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Navigating the risk based supervision process

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Foreword

The role of the Indian banking industry has been transformed from credit intermediation to integrated customer service. High growth coupled with the quest for superior customer service has led to innovation in banking products and channels for delivering innovation to customers. This has led to redundancies in the traditional compliance and transaction testing based supervisory approach and has put significant strain on supervisory resources. As the focus of global supervisors shift towards ensuring financial stability and managing contagion risk in an increasingly inter-connected market-place, the approach towards supervision is expected to become more inclusive, risk based and data centric.

The Reserve Bank of India has embarked on a process to move towards a risk based supervision approach from the earlier transaction-centric CAMELS and CALCS approaches. The new approach is expected to significantly change the approach towards regulatory supervision. As a result, banks will be required to gear up to meet the requirements of the revamped supervisory process. The key changes in the revamped regulatory supervision process are highlighted below:

- Forward looking with a focus on both present and future risks: The regulatory supervision process will focus on inherent risks within the bank's business model and product offerings as opposed to results of past transactions. This is expected to facilitate an inclusive approach towards early corrective action by the bank and the supervisor.
- Optimization of supervisory resource deployment through off-site monitoring: The supervisory process will significantly focus on continuous collection of data from banks and a robust off-site surveillance mechanism. This is expected to enhance the supervision bandwidth and move towards a risk indicator based early warning system.
- Focus of on-site supervision on targeted and thematic reviews: On-site reviews will focus on high risk areas and industry-wide challenges. The supervisory team is also expected to be augmented with relevant specialization to address challenges emerging from high risk areas. This is expected to help focus supervisory bandwidth on high risk areas while the bank's internal controls systems, compliance and audit functions provide the requisite transactional assurance on other areas.
- Impetus on corporate governance and regular dialogue between the bank and supervisor: The revamped regulatory supervision process will focus on having a single point of contact for each bank and continuous engagement through the single point of contact. This is expected to support inclusiveness and facilitate ongoing assessment of the quality of governance and management of the bank.

The move towards risk based supervision is a step in the right direction for the banking industry. However, challenges abound both for the supervisor and the banks as the industry grapples with wide-ranging issues including quality of data, scalability of regulatory reporting processes, efficacy of risk management systems and cost of compliance. This document explains the revamped supervision process and provides a perspective on the holistic approach banks can take to integrate the supervisory process with the internal control systems and internal capital adequacy assessment processes.

Understanding the risk based supervision process

Background

The risk based supervision process ('RBS') is designed to work as a structured process that identifies the most critical risks faced by an individual bank and systemic risks in the financial system. The RBS process also covers assessment of an individual bank's management of those risks along with its financial vulnerability to potential adverse experiences through a focused review by the supervisor. The RBS process is forward looking with a focus on evaluating both present and future risks, identifying incipient problems and facilitating prompt intervention/ early corrective action moves. This is a departure from the earlier compliance focused and transaction based approach called CAMELS which typically covered point in time assessments.

To achieve its objective of continuous supervision and early corrective action, the risk based supervision process focuses on the following aspects:

- Continuous collection of financial and non-financial data from banks with a view to enable the regulator to independently perform analysis of raw data through off-site surveillance
- Inclusive and regular onsite examination focused on evaluating the risk and control environment within the bank. The inclusive examination process is designed to enable the supervisor to form an objective view on the probability of failure and impact of failure based on the existing control framework of the bank
- Thematic and targeted reviews by the supervisor with a view to evaluate, through use of specialists, the impact of systemic risks on the bank and the manner in which the bank is addressing potential high-risk areas
- Increased reliance on the bank's audit and compliance functions to provide transactional assurance to the supervisor and enable allocation of supervisory resources to high risk areas
- Use of capital add-ons based on the assessment of probability and impact of failure to encourage banks to strengthen their control environment
- Increased engagement between the supervisor and the senior management of the bank with a view to ensure good corporate governance, transparency and accuracy of information used by senior management for decision making.

The risk based supervision process focuses heavily on off-site surveillance. It is, therefore, extremely data intensive and it is envisaged that banks will be able to provide data in a seamless and automated manner to the supervisor on a regular basis.

