Bank averts regulatory breach and improves capital position by optimizing risk-weighted assets

wipro

Client background

Client: Europe-based global financial services company

Industry: Financial Services

Key Products & Services: Wealth management, asset management, and investment banking services for private, corporate, and institutional clients

Area of Operations: Worldwide

After suffering large write offs and increased risk-weighted assets due to poor data quality, a leading global bank undertook a data remediation program with Wipro team enabling $2.6 Billion savings.

Challenge

The client was functioning on a data model that had only the network team onboarding the agent banks' nostro accounts. The model did not involve the credit risk team, which is responsible for calculating capital requirements built on the internal ratings-based (IRB) approach. The client assessed the risk for each account, and held a minimum amount of capital as risk-weighted asset (RWA) to reduce the risk of insolvency. The Finance team of the client issued a warning report to the management, stating that the RWA amount was about to breach the regulatory limit (20% for all OCED banks). The bank had used up a huge amount of capital as RWA as many of its nostro accounts had defaulted 100%.
The client approached Wipro to seek help in identifying the root cause of higher RWA.

Solution

Wipro focused on improving the RWA through static data remediation. Wipro's Change team at the Bank formed a joint task force comprising of representatives from Finance, Credit Risk and Group Operations (Data Service Line, Network Management and Securities Settlements). The task force investigated the scenario to find the process gap in the existing data model. They found that the nostro accounts were being opened in the system with dummy client identifiers causing default RWA of 100% (unmapped exposures).

- Wipro designed and implemented a new Data Model which replaced all dummy counterparties of each client identifiers and linked them to the correct legal account (parent entity), which then consequently charged appropriate RWA through auto calculation of IRB ratings.

- The team recommended Structured Process controls for monthly monitoring of assets.

- A change process was initiated to include the credit risk team in the onboarding process for nostro accounts

Business impact

Wipro's timely analysis and resolution to the problem helped the bank bring down the RWA charge from 100% to respective risk percentage based on the internal ratings given by the Credit Risk team. This helped release $2.6 Billion in capital during 2016-17, which had previously been set aside to offset the higher level of risk.
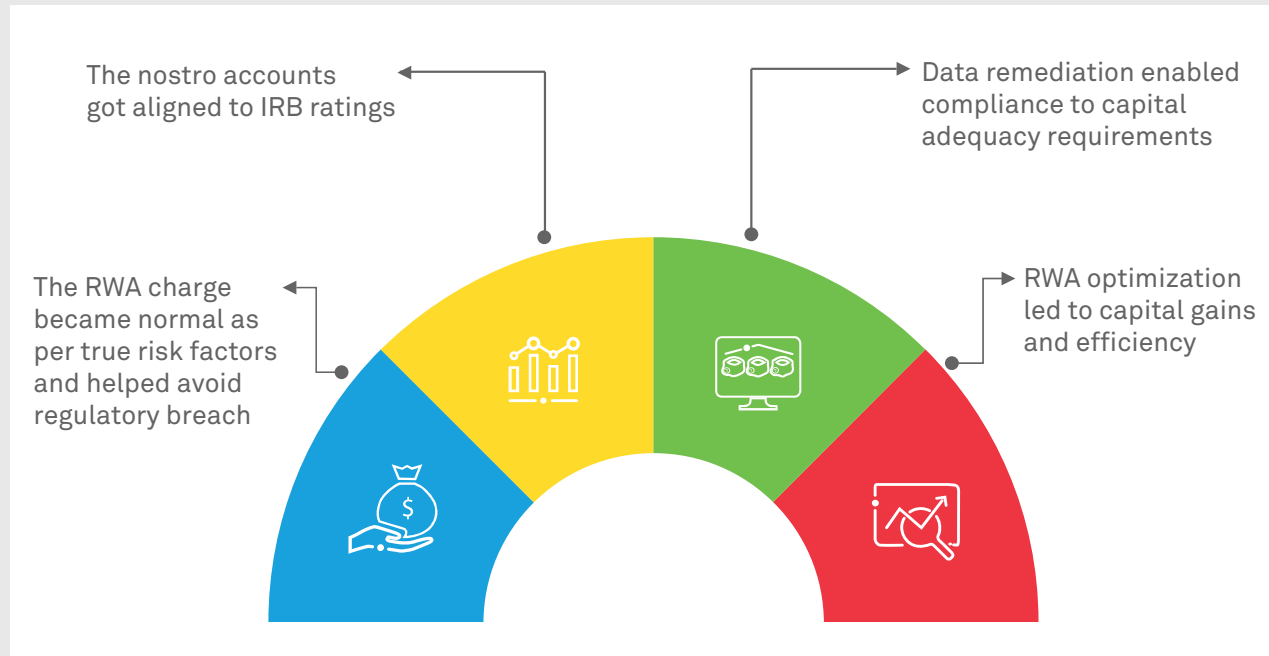

The nostro accounts got aligned to IRB ratings

Data remediation enabled compliance to capital adequacy requirements

The RWA charge became normal as per true risk factors and helped avoid regulatory breach

RWA optimization led to capital gains and efficiency

Figure 1: Solution Benefits

"Wipro team reduced the RWA (over USD 2.6 Billion) requirement of the bank. This was enabled through a series of high impact project streams to remediate legacy account hierarchies by bringing together various divisions (Finance, Credit Risk, Network management, Settlements, Data service line) of the bank. A new data model was put in place to address the root cause."

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