

Client	The client is a privately-held European bank focusing on investment banking, private banking and asset management.
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Project Name	ICAAP diagnostic and gap analysis.
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Project Start Date	September 2008	Project End Date	November 2008
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Industry	<input checked="" type="checkbox"/> Commercial banking	<input type="checkbox"/> Insurance
	<input checked="" type="checkbox"/> Investment banking	
	<input checked="" type="checkbox"/> Private banking	<input checked="" type="checkbox"/> Asset and wealth management
	<input type="checkbox"/> Retail banking	
		<input type="checkbox"/> Corporate

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

The Challenge	<p>The client is a privately owned bank perceived as predominantly providing private banking services but which in reality is a full service banking institution with commercial and investment banking activities as significant as its private banking and asset management activities. In addition to the magnitude of the scope of its operations, the client operates a two-bank management philosophy with respect to a significant banking acquisition undertaken a few years earlier. Essentially the subsidiary is managed autonomously with separate risk and capital adequacy management responsibilities.</p> <p>The ICAAP assignment nevertheless applied to the whole group with the requirement to ensure that despite the magnitude of the business scope and the two banks within one group, the review dealt adequately with each sub group and business within them not only individually but also on a consistent and joined up basis from a consolidated group perspective.</p>
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Approach and Solution	<p>The approach adopted was to undertake individual assessments of risk management capabilities of the two banks separately largely due to geographic logistical reasons but to evaluate the capabilities as a consolidated functional whole which then fed into the consolidated evaluation of the capital adequacy procedures and capabilities. However, within this approach the client requested that a separate evaluation of the risk management capabilities (with specific reference to governance and measurement) as related to the participations' portfolio be undertaken.</p> <p>Whilst the evaluations were undertaken by reference to achieving regulatory compliance, the client was also provided with a comparison with generally accepted practices within the industry and recommendations to meet both</p>
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regulatory and industry standards. The results of the gap analysis were also placed in the context of the degree of sophistication of methodologies and approaches adopted and the degree of embeddedness of the approach in the business and support infrastructure of the client. A comparison of the client's status with respect to these two measurements was benchmarked against a market sample based upon advantage's proprietary knowledge management system, aCKnowledge®.

Results and Benefits

Whilst there was a high level understanding of the ICAAP process within the risk management function, the lack of awareness of the depth and quality of the information to be submitted to the regulators was not appreciated and thus the degree of preparedness for the reporting exercise was significantly underestimated.

Similarly, the links between business strategy, risk appetite and management, through capital adequacy to capital planning, business performance measurement and the optimisation of capital were discovered to be fragmented in terms of the whole process being driven consistently through and across the organisation.

The report submitted provided the client with an independent assessment of the client's regulatory compliance and comparison against a benchmark of industry practice. The client was for the first time able to evaluate the totality of its risk and capital adequacy capabilities, assess the priorities to be addressed, provide a reasoned approach or programme of work to address shortcomings acknowledged and provide the regulator with confidence that where weaknesses should be addressed, improvements have already been identified and have either or will be implemented.

Software used IRPM®