The risk based supervision process

The key steps in the implementation of the RBS process are explained below:

1 Data gathering and analysis

- Banks are expected to provide approximately 25,000 data points through regulatory returns at multiple frequencies. The requirements are expected to change dynamically based on emerging risks in the industry. Data collected by the supervisor covers both qualitative and quantitative data and is broadly expected to cover the following aspects:
  - Credit risk
  - Market risk
  - Operational risk
  - Liquidity risk
  - Pillar II risks
  - Information technology
  - Compliance
  - Internal audit
  - Management and Board
- The supervisor has identified inherent risks applicable to all banks. The data collected will form the basis for computing risk indicators against the inherent risks identified. Accordingly, the accuracy, completeness and timeliness of data are critical for the determination of rating by the supervisor.

2 Risk and control, capital and compliance assessment

Assessment of existing controls for inherent risks, available capital, ability to raise capital, earnings growth to augment capital and compliance form the basis for determining the probability of failure. It is important for the bank to demonstrate to the supervisor that controls are in place to address inherent risks. The ability of the bank to demonstrate that inherent risks are controlled appropriately as well as the ability to demonstrate an appropriate scoring on the risk indicators will have an impact on the determination of the probability of failure. Further, qualitative aspects will be assessed by the extent to which the compliance and internal audit functions provide assurance to the supervisory staff. It is expected that as the supervisory focus moves away from transaction and compliance testing, the bank will augment its transaction testing through concurrent/ internal audit and compliance testing. Availability of excess capital judged by existing excess capital, earnings growth and access to capital raising sources forms a key part of the decision on probability of failure.

3 Assessment of probability of failure and impact assessment

The supervisor will determine the probability of failure based on the residual risk and the available capital to absorb the risk. Impact of failure varies for systemically important and non-systemically important institutions. While probability of failure and impact of failure are assessed separately, it is important for an individual bank to strive towards reducing the probability of failure.

4 Supervisory stance and rating

The supervisor will determine the rating based on the risk the bank poses to the supervisory objectives of financial stability, protection of depositors' interests and customer protection. The supervisory rating is therefore a function of the probability of failure and the impact that the failure can cause to the financial system. Apart from objective parameters, thematic reviews, the views of the supervisory relationship manager assigned to the bank and the ability of the banks to demonstrate good governance plays an important role in determining the supervisory rating.

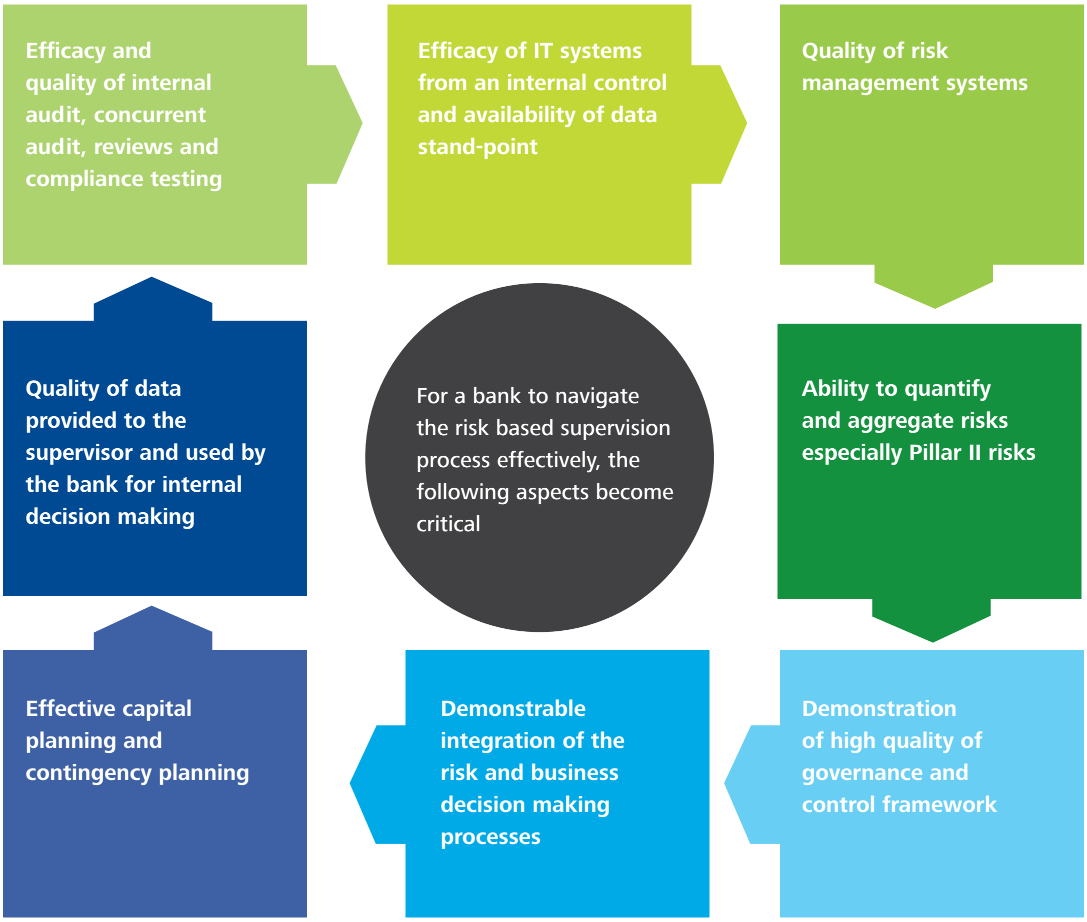
The supervisory stance resulting from the rating may lead to baseline (normal) monitoring, closer monitoring or active oversight. The bank should aspire to remain within the baseline (normal) monitoring stance.

