

Getting the most out of your Basel II efforts*



The capital impact of Pillar 2 is likely to be very significant. In addition, Pillar 2 and the ICAAP present Chief Risk Officers and Chief Financial Officers with a unique opportunity to strengthen risk and capital management across the organisation.

Pillar 2 warrants careful management attention to take advantage of the opportunity it presents and to avoid the threat of a potentially onerous regulatory capital charge.

PricewaterhouseCoopers¹ is a leading provider of risk and capital services. We have assisted many firms in establishing their approaches to risk-based capital management, Pillar 2 and ICAAP (Internal Capital Adequacy Assessment Process).

PricewaterhouseCoopers has worked with the UK FSA as it has developed its approach to the review of ICAAPs.

¹ PricewaterhouseCoopers¹ refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

- We have performed a 'challenge' process for the FSA as it has developed its own approach to the Supervisory Review and Evaluation Process (SREP).
- We have trained FSA supervisors in how to undertake a SREP.

Key questions

Do you have a clear view of how much capital your firm requires?

- Is your risk appetite sufficiently well articulated?
- Are risk and capital management sufficiently well integrated with strategic planning and business operations?
- Have you considered fully your options regarding quality of capital and financing structures?

Are you confident that your firm's approach to managing risk and capital meets the Use Test?

- Is your risk and capital governance framework sufficiently robust?
- How well is capital management linked to the firm's risk profile?
- How effective is your stress testing framework? How well is it integrated with the business?

Have you developed your ICAAP implementation plan?

- Are Board and senior management aware of their specific responsibilities regarding the ICAAP?
- Does the content and structure of your draft ICAAP submission communicate your position on risk and capital effectively?

- Have you maximised the opportunities for qualitative ‘non-capital’ responses to your Pillar 2 risks?
- Do you fully understand the differences and overlaps between the ICAAP and Pillar 1?

Are you ready for the supervisor’s challenges?

- Do you have sufficient documentation and evidence?
- Is management rehearsed for the site visits?
- Have you anticipated your responses to the likely questions?

PricewaterhouseCoopers services

PricewaterhouseCoopers has a proven track record in providing ICAAP-related services including implementation and development of risk-based capital management.

ICAAPs

- Developing ICAAPs
- Review and challenge of draft ICAAP submissions
- Preparation for site visits
- Senior management training
- Independent model and process validation

Strengthening risk-based capital management

- Develop gap analysis and action agenda
- Risk appetite articulation
- Capital allocation and KPIs
- Holistic stress testing across all risk types
- Embedding in the business (e.g. pricing, reporting and management education)

Our experience

PricewaterhouseCoopers has extensive experience of advising clients on risk and capital issues. We use a tested proprietary methodology and tools based on our unique insights into regulatory expectations.

Examples of relevant engagements include:

UK Financial Services Authority

We have designed and delivered extensive training to the FSA’s supervisory teams over three years:

- 2005 – Developed and delivered economic capital technical training through a four-day course for banking supervisors
- 2006 – Developed with the FSA and delivered two-day SREP training courses (based on an ICAAP case study for a standardised bank)
- 2006 and 2007 – Developed with the FSA and delivered three-day Pillar 2 SREP training courses (based on an extensive ICAAP case study for an advanced AIRB bank with economic capital)

Leading financial institutions

PricewaterhouseCoopers reviewed and challenged the approaches to ICAAP for several institutions and delivered valuable insights and clear agendas for action.

International banking groups

PricewaterhouseCoopers provided hands-on support to assist firms in developing ICAAPs to meet host supervisors’ requirements, harmonised with home supervisory expectations.

Global institution

PricewaterhouseCoopers assisted one of the world’s largest financial services firms in developing its economic capital framework, risk appetite, and holistic group-wide stress tests.

Leading continental European bank

PricewaterhouseCoopers advised the client in a comprehensive re-design of its capital allocation framework, related aspects of KPIs, and performance management from group to branch level.

Leading emerging markets bank

PricewaterhouseCoopers undertook a detailed review of the bank’s draft ICAAP submission against our unique understanding of regulatory expectations and identified a wide range of important enhancements to be incorporated in the final submission.

European retail financial services firm

PricewaterhouseCoopers was engaged by senior management to undertake an urgent review of Pillar 2 readiness in nine countries. Our UK-led review addressed management’s concerns and created action plans to close gaps.

Leading UK retail bank

PricewaterhouseCoopers developed extensive macro-economic credit risk stress tests for a wide range of unsecured and mortgage portfolios.

Our team

PricewaterhouseCoopers has over 200 consultants worldwide specialising in risk and capital management services. Principal contacts are:

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