



Risk-based capital management

At the heart of managing risk and value

Risk-based capital management can provide a better understanding of the trade-off between risk and reward, leading to more incisive decision-making and more sustainable value creation.

Economic capital and other advanced risk-based capital methodologies enable financial institutions to quantify the risks they face, the capital needed to cover them and the real risk-adjusted returns that are being made.

While interest in such frameworks is increasing in the wake of the move to risk-based prudential regulation including Basel II, the overriding benefits are the ability to enhance strategic and tactical decision-making and optimise shareholder wealth. Risk-based capital management can help organisations to spot threats and weaknesses; identify opportunities that may be missed by competitors and target investment where it can earn its best return.

It can also help to align risk appetite with capital allocation and communicate the tangible strengths and potential of the business to analysts, investors and rating agencies.

However, risk-based capital management is only as good as the reliability of the data, validity of the assumptions and quality of application that underpin it. Data may be incomplete or inconsistent. Even if the desired data is available, it could be dangerous to give too much credence to model outputs without the sense check of experience and intuition. In short, risk-based capital management cannot exist in a vacuum; it requires expert implementation, development and embedding to be credible and relevant to the business.

Trusted partners

We believe that risk-based capital management needs to be rooted in the real world to realise its potential.

PricewaterhouseCoopers have a proven track record in the implementation and development of risk-based capital management through design, build, integration and validation.

The basis of our approach is the recognition that risk-based capital management and its underlying assumptions require constant challenge, refinement and alignment with the specific characteristics of the business to ensure the framework can provide a credible source of information, assurance and insight for management.

Tailored solutions: Analysis of client needs and bespoke design means that the systems and their application are geared to the specific requirements and objectives of the business.

Modelling expertise: Our specialist team includes experts in advanced modelling, quantitative and qualitative analysis.

Validation and calibration: Assist clients to verify their assumptions and outputs against observable data and industry best practice and help design modifications.

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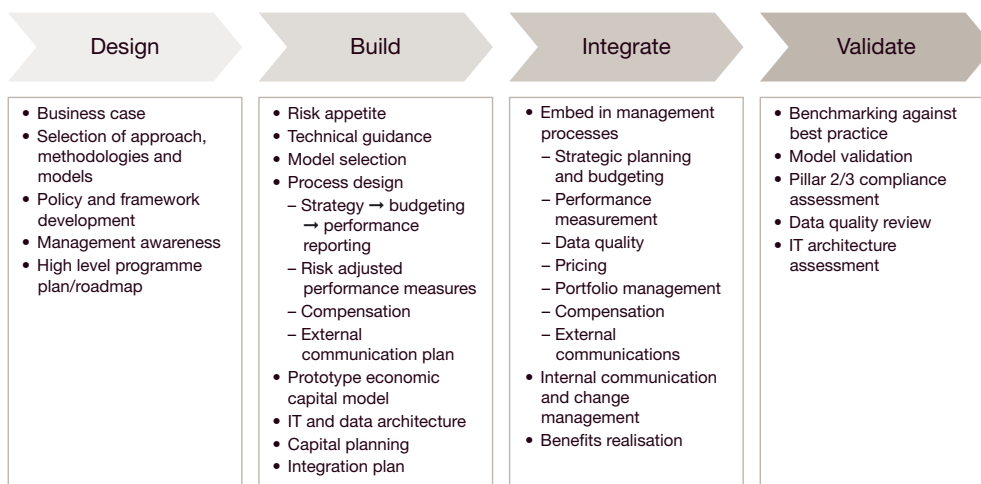


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'The training that PricewaterhouseCoopers delivered on Economic Capital and Pillar 2 was excellent. Over the four-day course they gave us real insights into practical applications in the banking industry and the wide variety of approaches that exists.'

Pillar 2 Programme Leader,
UK Financial Services Authority



Effective embedding: Full project management service helps to integrate systems into existing management information and business processes such as performance reporting and compensation. Address critical issues such as data quality and train senior management and business unit staff in how to interpret and make best use of the analysis, overcome barriers to implementation and build organisational buy-in.

Thought leadership: Our capabilities are underpinned by industry-wide research and analysis. Recent projects include a unique in-depth benchmarking study of economic capital practices, assumptions and quantitative results within 23 banks across the world.

Case study 1

Design and build of economic capital model for Asia-Pacific banking group
The PricewaterhouseCoopers project team was asked to develop an economic capital model to improve the basis for decision-making and meet the requirements of Basel II. Workshops with staff from across the group helped us to identify client needs/objectives and align these to industry best practice. We also developed training and guidance to help in the interpretation and application of data.

Case study 2

Design of RBCM framework and integration into business processes for European banking Group

The PricewaterhouseCoopers project team was asked to design the framework for risk-based capital management at group level, review the existing economic capital model and help integrate it into group-wide risk and performance reporting system and strategic management process. The design phase included the redefinition of the roles of Risk and ALCO Committees while the integrate phase included the establishment of a formal capital allocation process and the redefinition of Group Finance structure and roles for effective capital management.

Case study 3

Review, benchmarking and gap analysis/advice for US banking group

The bank's capital attribution methodology is widely used within strategic planning, performance measurement and incentive evaluation. Our project team was asked to validate the attribution process, analyse the strengths and weaknesses of the system and benchmark it against peer group experience.

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