5 Action plan and capital add-on

Based on the supervisory rating, the bank and the supervisor are expected to agree on an action plan. The objective of the action plan is largely expected to focus around reducing the probability of failure. However, where banks are systemically important, the focus is also expected to be on managing potential contagion. Where the probability of failure is higher or where the impact to the financial system is high especially in case of systemically important institutions, the supervisor may require additional capital to be kept aside.

Implementation of the risk based supervision process

SNo	Implementation of the RBS process	Inputs used by the supervisor	Sources of data	Expectations of the supervisor from the bank
1	Data gathering and analysis	• Financial statement data • Internal capital adequacy assessment process • Data relating to market, credit, liquidity and operational risk	• Core banking systems • General ledger systems • Risk management systems • Treasury systems	• Accuracy of data • Timeliness in providing data • Minimum manual intervention while extracting data and providing to the supervisor • Availability of data from source systems
2	Risk and control, capital and compliance assessment	• On-site assessment by the designated supervisory relationship manager and thematic reviews • Off-site assessment through OSMOS and other RBS data collected	• Internal audit • Concurrent audit • Operational risk framework • Compliance testing • Limited testing by supervisor • Various systems of the bank	• Efficacy of the internal audit and concurrent audit function • Compliance testing by the bank • Use of specialists by the bank to perform as well as review critical operations • Strong operational risk framework • Strong IT control framework • Enabling supervisor to access and analyse data directly from source systems
3	Assessment of probability of failure and impact assessment	• Inherent risks in the business segments in which the bank operates • Internal controls to mitigate those risks • Risk quantification and aggregation • Available capital • Size and inter-connectedness • Size and complexity of operations	• Risk management systems • Capital computation systems	• Demonstrating the existence of controls to mitigate inherent risks • Accuracy and adequacy of methodologies used to quantify risk • Adequacy of capital
4	Supervisory stance and rating	• Impact to the financial system • Complexity of operations • Quality of management • Feedback from the supervisory relationship manager • Feedback from auditors	• Audit reports • Interactions and discussions with the management • Results of thematic and targeted reviews	• Senior management being aligned and involved with day to day operations • Efficacy of reviews by auditors and other experts • Action plans to deal with contingencies, potential contagion and manage inter-connectedness
5	Action plan and capital add-on	• Capital planning as part of ICAAP • Earnings growth • Dividend distribution and retention of earnings • Ability and past history of raising capital	• ICAAP documents • ALM and ALCO reports	• Efficacy of the ICAAP document • Demonstrable use of risk management and results of risk quantification in decision making • Capital planning and funding plans including contingency plans


Efficacy and quality of internal audit, concurrent audit, reviews and compliance testing
Efficacy of IT systems from an internal control and availability of data stand-point
Quality of risk management systems
Quality of data provided to the supervisor and used by the bank for internal decision making
For a bank to navigate the risk based supervision process effectively, the following aspects become critical
Ability to quantify and aggregate risks especially Pillar II risks
Effective capital planning and contingency planning
Demonstrable integration of the risk and business decision making processes
Demonstration of high quality of governance and control framework

