

Client	The client is an international banking group with significant commercial banking, investment banking and retail banking operations.
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Project Name	Development and Implementation of a Governance Structure and Risk Appetite and Limit Structure
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Project Start Date	May 2009	Project End Date	July 2009
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Industry	<input checked="" type="checkbox"/> Commercial banking	<input type="checkbox"/> Insurance
	<input checked="" type="checkbox"/> Investment banking	
	<input type="checkbox"/> Private banking	<input 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 checked="" type="checkbox"/> Training and people change
	<input type="checkbox"/> Data Quality	<input type="checkbox"/> System selection and implementation

The Challenge	<p>The client was going through a period of critical change, including resulting changes to the governance structure, the risk appetite framework and the limit structure. The client asked advantage for assistance with the following issues in particular:</p> <ul style="list-style-type: none"> • Assist the bank in defining “risk appetite” and developing its risk appetite framework, i.e. governance, policies and processes, limits and “checkpoints” that are required to embed “risk appetite” in the ongoing business; • Implement the risk appetite framework, esp. credit and market risk policies; and • Implement the limits and checkpoints relating to credit risk to ensure that (i) credit proposals are in line with the risk appetite and (ii) proposals are evaluated and approved within the governance bodies for credit risk.
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Approach and Solution	<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 and best practice.</p> <p>Working with senior management and line management, options were provided to accelerate the definition and implementation of the risk appetite framework:</p> <ul style="list-style-type: none"> • Definition of “risk appetite” and development of the risk appetite framework: advantage worked with senior management to ensure that the bank’s risk appetite statement sets out the actual quantum and types of risk that the bank is willing to take in executing its strategy, i.e. a supporting its clients’ banking needs and the expectations of its shareholder, i.e. the Government.
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	<ul style="list-style-type: none"> In addition to assisting the client with the definition of the required risk appetite framework, avantage supported the implementation of the framework. Based on the retained framework, the overall risk appetite was expressed via economic capital (EC) measures. <p>avantage supported the implementation of relevant policies and processes (e.g., approval of credit proposals, new product approval, limit excess reporting, etc.) as further discussed below.</p> <p>Within the framework, avantage assisted the client in implementing limits and “checkpoints” , including (i) credit risk limits (e.g., EC per industry cluster, EC per relationship, etc.), (ii) operational risk limits, (iii) market risk limits (e.g., Earnings at risk).</p>
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Results and Benefits	<p>avantage acted as a change agent facilitating the implementation of a functioning trading risk unit, including</p> <ul style="list-style-type: none"> Organisation and structure; People; Governance; Risk appetite; and Systems.
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Software used	IRPM [®]
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