

Client	The client is the Luxembourg subsidiary of a privately-held German bank. With 50 employees, it specialises in wealth management, investment fund administration and custody as well as global asset management.
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Project Name	Basel II, Pillar 2, 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 type="checkbox"/> Commercial banking	<input type="checkbox"/> Insurance
	<input 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 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>Pillar 2 of the Basel II Accord requires banks to implement an Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is designed to ensure banks assess all risks to which they are or could be exposed; maintain sufficient capital to face these risks; and develop and better use risk management techniques in monitoring and managing these risks. It also allows a bank to fully realise the benefits of sound risk management techniques.</p> <p>The initial challenge was to provide the client with a diagnostic and gap analysis necessary to prepare the ICAAP methodology in line with CSSF Circular 07/301. The deliverable was not intended to constitute an ICAAP itself. Rather, it presented the client with options and a roadmap for completing an appropriate ICAAP.</p> <p>In particular, the project had to identify proportional solutions consistent with the size of the Bank and the complexity of its activities.</p>
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Approach and Solution	<p>This phase of the ICAAP planning requires the collection and analysis of all relevant information on the current internal capital and risk management process as implemented by the client (and its connection with the parent entity).</p> <p>Existing documentation and practices relevant to the ICAAP were identified and reviewed. The review assessed (i) the quality of the format and content of existing documentation; (ii) the completeness and risk type coverage; (iii) the ICAAP approach and methodologies; and (iv) the relevance and applicability of parent entity's standards for the purpose of compliance with the Luxembourg regulator's requirements.</p>
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	<p>The risk types to which the client is exposed were identified and an inventory created. The inventory included risk types commonly observed in the industry:</p> <ul style="list-style-type: none"> • credit and counterparty risk (including regarding investment funds and interbank counterparties); • operational risk (including IT project governance which was assessed by reference to CobIT, and IT security which was assessed by reference to ISO 27000, new products, private equity and real estate activities, etc.); and • liquidity risk (including under normal and stressed conditions); • etc. <p>A gap analysis was prepared to provide an independent and structured assessment of the client’s ICAAP capabilities based on regulatory requirements. This assessment represented a roadmap to achieving regulatory-compliant risk and capital adequacy management. The report provided the client with the grounding, insights and structure essential to formulate its ICAAP. The validation of the gaps was achieved through a combination of questionnaires and interviews with key personnel.</p> <p>Options were provided on how the gaps/findings in the client’s current ICAAP capabilities can be closed. It was expected that any gaps in the information contained in the final ICAAP submission document would be supported by closure plans.</p>
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Results and Benefits	<p>The client was presented with specific findings in the following categories: comprehensive assessment of risks to which the client is exposed; risk mitigation; capital allocation; scenario testing and; risk management framework and governance. These findings provided the client with options and a roadmap for completing an appropriate ICAAP.</p> <p>The results were presented to the executive committee of the bank and the Group Risk Management Officer. The recommendations set out in the report are being used as the basis for a change programme to enhance the bank’s risk management framework, including implementation of a risk software solution.</p>
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Software used	IRPM®
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