Imperatives for the bank

The risk based supervision process puts significant onus on the bank to improve various aspects of operations. Certain aspects may be improved sequentially whereas others may be required to be improved concurrently. Further, the bank may slowly migrate to the desired state depending upon the complexity of operations and value-added by the RBS process to governance and decision making. The fact that the supervisor is also evolving the RBS process, models and calibration of ratings on an ongoing basis will play a very important role in determining the extent to which bank makes investments in enhancing the RBS infrastructure. Ongoing evolution in RBS will mainly affect the type of data the regulator seeks for off-site monitoring. The imperatives for the bank to align with the RBS process are depicted below:

Data	Control framework	Risk management	Governance and business application
Consistency in data definitions	Compliance framework and compliance testing unit	ICAAP document aligned with SREP expectations	Multi-level management dashboard of risk, data, indicators and interpretation
Mapping of data fields to source systems	Specialist reviews for high-risk areas and monitoring regulatory action plan	Enterprise wide risk quantification and aggregation	Demonstrable use of risk models in the business decision making process
Process of validation of data provided to supervisor	Re-engineering the internal and concurrent audit plans and expectations	Capital and liquidity planning and allocation incl. contingency planning	Quality of governance and oversight incl. managing conflicts of interest
Reconciliation of RBS data with financial reporting and other regulatory reports	Assurance over efficacy of internal and concurrent audit	Ongoing validation of risk models to derive assurance over risk quantification	Continuous monitoring of qualitative factors and demonstrable risk culture
Automation of data flows from source systems to supervisor and integration with ADF	Embedding operational controls in IT systems and as part of audit testing	Integrated stress testing and impact assessment	Demonstrating that capital after projected growth and earnings covers enterprise-wide risk

Legend

- Needs to be addressed immediately from a compliance stand-point
- Imperatives that are likely to improve the RBS rating
- Investment in automation that may be rationalized with evolution in the RBS process
- Investments to help align business practices with the supervisory thought process

Addressing the imperatives

Data

SNo	Imperative	Current state of Indian banks	Desired state
1	Consistency in data definitions	• First set of data provided to the supervisor based on raw data available • Data definitions inconsistent between banks and between various reports provided to the supervisor • Availability of data from source systems is a challenge	• Creation of a single data dictionary across businesses • Review and validation of data definitions with the supervisory relationship manager • Updation of source systems to collect, record or compute data required by the supervisor
2	Mapping of data fields to source systems	• Most data is extracted manually as and when required • Data from multiple systems is collated and aggregated in spreadsheets to arrive at the data point required by the supervisor • In certain cases, existence of data in source systems not mapped	• Map data and interim computations as defined in the data dictionary with the source systems/ G/L consolidation systems • Updation of source systems to store and compute data required by supervisors or that may be required for analysis by the management
3	Process of validation of data provided to supervisor	• Currently, limited sense checks are carried out to evaluate accuracy of data • Formal process of pre-audit or data validation not in place • Direct system data-flows not established	• Validation rules and tolerance limits used while collating data in spreadsheets • Validation of data and pre-audit prior to population in template sent to supervisor • In case of automation, validate data flows between systems and IT controls over data flows
4	Reconciliation of RBS data with financial reporting and other regulatory reports	• Limited or no reconciliation of data with other regulatory returns submitted over OSMOS and non-DBS submissions	• Map overlapping data requirements with existing regulatory returns (OSMOS as well as non-DBS returns) • Align sources of data for overlapping data requirements • Create a reconciliation report for RBS and non-RBS data submitted to supervisor
5	Automation of data flows from source systems to supervisor and integration with ADF	• Multiple points of regulatory reporting including source systems, reporting tools, spreadsheets and other forms of semi-automatic data collation • RBS data is largely collected manually from source systems • No integration between multiple systems providing similar or overlapping data points	• Extraction of all regulatory data requirements into a single server/ staging area. All data requirements to cover routine regulatory returns, DBS returns including those on OSMOS, ADF requirements and RBS requirements • Generate reports in the regulatory prescribed formats through a reporting tool on the data-mart • Flexible reporting platform to accommodate future data requirements/ changes in regulatory reports in a cost effective manner

Initial supervisory focus is expected to be on the quality and consistency of data provided. As the process for providing data stabilizes, regulatory focus will shift towards analysing the inherent risk based on data provided. It is important for banks to move quickly towards ensuring data consistency. It is also important for banks to put in place internal systems to analyse inherent risk in a manner that is consistent with the supervisory process.

