stakeholders. Intervention would also need to be proportionate to the likelihood and severity of risk events. The major challenge was to determine a framework with which to assess any intervention by the regulator.</p>
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Approach and Solution	<p>avantage consultants undertook scenario testing and were able to develop an appropriate risk assessment framework that assists the client by assessing the impact of a crisis event on the economy, capital markets, etc.</p> <p>We recognised the significant depth of experience that existed in the client organisation. Whilst this was a great asset, it also represented a potentially significant weakness in the event key personnel were absent or unavailable during a crisis. We drew on this knowledge base to construct a model for regulator intervention. The model would operate independently of an individual’s input. This approach would prevent or at least limit the occurrence of knowledge loss in instances where key individuals are absent or unavailable.</p> <p>We discussed the model with other financial sector regulators and government policy makers to agree upon the appropriate risk assessment framework using the same framework to measure possible risk.</p>
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<p>Results and Benefits</p>	<p>The project resulted in a move away from inconsistent impact assessment framework within the international regulatory community toward a shared impact assessment framework. The framework was agreed with other financial sector regulators both domestically and internationally.</p> <p>The project also identified hidden assumptions and assessed whether such assumptions were valid, highlighting areas where there was a lack of fundamental agreement. The framework will accelerate the resolution of crisis events by having an agreed method of assessment and action.</p>
<p>Software used</p>	<p>Not applicable</p>