



EIFR

Stress-Tests and capital allocation

PwC

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Internal Stress Tests and Capital Allocation

Setting the scene : the regulatory perspective

Setting the scene : the internal perspective

Tentative synthesis : what are we trying to achieve ?

Economical Capital vs Stress Test ?

What is the path forward ?

Agenda

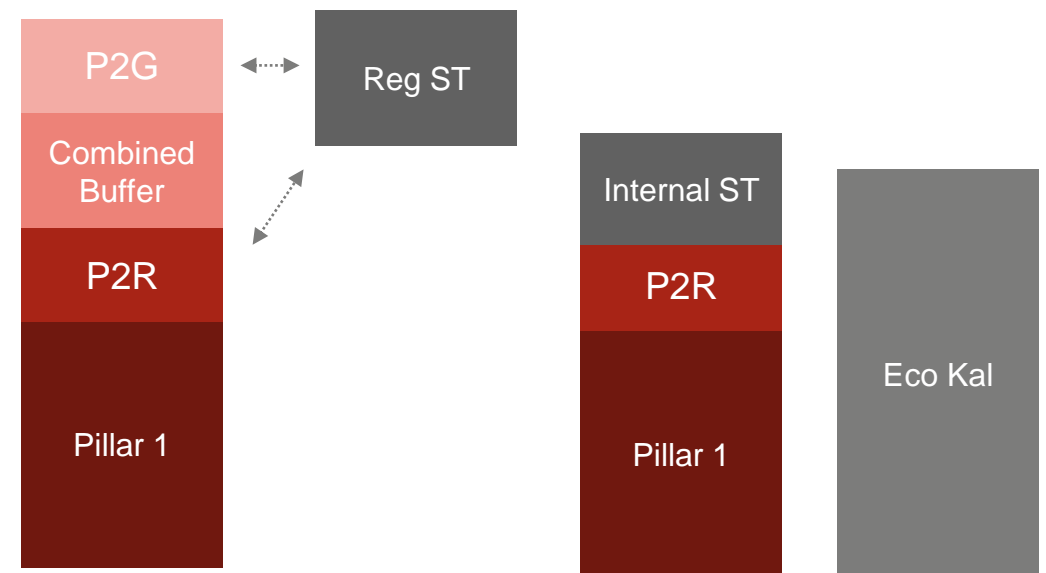
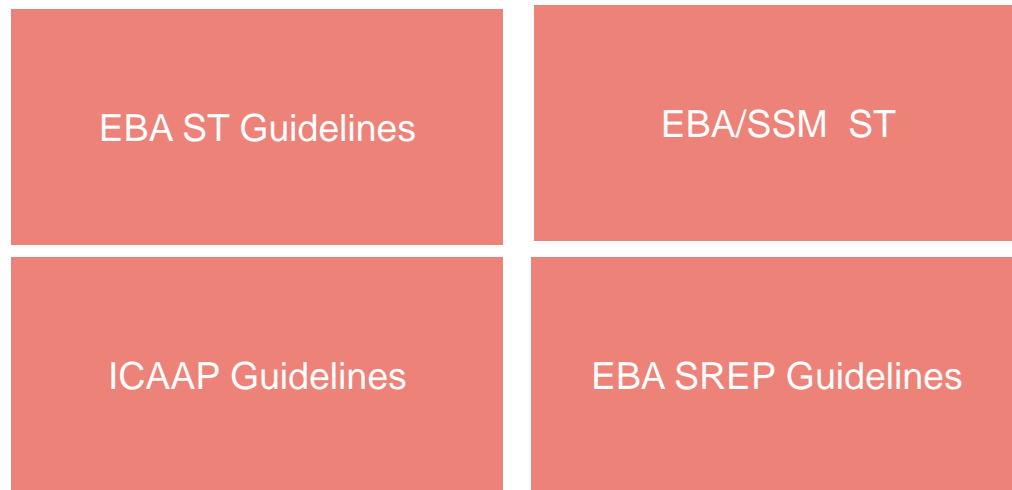


Setting the scene : regulatory perspective



Stress testing is a regulatory requirement but is not the quantitative or qualitative binding capital constraint in Europe vs the US ...

... the binding constraint for capital management is regulatory capital, reducing the relevance of other measures such as stress test or internal capital.