Control framework

SNo	Imperative	Current state of Indian banks	Desired state
1	Compliance framework and compliance testing unit	• Fragmented compliance monitoring between business units and central compliance teams • Compliance typically plays the role of an advisory function • Lack of single repository of bank-wide compliances in most banks	• Central repository of all compliances updated regularly • Compliance to play the role of advisory and monitoring function • Formal compliance testing program to be put in place which should be covered by a compliance testing unit and concurrent auditors • Compliance self-assessments to be integrated with risk-control self-assessment programs
2	Specialist reviews for high-risk areas and monitoring regulatory action plan	• Limited use of specialists and targeted reviews • Regulatory action plans emerging from AFIs pending for long periods of time • Limited use of formal process to determine high risk areas based on macro or market trends	• Integrate identification of high risk areas with internal audit program and also based on macro and market trends • Pre-thematic reviews for high risk areas like treasury, risk management, KYC / AML, trade, remittances and FEMA compliance • Formal program to centrally monitor implementation of issues identified during regular audits and pre-thematic reviews
3	Re-engineering the internal and concurrent audit plans and expectations	• Internal and concurrent audit programs are typically not comprehensive • Mapping of risk perception of supervisors and senior management not aligned with internal/ concurrent auditors	• Aligning internal audit testing with Tranche III requirements of the supervisor • Embedding the compliance and control review elements within internal and concurrent audit plans. • Alignment of high risk areas with supervisory thought process, management views and audits
4	Assurance over efficacy of internal and concurrent audit	• Lack of independent monitoring over concurrent auditors • Concurrent audit programs not always comprehensive • Quality of concurrent audit not consistent between banks	• Annual evaluation of performance of concurrent auditors • Independent compliance re-testing
5	Embedding operational controls in IT systems and as part of audit testing	• Operational risk controls may be automated or manual depending on many factors typically the quality of system implementation • Inadequate documentation of operational controls to support automation • High cost of automation in certain cases leads to a weak control environment	• Monitoring automation index for operational controls • Continuous identification of automation potential for operational risk controls including compliance related controls • Continuous updation program for operational risk and risk control self-assessment templates • Operational risk controls to be covered by the internal and concurrent audit

The onus of transactional and compliance testing is expected to move from the supervisory staff to banks. It will become increasingly important for banks to demonstrate the efficacy of internal control and internal audit processes to the supervisor.

Risk management

SNo	Imperative	Current state of Indian banks	Desired state
1	ICAAP document aligned with SREP expectations	• ICAAP is typically a theoretical document that captures risks and mitigation plans only • Models for quantification of non-Pillar I risks may not exist or may not be validated or accurate • Risk quantification and aggregation thought process of bank not aligned with risk aggregation and quantification process of the supervisor • ICAAP projections and actuals vary significantly both from an earnings and capital stand-point	• ICAAP projections form the basis for business planning, earnings and capital management • Risk quantification or scoring models for Pillar II risks • Regular validation of Pillar II risk models by external auditors • Creation of risk aggregation and quantification model and continuous tuning and calibration of parameters to align with RBS thought process
2	Enterprise wide risk quantification and aggregation	• Inadequate aggregation process/ methodology for Pillar I and Pillar II risks • Most banks have not implemented enterprise-wise risk aggregation	• Enterprise-wide (including group entities) risk aggregation and consequent capital allocation
3	Capital and liquidity planning and allocation including contingency planning	• Separate contingency plans covering liquidity and funding • Capital allocation across business units, products and customer accounts not undertaken based on ROCE/ ROE which may lead to sub-optimal use of capital or lower return on equity	• Single integrated risk aggregation and capital allocation model aligned with regulatory risk weights • Implementation of RAROCE as a measure to manage capital allocation across business units • Integration of FTP mechanism with RAROCE models • Integrated contingency plans with integrated stress testing framework
4	Ongoing validation of risk models to derive assurance over risk quantification	• Risk models validated on an ad-hoc basis • Existing risk models not always validated or back-tested • Internal and market data used in risk models which forms the basis for quantification not always accurate • Integration of risk models and capital computation is generally inadequate	• Formal program for ongoing validation (annual or more often) of all risk models including Pillar II risk models • Formal program for data validation • Integration of risk aggregation and capital computation systems

Supervisory focus is expected to increasingly move from Pillar I to Pillar II risks. The use of risk models in business decision making, efficacy of risk models and the impact of Pillar II risks on capital are expected to play a large role in determining the probability of failure of the bank.

