

ICAAP

The Assignment

One of our clients, a medium-sized investment bank was required to implement an ICAAP (Internal Capital Adequacy Assessment Process), as a part of Pillar 2 within the Basel II Framework. The implementation of the ICAAP, which represents a bank's own assessment of the capital needed to run the business, was a regulatory requirement mandated by the country's central bank.

Our Solution

As a part of our ICAAP implementation we helped the client bank to put in place internal policies, procedures and processes that ensured that the bank possessed adequate capital resources in the long term to cover all of its material risks.

Under the Internal Capital Adequacy and Assessment Process (ICAAP) we developed internal models for the bank to assess, quantify and stress test risk drivers and factors and the amount of capital required to support them.

In addition to credit, market and operational risks, the ICAAP also included risks that are not formally subjected to the minimum regulatory capital (e.g. liquidity risk, reputational risk, business risk or interest rate risk in the banking book) and different methodologies were used to price in these risks. This resulted in a more comprehensive pricing system that covered expected and unexpected losses, and assisted in better evaluation of the adequacy of capital in relation to the bank's overall risk profile.

One important component of the Internal Capital Adequacy and Assessment Process (ICAAP) was stress testing of all risk factors in order to arrive at the capital requirements for the worst case scenario. Our stress testing scenarios allowed the bank to plan and prepare for unexpected situations that may arise in the future. These stress tests were applied to credit, market, operational and liquidity risks.

Takeaways for the Client

- Awareness of potential weaknesses in the financial risk management strategy, frameworks and processes as well as in the risk mitigation to avoid unexpected or surprising losses.
- Implementation of risk management framework consistent with the bank's financial risk strategy and risk appetite.
- Implementation of processes and methods for ICAAP and economic capital management consistent with bank's risk management framework.
- Allocation and attribution of risk capital to all significant sources of risk, stress test results and information to the board of expected or projected capital shortfall.

ASSIGNMENT DETAILS

- ▲ SECTOR
BANKING
- ▲ DOMAIN
RISK MANAGEMENT
- ▲ GEOGRAPHY
MENA
- ▲ PROJECT DURATION
6 MONTHS