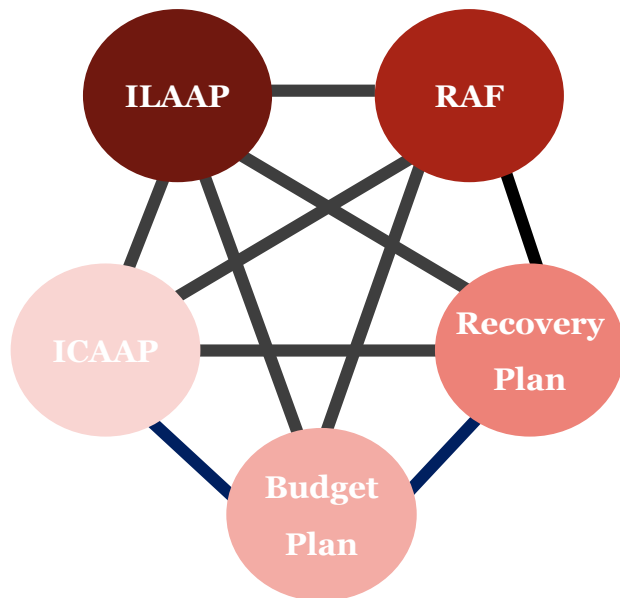




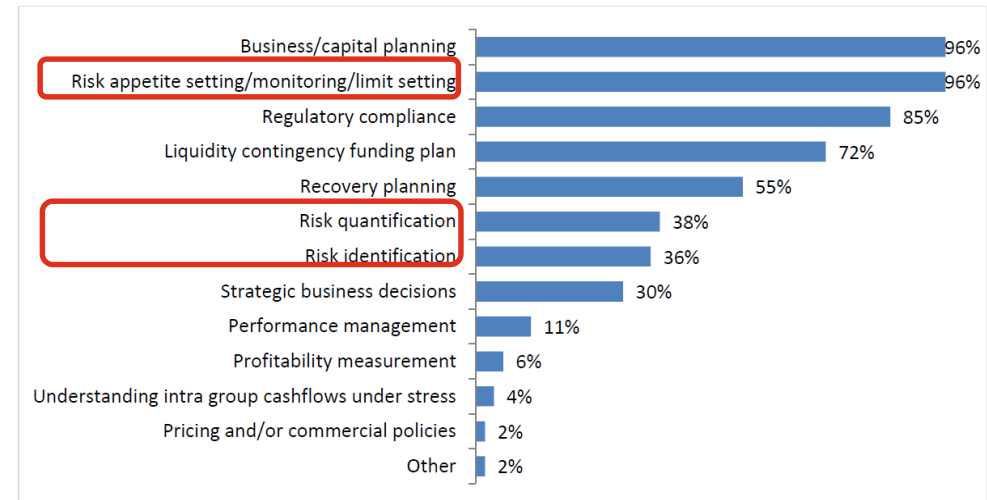
Setting the scene : internal perspective

Stress Test fills the need for a common language for both local risk management and strategic processes, it also helps position risk as a strategic advisor