Governance and business application

SNo	Imperative	Current state of Indian banks	Desired state
1	Multi-level management dashboard of risk, data, indicators and their interpretation	• Fragmented data, business information and risk indicators for management decision support • Limited use of high-performance data analytics to support performance management • Risk indicators used by banks not aligned with regulatory thought process	• Implementation of 2-3 layered dashboard to integrate senior management governance and decision making with on-ground operations • Simultaneous view of risk and business (earnings and growth) parameters • Alignment of data interpretation by senior management and supervisor
2	Demonstrable use of risk models in the business decision making process	• Limited use of risk models in business decision making except in case of ALM and credit risk • Lack of consistent interpretation of output from risk models for business decision making	• Output from risk models mapped with financial reporting parameters to trace back impact of risks to financial statements • Structured process of reporting on risk parameters as part of internal management reporting
3	Quality of governance and oversight including managing conflicts of interest	• Governance framework typically aligned with regulatory requirements • Conflicts of interest typically arise with respect to ring-fencing of data, localization of models and segregation of duties	• Demonstrating to the supervisor that conflicts of interest are avoided or managed within the organization setup
4	Continuous monitoring of qualitative factors and demonstrable risk culture	• Qualitative factors rarely considered for performance management and risk evaluation	• Alignment of qualitative factors with RBS thought process • Embedding qualitative factors in people performance management to create an inclusive and consistent risk culture
5	Demonstrating that capital after projected growth and earnings covers enterprise-wide risk	• Lack of accurate business and capital projections including impact of BASEL 3 phase • ICAAP capital adequacy rarely assessed in addition to Pillar I capital	• Integrated capital adequacy assessment covering Pillar I and Pillar II risks • Projected capital adequacy assessments covering impact of risks (earnings at risk), projected growth and earnings retention in a BASEL 3 environment • Draw up capital raising plans based on ICAAP projections

Embedding risk indicators within the business processes of the bank is critical for long-term sustainability of risk based supervision and integration of the SREP and ICAAP process.

Approach towards addressing the imperatives

Effective implementation of risk based supervision is expected to be a long-drawn and continuous process with improvements in various facets being brought about gradually. RBS is also expected to touch upon various functions within the bank. Accordingly, we have developed a customized approach to enable a non-disruptive and continuous improvement program. The key features of the Deloitte approach include:

- Immediate focus and attention to data to meet regulatory needs
- Continuous engagement with the bank to address all facets of RBS over a period of time
- Integrated approach covering both IT and non-IT aspects
- Focus on alignment of internal risk management and capital adequacy process with RBS and SREP thought process
- Integrated approach towards risk management, internal audit, thematic reviews and compliance with a view to reduce probability of failure
- Integrated approach towards risk and capital management and business decision making
- Focus on optimizing cost of governance and control through a single-point integrated supervision and surveillance approach.

Deloitte approach towards navigating RBS is depicted below:

Step 1: Data management and integration	Step 2: Integrated compliance, audit and operational risk management assistance	Step 3: Risk and capital management	Step 4: Supplementing supervisory review, rating and action plans	Step 5: Integration with business decision making	Step 6: Automation
1.1 RBS and internal reporting data dictionary	2.1 Integrated compliance framework and testing	3.1 Risk quantification through models and scorecards	4.1 Risk assessment based on macros & market conditions	5.1 Embedding risk indicators in performance management	6.1 Implementation of integrated data systems for regulatory reporting
1.2 Data management architecture	2.2 Enhancing quality and efficacy of audit	3.2 Risk aggregation & integrated stress testing	4.2 Pre-thematic reviews	5.2 Integrated risk & performance dash boarding	6.2 Data analytics
1.3 Data mapping and extraction	2.3 Aligning internal control framework with supervisory assessment	3.3 Internal probability of failure assessment	4.3 Post supervisory reviews & monitoring	5.3 Risk adjusted fund transfer pricing	6.3 Source system data capture enhancements
1.4 Data validation and recon framework	2.4 Optimizing cost of compliance and control	3.4 ICAAP and SREP integration	4.4 Validation of risk and capital computation models	5.4 RAROCE framework	6.4 Source system IT control enhancements
1.5 Consolidated regulatory reporting	2.5 Business and risk indicators	3.5 Capital planning and projections		5.5 Capital allocation models	

RBS readiness self-assessment

This section contains a self-assessment questionnaire where can score your readiness for new supervisory review process in the form of risk based supervision by the regulator. Each option for a question represents a score. The final score can be obtained by aggregating scores on individual questions.

