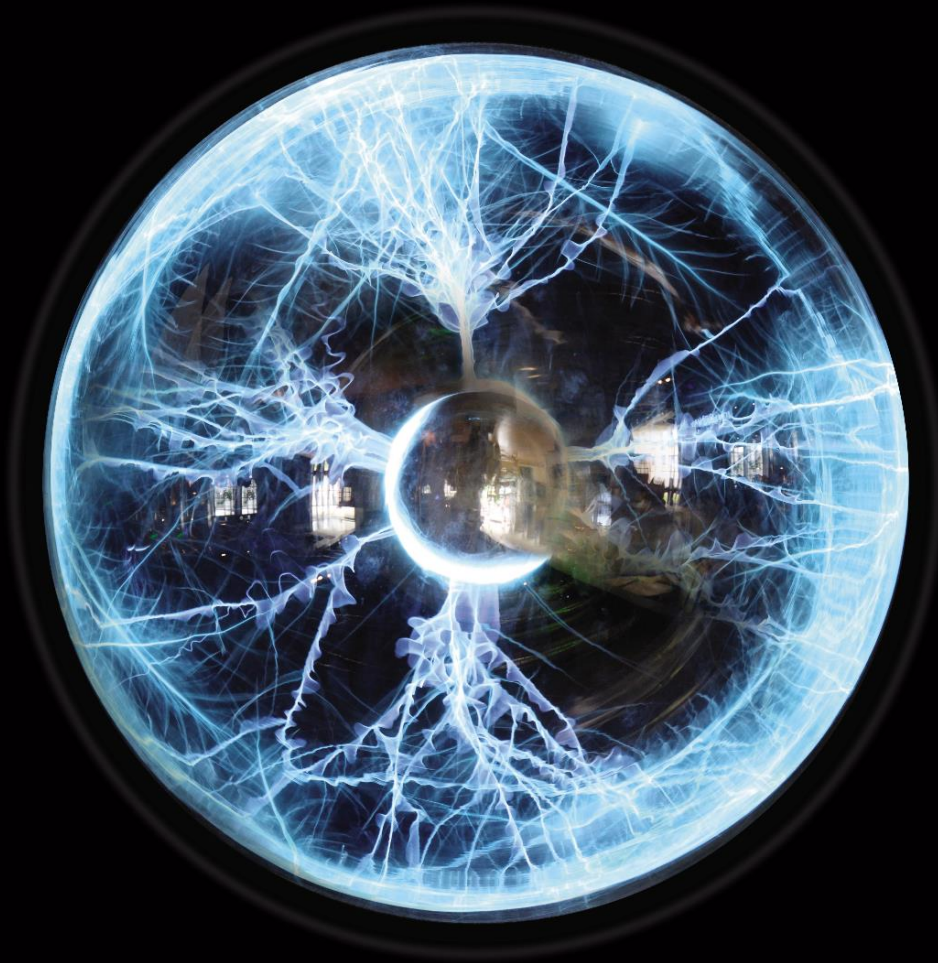


**Deloitte.**



## **How strong are your RWA analytics capabilities?**

Six simple questions to assess your RWA management framework

Financial Risk



# How strong are your RWA analytics capabilities?

Six simple questions to assess your RWA management framework

Do you have the full transparency of your RWA variances at your fingertips?

# How strong are your RWA analytics capabilities?

At the height of the financial crisis, managing and optimising risk-weighted assets (RWA) became a top priority for financial institutions. Ever since, performance adjusted for regulatory capital costs has become one of the key measures in steering a bank. While top management as well as investors and key stakeholders pay close attention to the consumption of capital in the bank, reporting is often geared towards meeting regulatory measures, and in many cases does not provide insights towards the risk-takers themselves. Meeting regulatory requirements is essential, however, truly understanding the relationships between income and capital usage allows banks to provide clarity on their profitability, and typically plays a central role when defining the overall strategy.

Active capital management requires analytics solutions that provide transparency on capital performance, explaining drivers behind variations to risk takers, and hence embedding RWA into the business.

## Six simple questions to assess your RWA management framework

To bring your capital management to the next level, front office needs to be able to actively engage and understand RWA variations in **real time**. It is critically important for financial institutions to provide **automated and structured bottom-up RWA analyses** rather than performing occasional ad-hoc deep-dives.

The following questions could help you determine your need for an RWA analytics solution...