ST as a horizontal language



ST as a vertical language



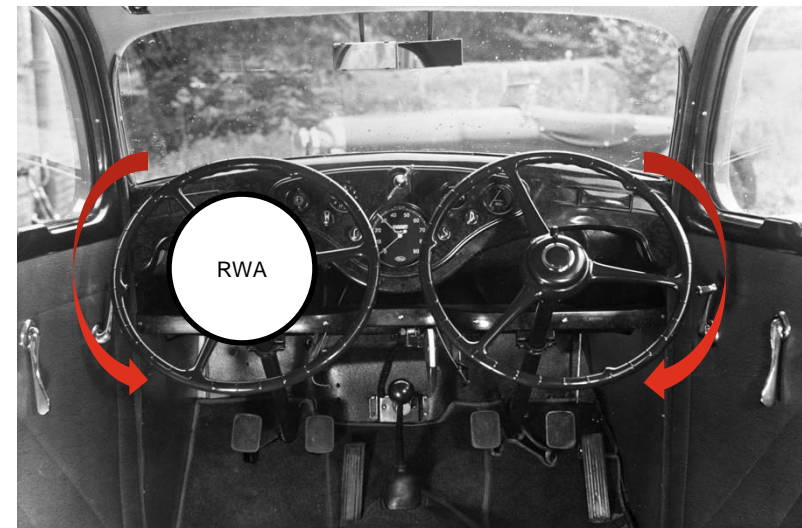
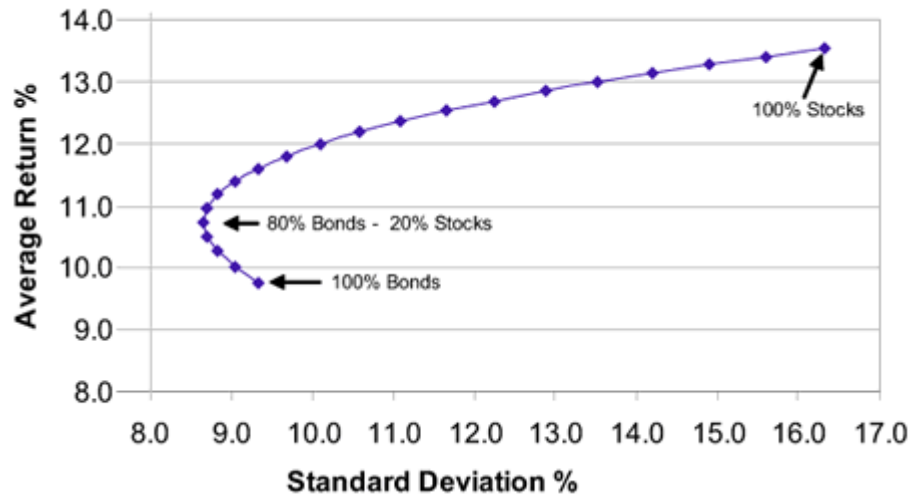
Source: BCBS survey of banks. Banks were given a list of activities and asked to select the five most important/prevalent activities for which the results/outputs of stress testing are used.

Tentative synthesis : what are we trying to achieve ?



In both internal and regulatory perspectives we look for a meaningful risk / return analysis when making strategic decisions

Regulatory Capital is the binding constraint but is an imperfect risk measure, it needs to be complemented with other measure(s).



Economic Capital vs Stress Test ?



Stress Test is a language that is generally superior to Economic Capital

Economic Capital
It is a convention
Lean towards full FV Balance Sheet
Competing with regulatory capital
Black Box

Investments are prioritized on enhancing stress testing frameworks

Estimated spend on related enhancements over the next three years

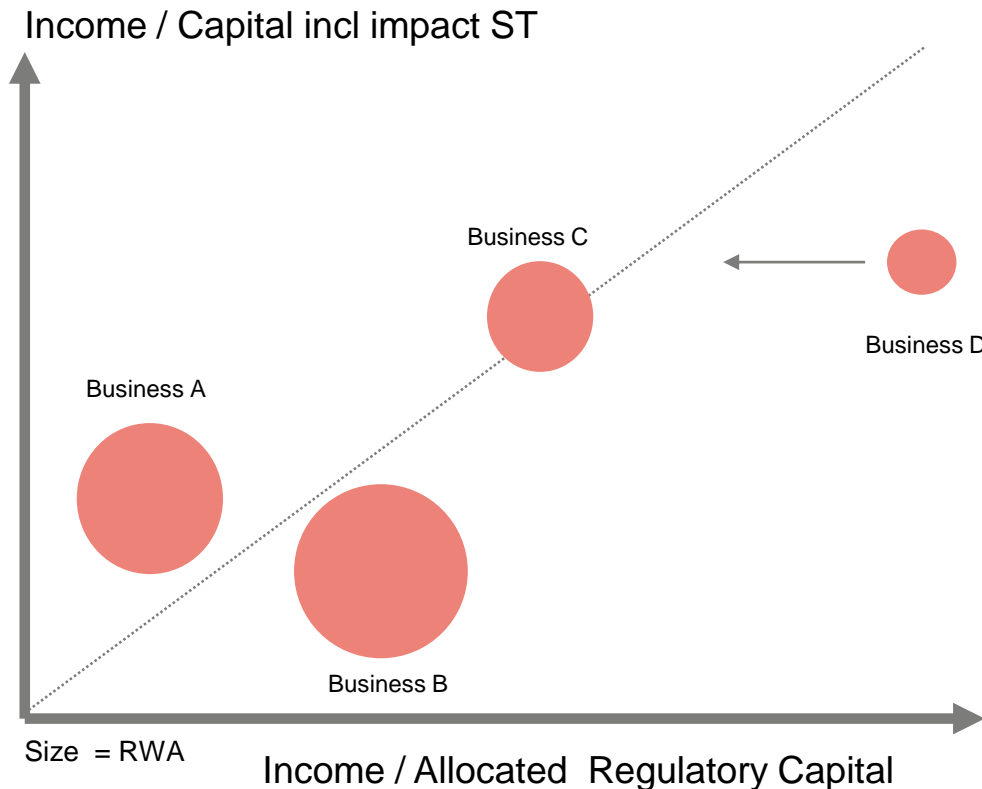
	Economic capital	Stress testing
Bank 1	<\$5m	<\$5m
Bank 2	<\$5m	\$5-10m
Bank 3	<\$5m	\$5-10m
Bank 4	<\$5m	<\$5m
Bank 5	<\$5m	\$5-10m
Bank 6	<\$5m	\$5-10m
Bank 7	<\$5m	\$5-10m
Bank 8	<\$5m	\$5-10m
Bank 9	<\$5m	\$5-10m
Bank 10	\$20-50m	\$5-10m
Bank 11	<\$5m	\$5-10m
Bank 12	<\$5m	\$5-10m
Bank 13	<\$5m	\$20-50m
Bank 14	<\$5m	\$10-20m