Option which will most closely resemble your current situation	Score
Question 1: What is the current state of RBS data collation?	
RBS data is collated on an ad-hoc basis as and when required by the supervisor	0
Collection of RBS data is templatized. However, data definitions are not yet been validated with the supervisory relationship manager.	3
Consistent RBS data definitions and standardized collection templates in place. However, reconciliation not yet undertaken between RBS data and other regulatory submissions	6
The bank has put in place an integrated data store which is leveraged to generate RBS reports, other regulatory reports and internal risk management reports.	10
Your score for this question	
Question 2: How is data quality ensured for RBS submissions?	
No process currently in place to ensure quality of RBS submissions	0
Sense checks are performed on key figures prior to submission	3
Pre-submission audits are undertaken for RBS data	6
Systems support straight through data flow. One time validation of data flows and systems controls undertaken.	10
Your score for this question	
Question 3: Does the current bank's risk architecture support integrated compliance, risk and regulatory reporting?	
Disparate systems and spreadsheets used for compliance, risk and regulatory reporting.	0
Centralized data store in place. Reports generated from a mix of source systems and a central data store.	3
Existing risk architecture facilitates single point of collation of risk, compliance and regulatory reporting data. Integrated risk infrastructure is extensively leveraged for risk and regulatory compliances.	6
Bank has an integrated risk-return management infrastructure covering compliance monitoring, risk reporting, regulatory reporting, capital computation, capital allocation and early warning risk indicators.	10
Your score for this question	
Question 4: What is the degree of confidence the bank can place on internal control and internal/ concurrent audit processes to support risk based supervision?	
Internal/ concurrent audit processes are focused on transaction testing	0
Internal/ concurrent audit processes are risk based with a view to evaluate coverage. However, actual execution of audits is transaction based.	3
Internal/ concurrent audit processes also cover regulatory compliance assessment and leverage specialists where required	6
Internal/ concurrent audit processes are closely aligned with supervisory focus areas, compliance testing requirements and help create a central testing repository that can leveraged across functions	10
Your score for this question	
Question 5: Are the bank's existing risk processes adequately geared towards identifying and evaluating systemic risk and the impact of macro-economic factors?	
Risk management processes are only focused on the bank's portfolio	0
Scenarios used for stress testing cover potential adverse market conditions	3
The bank has put in place risk indicators to identify system risk and potential contagion	6
The bank has put in place an internal model to continuously identify probability of failure which incorporates systemic risk elements in the evaluation	10
Your score for this question	

Question 6: Are the bank's internal risk management processes aligned with the risk based supervision approach	
The bank's internal risk management systems focus on Pillar 1 risks and their implications on regulatory capital. It is assumed that excess capital is sufficient to cover Pillar 2 risks.	0
The bank has put in place qualitative assessment models for Pillar 2 risks in addition to a robust Pillar 1 risk assessment mechanism	3
Risk indicators have been identified by the bank that is consistent with the risk indicators evaluated by the supervisor. These are regularly monitored.	6
The bank has put in place and adequately validated models to assess/ quantify Pillar 2 risks and the enterprise-wise impact of all risks on the probability of failure of the bank	10
Your score for this question	
Question 7: Is the capital planning process aligned with the supervisory view on probability of failure, impact of failure and capital add-ons to manage potential failure?	
Capital planning exercise is not undertaken or is undertaken on an ad-hoc basis	0
Capital planning exercise undertaken is largely theoretical and mainly used for the purpose of ICAAP documentation	3
Capital planning factors in both potential future business growth and impact of all risk quantification on projected capital adequacy	6
The bank performs an internal assessment of probability of failure and has a dynamic capital provisioning model in place to augment capital on an ongoing basis	10
Your score for this question	
Question 8: To what extent are risk processes integrated into business decision making?	
Risk functions in isolation and is used largely as a post-facto assessment	0
Risk assessments and quantification are presented to business units and are considered for business decision making. However, a structured and consistent process is not followed for integration of risk evaluations and business decisions.	3
Risk based pricing is adopted wherever feasible to ensure that risk is adequately priced in	6
Risk quantification forms the basis for capital allocation to business units and portfolios	10
Your score for this question	
Question 9: Is the management oversight and decision making process adequately supported through the same data used for risk based supervision?	
Risk based supervision data is not presented to senior management to support decision making	0
Risk and business information presented to senior management is disparate from the risk based supervision data	3
Management dashboards are put in place for risk based supervision data and relevant risk indicators. However, these are not integrated with business and financial data.	6
Management dashboards provide simultaneous information on risk and business parameters. Risk parameters are consistent with the supervisory view and assessment of risk	10
Your score for this question	
Question 10: Can adequate supervisory comfort be derived from the governance and risk culture?	
Corporate governance guidelines are not completely adhered to	0
Minimum guidelines are corporate governance issued by regulators are adhered to	3
Ability to demonstrate to the regulator that management is adequately involved in managing risks identified in the supervisory process	6
Management performance and remuneration linked to risk adjusted returns and not just absolute returns	10
Your score for this question	
Self-Assessment score	/100

