

Abstract

The client's supervisory authority, the National Bank of Belgium (NBB) identified weaknesses in the Bank's ICAAP relating to limitations in its operational risk framework. The NBB required the Bank to review whether its proposed Advanced Measurement Approach (AMA) operational risk scenarios were sufficiently robust.

Avantage Reply conducted a comprehensive analysis to ensure that the Bank's existing scenarios were adequate to cover operational risk arising not only from services provided to the Bank's clients, but also from its in-sourced activities.

The review enabled the Bank to improve the quality of its scenario assessment. It allowed the Bank to enhance the justification of the expert judgement underpinning its existing scenarios and also identified where additional scenarios were required to assess the Bank's holistic universe of operational risks.

A black and white photograph of a classical building facade with large columns and a pediment, serving as a background for the title.

Internal Capital Adequacy Assessment Process (ICAAP) Review of Operational Risk Scenarios

THE CLIENT

Our client was the Belgian subsidiary of a multinational financial services institution. It provides investment services to the European market including global custody (settlement and safekeeping), portfolio and fund accounting, corporate trust services, global collateral services, depositary receipts services and broker-dealer services.

THE CHALLENGE

The supervisory authority requires financial institutions – through the Capital Requirement Regulation (CRR) and the Capital Requirements Directive IV (CRD IV) – to evaluate the amount of capital they consider adequate to support all risks faced; this assessment is conducted annually via the Internal Capital Adequacy Assessment Process (ICAAP).

Our client's supervisory authority, the National Bank of Belgium (NBB), reviewed the Bank's ICAAP and identified weaknesses relating to limitations in its operational risk framework. In particular, the NBB required that the Bank review whether its proposed Advanced Measurement Approach (AMA) operational risk scenarios were sufficiently robust.

APPROACH AND SOLUTION

To address the NBB's concerns, Avantage Reply analysed whether the Bank's existing scenarios were adequate to cover the operational risks faced, not only from services provided to the Bank's clients, but also for its in-sourced activities.

Working with stakeholders from Operational Risk and the Business, Avantage Reply assessed the appropriateness of the existing operational risk scenarios (including assessment of the frequency and severity estimates, scenario applicability, justification of expert-based opinions, control gaps, and mitigants). We also reviewed the overall risk universe faced by the Bank and identified where additional scenarios were required to adequately assess the holistic risks to which the Bank was exposed.

RESULTS AND BENEFITS

Following our comprehensive analysis, the Bank was able to improve the quality of its scenario assessment, in particular with regard to justification of expert-based opinions. It gained comfort that its existing operational risk scenarios were fit

for purpose and was also able to identify additional target scenarios to remediate gaps in its holistic operational risk management.

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