■ <\$5m
 ■ \$5-10m
 ■ \$10-20m
 ■ \$20-50m
 ■ >\$50m

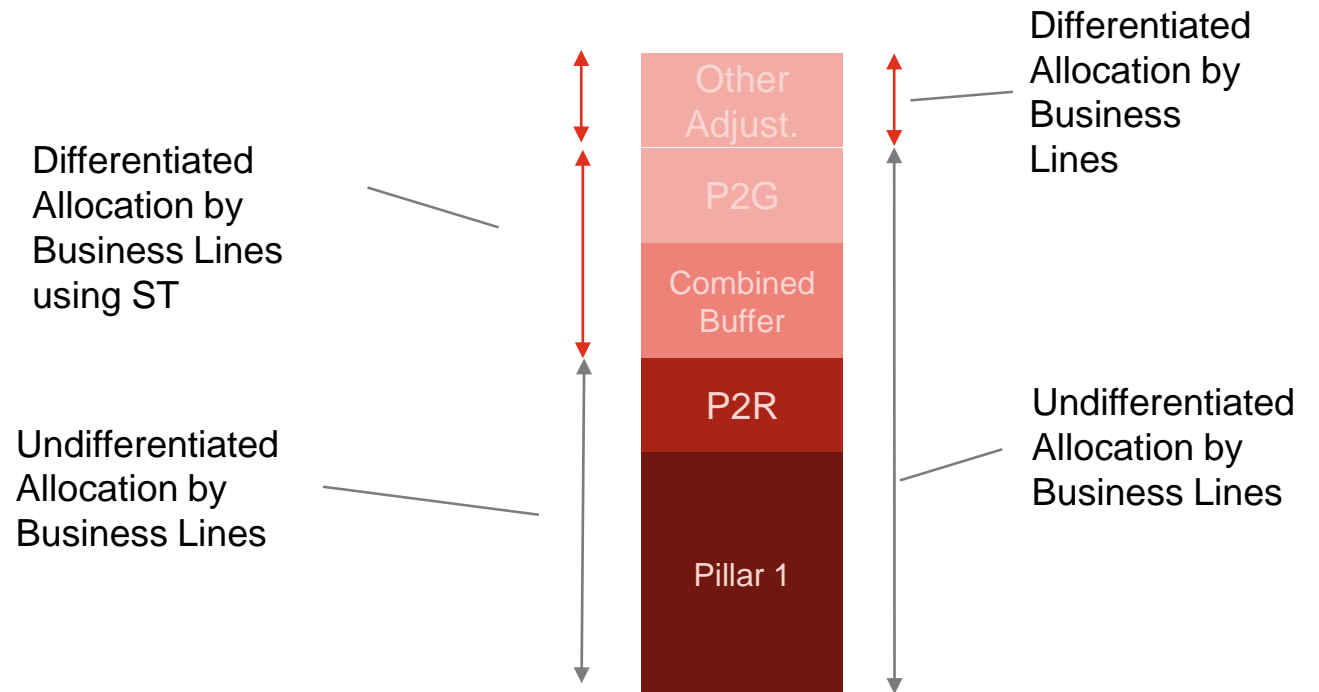


The way forward : how ST can be used for Capital Allocation (1/2)

