

Client	The client is a European banking group.
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Project Name	Review of Internal Capital Adequacy Assessment Process, including Risk and Capital Strategy, Risk and Capital Policy, and Liquidity Risk Management Framework
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Project Start Date	March 2008	Project End Date	March 2009
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Industry	<input checked="" 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 checked="" 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 primary challenge was to provide the client with an assessment of its Risk and Capital Strategy as well as its Risk and Capital Policy in the context of the ICAAP. In line with evolving market conditions and regulatory developments, the client requested that we extend the scope to also review the liquidity risk management framework, including its risk appetite within its peer group (e.g., size of the liquidity buffer and choice of liquid assets in the buffer).</p>
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Approach and Solution	<p>This assignment required 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 other group entities, especially as it relates to liquidity management).</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 the strategy and policy for the purpose of compliance with regulatory requirements.</p>
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	<p>avantage deployed its proprietary Integrated Risk and Performance Measurement (IRPM)TM tool to ensure that the risk strategy and risk appetite framework is the anchor of the bank’s risk, capital and business management approaches in line with Pillar 2 regulatory requirements.</p> <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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<p>Results and Benefits</p>	<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.</p> <p>A significant deliverable included the enhancement to the formulation and implementation (i.e., embedding) of the bank’s risk appetite (formulated in quantitative and qualitative terms, taking into account the bank’s risk capacity, financial position, reputation, etc.), i.e. the amount and types of risk that the bank is prepared to take in executing its strategy. The project involved developing “metrics” for individual risk types (e.g., credit, counterparty, residual, compliance, legal, etc.) to ensure that business activity may be developed and monitored so as to ensure it is aligned with the bank’s risk appetite.</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.</p>
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<p>Software used</p>	<p>IRPM[®]</p>
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