

Calibrate Consulting Capital Stress Testing Solution

Capital Stress Testing

Capital stress tests are required by regulators and management to ensure that a bank would have sufficient capital to continue to operate in times of severely stressed economic and market conditions.

Regulators will specify the period over which stress scenarios are modelled, typically up to five years, and will usually also specify the market and economic conditions to be assumed as part of the stress test.

Management are also expected to stress capital using the same stress scenarios as are defined by the bank's market risk department for their own stress tests, and also to conduct testing using ad hoc scenarios designed to probe areas of risk particularly relevant to the bank in question.

Regulators expect the design of the stress testing framework to continue to evolve through time.

Common Issues

Many banks perform capital stress testing using a suite of complex spreadsheets in a highly manual process. This is usually very time consuming, and exposes the process to a heightened risk of error.

Due to the lack of a clear audit trail, different user groups may have difficulty in reconciling the key inputs and results to their own source systems, and therefore difficulty in leveraging the results. Adjustments, which may be needed for modelling or data quality reasons, can often cause serious challenges.

Available resource is often concentrated purely on producing the numbers, with little time for sophisticated reporting. Analysis is problematic due to the cumbersome, rigid and inflexible nature of the process.

It is not uncommon for banks to feel that the regulator identifies issues in their stress test results before they have been able to identify them themselves.

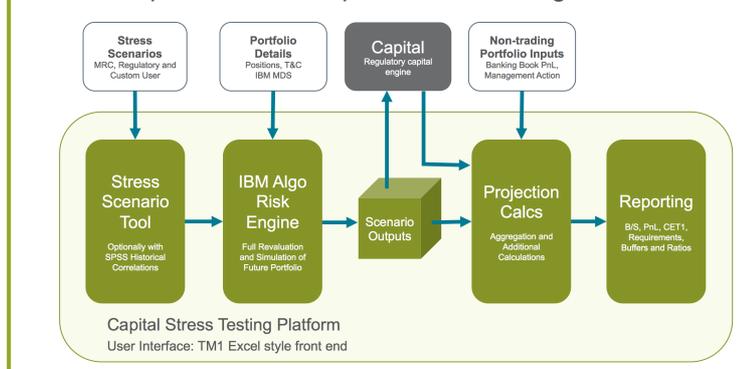
Our Solution

Using the IBM® platform, which offers significant flexibility to create high quality and robust customised solutions, we will work with the client to build a capital stress testing platform which eliminates the common issues identified.

The TM1® based capital stress testing platform will connect and interact with the existing client capital engine and risk systems as required, incorporating stressed valuations and portfolio behavior modeling from IBM Algorithmics® where needed.

Simplified and flexible end user interactions for stress scenario inputs and reporting outputs are possible, while fully retaining the benefits of the secure system environment that comes with the underlying TM1 Multi-Dimensional Cube structure.

Example Calibrate Capital Stress Testing Solution



Calibrate Consulting

Established in 2008, Calibrate operates globally with bases in London and New York. Our team has deep experience in the implementation of finance and risk solutions, both as industry practitioners and on behalf of our clients. Please get in touch to discuss any aspect of capital stress testing.

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