Capital allocation primary based on RWA but informed by ST as a primary alternative risk measure



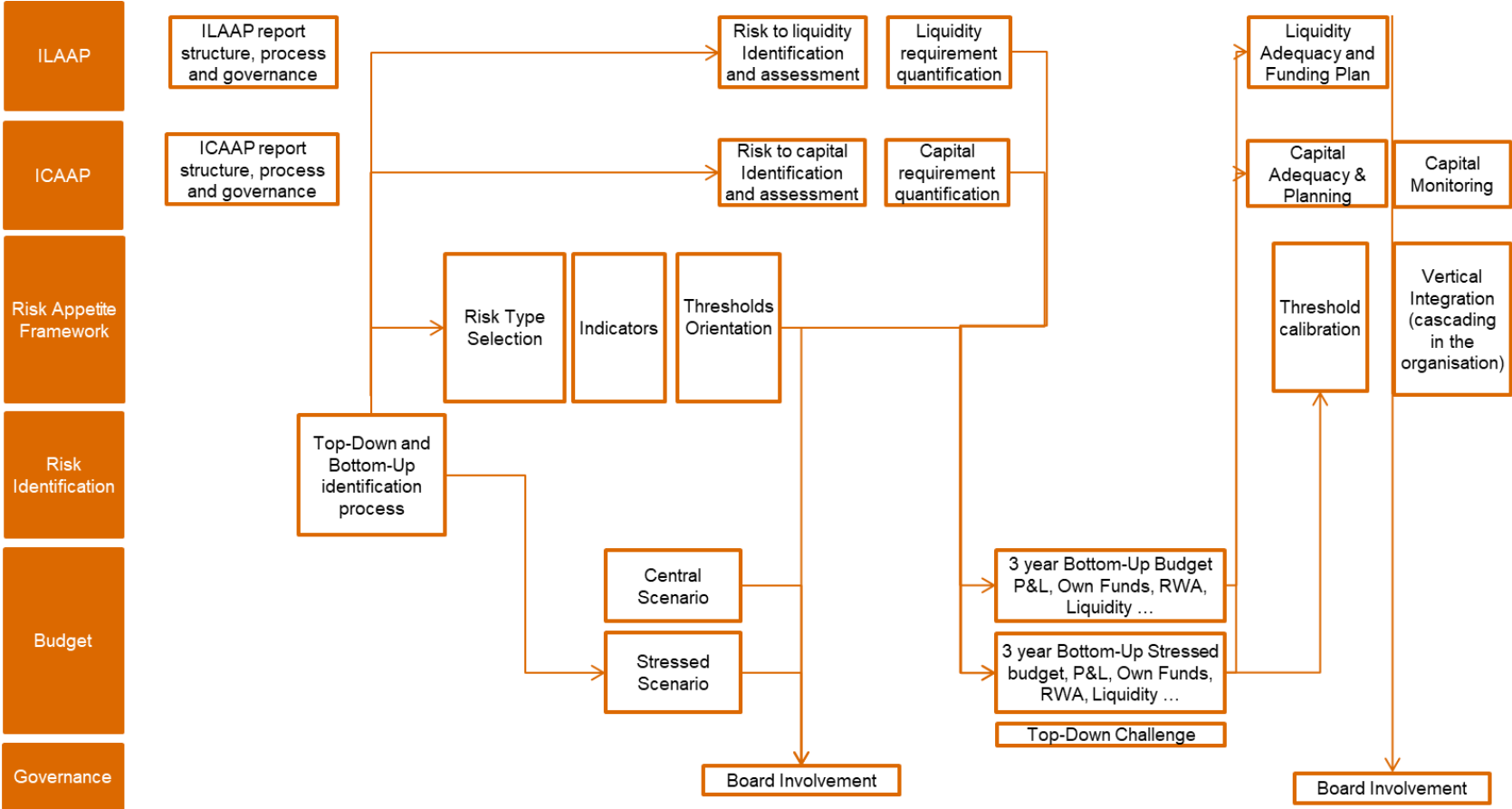
Capital Allocation primarily based on RWA but Stress Test used as an indicator to define differentiated capital buffers allocations



The way forward :key success factors for the implementation (2/2)



Stress Test should be operationally embedded in main processes including risk appetite setting and budget process.





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