Reserve Bank of India (RBI) has embarked on a process to move towards a risk based supervision approach from the earlier transaction-centric CAMELS and CALCS approaches. The RBS process also covers assessment of the Bank’s management of those risks along with its financial vulnerability to potential adverse experiences. This process is forward looking with a focus on evaluating both present and future risks, identifying incipient problems and facilitating prompt intervention.

This new approach is expected to significantly change the approach towards supervision. As a result, banks are requires to gear up to meet the requirements of the revamped supervisory process.

‘Risk Based Supervision (RBS) is defined as ‘a structured process which identifies the most critical risks that face each bank and, through a focused review by the supervisor, assesses the bank’s management of those risks along with its financial vulnerability to potential adverse experiences’

Key challenges in implementing RBS:

- Unsystematic and unstructured means of assessing different types of risks
- Lack of objectivity in the supervisory processes
- Management and implementation of global regulatory requirements
- Anticipation of regulatory expectations
- Lack of understanding of the risk profiles of banks, their business and of the quality of management
- Absence of continuous supervisory engagement with banks
- Lack of internal resources and subject matter expertise
- Realignment of risk measurement and management

Steps in RBS

- Data Analysis: Financial Data, ICAAP, Risk Profile
- Risk and Control Capital and compliance assessment: Offsite Assessment, Onsite assessment
- Risk of Failure and Impact Assessment: RoF = f(Risk and Capital), Impact using D-SIFI
- Stance and Rating: Risk to Supervisory Objective = Risk of Failure x Impact of Failure
- Action Plan and Capital Prescription
**Data for RBS has both qualitative and quantitative components**

<table>
<thead>
<tr>
<th>Data for RBS</th>
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</thead>
<tbody>
<tr>
<td><strong>Risk Profile</strong></td>
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<tr>
<td>Risk Data</td>
</tr>
<tr>
<td>Control Data</td>
</tr>
<tr>
<td>Governance Data</td>
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<tr>
<td><strong>Bank Profile</strong></td>
</tr>
<tr>
<td>Financial Data</td>
</tr>
<tr>
<td>Non-financial Data</td>
</tr>
<tr>
<td><strong>Compliance Profile</strong></td>
</tr>
<tr>
<td>Level of compliance on specified guidelines</td>
</tr>
</tbody>
</table>

**Legend**
- ⚠️ Qualitative Information
- 🔄 Qualitative Data

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**Risk Based Supervision (RBS): Key Service Offerings**

<table>
<thead>
<tr>
<th>RBS Training</th>
<th>Sensitization sessions for operational staff on RBS highlighting the impact of data submitted by the bank</th>
</tr>
</thead>
</table>
| Data Readiness (Tranche 1 and IA) | Conduct reconciliation with regulatory returns  
Assist in mapping data points to source systems and identify missing data  
Document the methodology for calculating the value for the data point and develop validation rules to ensure consistency in data submission  
Validate the business logic for calculating the value for the data point |
| Controls and Compliance Readiness (Tranche 2 and 3) | Review of the documentation of processes and controls  
Review methodology used for controls/compliance testing  
Assistance in performing compliance testing for Tranche 3 requirements |
| Strengthening Processes | Review the Bank's ICAAP and capital planning  
Review the FTP methodology  
Review the credit risk rating models and scorecards  
Review methodology for Risk based Pricing  
Review the methodology for scenario analysis for vulnerability assessment  
Review the liquidity profile and contingency funding plans/ Review the limit setting and monitoring processes** |
| Assessment of level of Compliance | Review and enhance the structure and design of the compliance framework and the assessment process  
Develop a compliance library covering relevant acts/laws/rules/procedures/reports  
Develop a compliance index to assess the conformance of the business units to regulations |
| Assessment of Internal Audit | Quality assurance of review of the bank's internal auditing practices  
Control testing for high risk areas identified by the bank  
Staff augmentation can be provided for select services above |

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The Deloitte Difference:

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**Centralized Quality Management:**
Dedicated central quality review and management team prior to issuance of reports, risk based transformations.

**Pan India Presence:**
Dedicated multi-locational Financial Services Team across locations to effectively service all client locations.

**Effective Delivery Model:**
Robust delivery model with effective combination of execution, supervisor and quality review capabilities with global delivery model approach for project execution with seamless integration across global teams.

**Value Beyond Scope of Work:**
Assist in periodic review of processes, provide issue repositories and insights based on multi-dimensional trend analysis.

**Capability to support increasing volumes:**
Our capability to support our clients in conducting timely reviews with adequate resourcing support on need basis.

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Deloitte named the global leader in **Risk Consulting**, based strategy and capability by IDC MarketScape.

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Experience of working with more than 10 large banks and the banking regulator in India and Middle East.

Experience of providing services to the in-house departments and captive units of more than 30 financial institutions, supporting them in risk based supervision initiatives, credit risk, market risk, capital management and systems implementation.

Worked with the largest public sector, private sector and foreign banks in India, providing risk based supervision services.
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