

Abstract

The client was planning to adopt the Internal Ratings Based (IRB) approach to calculating credit risk, which required the submission of a Waiver Application to the UK regulator. Due to the complexity of the client's IRB approach as a result of multiple information sources, contributors and complex concepts, Avantage Reply was engaged to coordinate the preparation of and review the Waiver Application. Avantage Reply worked with the client to create a waiver application pack, ensuring it was consistent in format and content, it was representative of the actualities of the client, and gaps with regulatory requirements were identified.



Credit Risk Model Waiver Application Process

THE CLIENT

The client headquartered in the UK, is one of the world's top 10 financial services Groups. In the UK, the client is a leading provider of corporate banking services and is a market leader in the provision of retail banking, wealth management, consumer finance and insurance.

THE CHALLENGE

In the UK, a firm wishing to adopt the Internal Ratings Based (IRB) approaches to calculating credit risk must apply to the regulator for a waiver. The application involves the completion of a Waiver Application. This concise document describes the approach the firm takes to risk management and measurement. It must include a section on the approach to self-assessment of compliance with the IRB minimum requirements together with an exception-based list of the key areas of non-compliance.

The client sought the support of Avantage Reply to coordinate the preparation of the section on internal rating systems, review the Waiver Application in its entirety, and review and challenge the design and execution of the self-assessment process.

The main challenge was primarily around the compilation of a comprehensive, accurate and consistent account of the client's IRB approach, the complexity of which was magnified due to multiple information sources, contributors and often complex concepts.

APPROACH AND SOLUTION

Avantage Reply worked with the client's existing team to create a waiver application pack (WAP) solution and a self-assessment tool. This approach was designed to guide the client through the regulatory accreditation process. It would ensure the client had considered all requirements that were essential to successfully develop a WAP strategy and address the regulator's expectations.

The WAP solution included:

- The development of an approach to ensure that regulatory requirements from a number of different sources were addressed while keeping the process light, executable and relevant to the organisation;

- The development of a consistent report format and content;
- The planning for group-wide execution across divisions, geographies and regulated entities (taking into account home/host issues and local regulatory requirements).

Rigour was applied in the development of the WAP to ensure the disclosed information reflected the actual situation within the bank. Such rigour was essential to securing the regulator's approval of the application. The WAP essentially drew on a large number of information sources from across the organisation, with input required from various individuals in Risk, Finance, IT and Internal Audit.

RESULTS AND BENEFITS

The WAP provided a good baseline from which detailed planning was drafted to ensure any gaps that had been identified would be closed over an agreed period of time. The information contained in the WAP covered technical and granular material including:

- Statistical model validation;
- Data architecture and controls;
- Risk governance; and
- A self-assessment against regulatory requirements.

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