## The key to successful RWA analytics: a bottom-up approach

We believe that the core of any RWA analytics solution should be the quantification of risk driver contributions at the most granular level. For example, for credit risk the RWA change of each facility is to be broken down to driving factors including at a minimum PD, LGD, EAD, maturity, and FX contributions. Aggregating across the facility-level contributions then provides insights into trends and variations at divisional, business unit or sub-portfolio level, whilst allowing for deep-dives to more granular levels.

### 1. Can you quantify the RWA impacts due to rating downgrades versus model changes for each division?

*Are you able to quantify the contribution of specific drivers of RWA changes across the entire portfolio (e.g., rating downgrades, model changes, collateral devaluation etc.) rather than just identifying the largest trades matured / taken on? Do you have the ability to drill down to key risk dimensions along the business hierarchy at the click of a button?*

### 2. Do you track trends in RWA arising from the rolling of your business?

*Understanding the capital performance of the new originations versus existing business enables more efficient capital planning and can support business decision making, as well as tracking the execution of business strategy.*

### 3. What percentage of your quarter-over-quarter RWA volatility is due to FX volatility?

*This very simple question should have a very simple answer, however, isolating the RWA impact of FX fluctuations from balance sheet and risk factor changes ought to be performed in a consistent manner.*

### 4. Do you have a consistent, hard fact-based approach to provide RWA commentary?

*"Best in class" RWA analytics solutions are able to provide automated granular reporting along business hierarchy, explaining underlying trends beyond impacts due to the largest trades.*

### 5. Can you quantify the impact of a market stress on your RWA?

*As part of the capital planning exercise, it is important to not only understand key RWA drivers / contributors in a current state, but also under various business scenarios and market stresses. "What-if" and scenario analyses should be able to quantify, for example, the impact of devaluation of collateral on RWA.*

### 6. Does your front office have tools providing transparency on RWA changes at their fingertips?

*In order to truly embed RWA into the business, front office needs to have clarity on capital contributions, and needs to be able to understand RWA impacts, especially unanticipated ones (e.g., changes in data quality), in real-time.*

A number of potential use cases are:

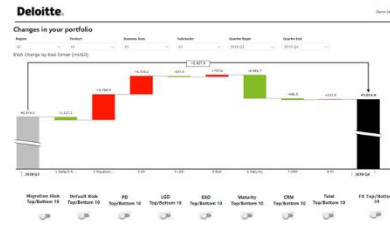
- Understanding the key drivers behind RWA variations
- Data quality monitoring
- Assessing changes in portfolio composition and monitoring against the capital plan
- Tracking credit quality trends, and understanding the capital performance of new originations
- Quantifying the impacts of changes in models

## Deloitte RWA Analyzer

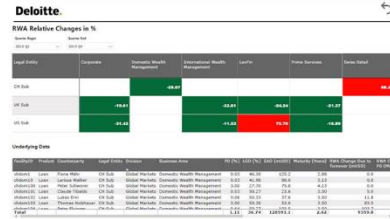
Deloitte has developed an “RWA Analyzer”, which helps banks generate **actionable insights** from their RWA data. The solution provides a **single platform for multiple stakeholders**, allowing users to perform **multi-layered analyses** and **deep-dives** down to the facility level.

The analyses are presented in a visually consistent interface, and allows for **automated reporting**.

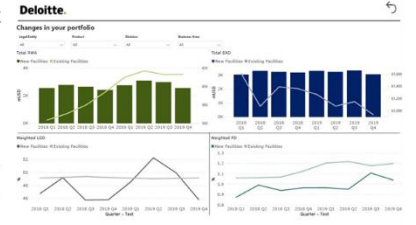
### Breaking out risk driver impacts



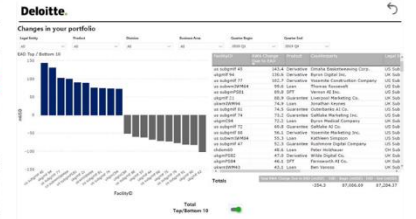
### Heatmap to identify focus areas<sup>1</sup>



### Analyses of newly underwritten business



### Drilldown into draw-downs<sup>1</sup>

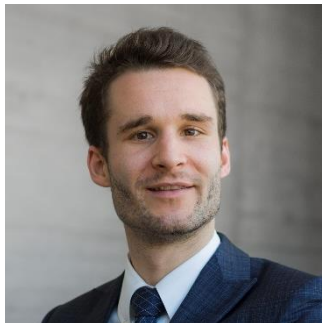


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