

CASE STUDY

Southeast Asian Bank Achieves ICAAP Compliance and Builds Strong Risk and Performance Platform

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A Vietnam-based financial institution that provides commercial banking services and derivative products to individual and institutional clients, embraced a risk and compliance strategy that enabled it to meet a pressing regulatory requirement for internal controls while setting a solid foundation for stronger overall performance.

Setting the stage for immediate and long-term gains

The State Bank of Vietnam (SBV) issued Circular 13/2018/TT-NHNN as part of its ongoing efforts to strengthen processes to prevent, detect, and manage risk in the banking systems. The directive establishes a comprehensive regulatory framework for internal controls for commercial banks and branches of foreign banks that aligns with international practices on the establishment of an internal control system, specifically the Internal Capital Adequacy and Assessment Process (ICAAP)—an integral part of Pillar 2 of the Basel Framework.

The Bank set out to comply with ICAAP and equip its business with the ability to make critical decisions on capital allocation, stress testing, and risk assessment while leveraging its existing investment in Oracle Financial Services Risk and Finance solutions.

Creating a robust stress testing environment

The Bank sought to improve risk management and capital planning, involving an investment in stress testing. The combination of Oracle Financial Services solutions Basel Regulatory Capital and Model Management and Governance were particularly suited.

The stress testing framework, developed in collaboration with The Bank's consulting partner, allows the bank to assess its resilience to potential adverse events and ensure it has adequate capital and liquidity buffers to withstand economic shocks. It also demonstrates to regulators that the bank has robust risk management practices in place and is taking steps and making investments to manage its capital and liquidity effectively.

Beyond compliance to stress testing requirements, the project enabled The Bank to gain valuable insight into its vulnerabilities and strengths, which can enable more informed and accurate decision-making across the organization. For example, the bank is leveraging insights to inform strategic planning, pricing decisions, and risk management strategies.

The framework also has helped the bank to enhance public confidence and its reputation by demonstrating that it is well-prepared for potential economic shocks and has appropriate capital and liquidity buffers in place.

ICAAP is a regulatory requirement for banks that assesses their internal capital needs and ensures they have adequate capital to cover potential risks. Adopting ICAAP can bring several benefits to a bank beyond regulatory compliance, including:

- Improved risk management via a comprehensive understanding of risks and the ability to quantify them in terms of potential losses
- Enhanced capital planning by providing a framework for banks to assess their capital adequacy and plan for future capital needs under the prevailing circumstances and stressed circumstances
- Improved business performance by identifying and managing risks more effectively, and by maintaining appropriate levels of capital

Expanding modelling capabilities

Part of the project included the deployment of modern modelling capabilities. Leveraging Oracle Financial Services Model Management and Governance, the bank was able to create, host, and execute risk management models across its business for risk identification, calculations, provisioning. The Bank gained a better understanding of potential risks and make more informed decisions about risk management strategies.

For example, the bank can now accurately analyze the relationship between the macro-economic environment and its balance sheet, profitability, and risk. It has identified critical macro-economic drivers impacting its business and uses them in forecasting future business and associated risks.

Models are subject to regulatory oversight, and model management is becoming an increasingly important area of focus for bank regulators and internal senior stakeholders alike. With Oracle Financial Services Model Management and Governance banks can:

- Gain valuable insights into customer behaviour, market trends, and other factors that impact business decisions.
- Analyse data and forecast outcomes to make more accurate and informed decisions about pricing, product development, and other important business activities, including pre-payment models, Probability of Default, core-deposit modelling, and so on.
- Automate complex tasks and processes to operate more efficiently by reducing the need for manual analysis and decision-making.
- Demonstrate to regulators model accuracy and reliability to help avoid penalties and maintain regulatory compliance.

The deployment of these state-of-the-art capabilities using the Oracle Financial Services Risk and Finance solutions allowed The Bank to adopt a comprehensive, unified, open and extensible analytical platform that not only meets the reduced time-to-market needs for today's analytical risk and finance application deployments but is also ready for the unknown regulatory and business challenges of the future.

Creating a powerful impact

The initiative enabled The Bank to achieve several important objectives, including:

1. Meet ICAAP compliance regulatory audit requirements & quickly uptake regulatory changes
2. Gain a unified, enterprise-wide view of regulatory risk by applying Basel Regulatory Capital calculations
3. Provide one version of the analytical "truth" to business users, giving them a strong understanding of the bank's capital, risk, and liquidity position and empowering strategic decision making
4. Ability to use the same data across multiple calculation processes, including Market, Credit, Liquidity, IFRS9
5. Have a single point of reconciliation and data cleansing

The Oracle Financial Services Risk and Finance solution implemented as part of this project provides a

- Single, unified data model and infrastructure that (Please note impact)
- Complete, pre-built capabilities to meet Basel I and II to accelerate implementation and optimize investment
- Transparent and complete audit trail to support compliance
- Extensive out-of-the-box, pre-configured reports and templates to accelerate time to value

Looking ahead

Going forward, The Bank intends to fully leverage the integrated single platform for risk and finance by bringing Profitability and Risk-based Pricing in their daily decision making. Oracle Financial Services Profitability Management enables financial services institutions to calculate profitability information by products, channels, segments, and even individual customers.

Standard profitability calculations may be adjusted for risk to enable Risk-Adjusted Performance Management, an imperative for financial services institutions operating in this rapidly evolving and complex industry.

Learn more about [Oracle Financial Services Risk and Finance solutions](#) and how you can remain agile to respond to business and regulatory challenges.

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