About Deloitte

Deloitte is one of the world's largest and most diversified professional services organization, providing assurance and advisory, tax, management consulting, and enterprise risk management services with revenue to the tune of $31.3 billion (FY12). In overall terms, Deloitte member firms serve over 80% of Fortune Global 500 companies.

Deloitte's headcount is in the region of 200,000 globally and a presence in 153 countries. Our organization includes the world's largest private consultancy, and a unique portfolio of competencies integrated in one industry-leading organization.

We bring a unique combination of business, functional, and technical knowledge that allow our clients to better align their business objectives and strategies with the need of today's competitive market. We serve Indian business houses, multinational corporations and the public sector and provide assistance to global clients seeking to develop local businesses and expand into emerging markets such as India. Our edge lies in our ability to draw upon a well-equipped global network and teaming this with customized services of a local office.

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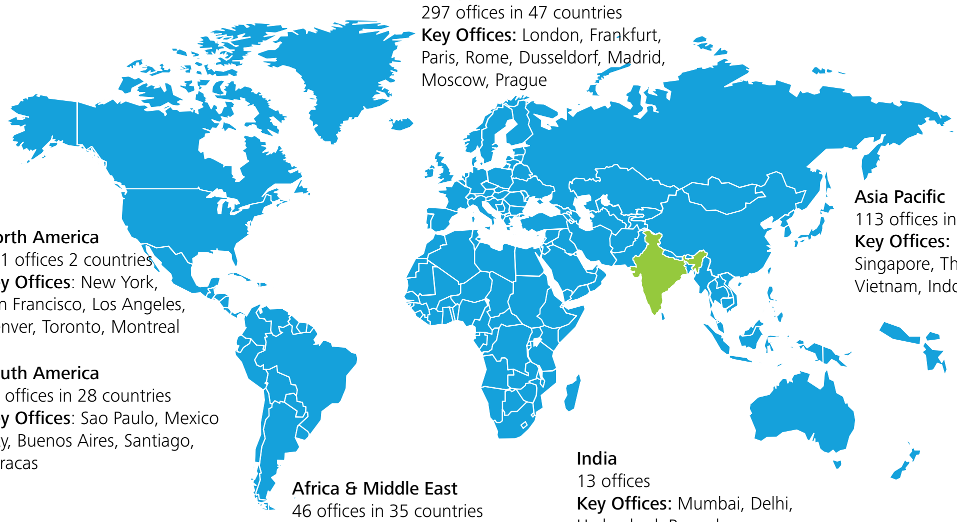

The Deloitte experience

Deloitte's unique value proposition stems from the diverse expertise and the advantages of having worked with regulators across the world on the subject of supervision. Above all is the relentless focus on project execution, and of meeting, if not exceeding client's expectations by delivering on all that is proposed and promised. Our differentiators include:

Our team

- Dedicated multi-locational Financial Services Team of over 700 professionals and
- Subject matter specialists on governance, risk, compliance, IT systems and supervision
- Involved in multiple risk management, concurrent audit, ICAAP assessment, IT transformations and capital management projects
- Wide array of functional expertise and domain exposures in the field of risk management, concurrent audit, ICAAP assessment, IT transformations and capital management.

Our experience and specialization

- Dominant risk management and advisory practice in India
- Experience of having worked with multiple global regulatory bodies in designing the supervision framework
- Experience of having undertaken risk management transformation engagement for the largest public sector, private sector and multi-national banks in India
- Involvement of multidisciplinary teams on multifaceted projects
- Utilization of our global experience and thorough understanding to deliver right solutions to clients

Our Integrated and inclusive approach

- Focus on working together with the bank's team to meet the RBS imperatives
- Focus on an integrated approach that covers supervision, compliance, audit and risk management
- Optimizing cost of compliance and control
- Assistance throughout and across all aspects of the RBS journey

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