

ICAAP and Scenario Analysis: Case Study

Organisation type: Fast-growing Tier 2 UK bank

Client sponsor: Executive Committee

Period: July - September 2021

Context

Our client is a Tier 2 UK bank that has grown exponentially over the last few years. Being a regulated financial institution, the bank is required to implement the Internal Capital Adequacy Assessment Process every year. As its growth has attracted the regulators' attention, it decided to seek external help and support to perform its 2021 ICAAP to match the best standards in the industry and satisfy the regulatory requirements,

Our clients wanted to address three challenges

1. understanding and responding to the regulator's expectations on ICAAP
2. identifying the relevant operational risks to consider in ICAAP
3. quantifying their operational risk capital for Pillar 2 requirements

Our approach and services

We supported the client in every step of the way to develop its ICAAP for operational risk, from understanding the purpose and benefit of the exercise, to articulating and quantifying the significant operational risk exposure.

Two of Chapelle's consultants worked on this project: one partner for guidance and one full time risk consultant for documentation, quantification and report writing, in full collaboration with the client's team working on the project.

We provided the methodology and help documenting all the ICAAP steps, notably:

- Risk Identification
- Scenario Identification

- Scenario Selection
- Scenario Assessment
- Estimation of the operational risk internal capital (part of Pillar 2A)

We made sure to tailor the method and content to the client's size, complexity, and maturity in operational risk management, and to the meet regulatory expectations. We coordinated the operational risk ICAAP report-writing, provided feedback on the rest of the ICAAP document, and guidance on the executive summary.

Results and benefits for the client

This operational risk ICAAP project was completed successfully in 8 weeks, thanks to the excellent organisation and synergy created between the client and Chapelle Consulting. The bank benefitted from the project as it:

- gained an understanding of the types of risks to include in the ICAAP, the main vulnerabilities, and the management value of the ICAAP
- gained a simple yet effective method to quantify its operational risk Pillar II capital
- gained autonomy in performing its internal capital adequacy assessment project

Client's comments and satisfaction

- *"you have been an immense help"*
- *"transformation in 2 months was pretty incredible"*