



RMA, ASEAN Bankers Association, and Consulting present:

Stress Testing and Scenario Analysis

Learn how to develop, design, manage, and measure a stress testing program for your institution.

Stress Testing and Scenario Analysis

Course Overview

This two-day course illustrates how to effectively develop, design, manage, and measure a stress testing program within an institution. Participants will develop a detailed understanding of the differences between stress testing and scenario analysis and learn how to design scenarios that are reasonable and actionable.

Additionally, the course covers the integration of stress testing within your bank's enterprise-wide risk management framework, with specific emphasis on strategic planning, risk appetite, capital adequacy, ICAAP, and contingency planning.

At the end of the two days, you will have new insight into the common challenges of stress testing, including reverse stress testing, and will learn how to communicate results to management, the board, and regulators. The information will be offered through a combination of presentation (MS PPT) and interactive case studies.

Who will benefit?

The course will benefit risk professionals involved in designing or executing stress and scenario tests and interpreting the results. It will also be valuable for senior management responsible for considering the response to test results or for discussing the results with regulators.

You will:

- Understand the difference between stress and scenario testing and the benefits of each.
- Learn how to develop reasonable tests and stress test reports.
- Learn how to use stress testing and scenario analysis to inform capital adequacy and integration into the bank's ICAAP.
- Effectively communicate results to management and the board.
- Explore the challenges in developing a stress testing program including the challenges of developing reverse stress tests, data, correlations, and incorporating results into managing the bank.
- Use stress testing and scenario analysis in enterprise risk management including integrating into management decision making such as strategic planning, informing risk appetite, and contingency planning.
- Develop a checklist with take-aways for immediate application at your institution.



Prerequisites:

Participants should come to the course with a basic awareness of the following concepts: PD, LGD, economic capital, risk ratings, concentrations, correlation, and diversification. There will be a short pre-event reading assignment.

A laptop computer is required for this course.
Minimum requirements:

- *Microsoft Office 2000 or later w/ MS Excel*
- *Operating System of Windows 2000 or later*

Course Location:

Grand Hyatt Singapore

10 Scotts road,
Singapore
Republic of Singapore, 228211
Telephone: +65 6738 1234

For questions about this course, please contact Christopher Yip at cyip@rma-asia.org.

Course Outline

Day One

Stress testing and scenario analysis

- Difference between stress and scenario analysis.
- Benefits.
- History of stress testing.
- Relationship to Value at Risk.
- Types of stress and scenario testing.

Designing scenarios

- Relationship to macro events.
- Developing firm-specific events.
- How much stress to apply?
- Using regression analysis and statistics to determine the relationships and severity of stress.
- Are the scenarios reasonable and actionable?

More on developing scenarios

- For specific risks:
 - Credit
 - Interest rate
 - Liquidity
 - Counterparty
 - Operations
 - Reputational risk
- Ensuring consistency across risks.
- Relationship between macro events.
- Aggregating the results.
- Considering correlation.
- Data:
 - Availability.
 - Accuracy.
 - Completeness for all instruments and divisions.
 - Accessibility and ability to manipulate the data.
 - Understanding global markets and the correlations between global markets.
 - Understanding correlations between risk types.

Governing the stress testing program

- Who will run it?
- How will it be governed?
- Developing limits and targets.

Case Study

Day Two

Stress testing and scenario analysis

- What is it?
- How to identify scenarios?
- How it integrates with enterprise risk management.
- Reporting.

Reporting

- What are the important elements?
- Design.

Communicating the results to managers, directors and regulators

- Incorporating with regulatory prescribed stress tests.

Use in Risk Management

- How will it be used?
- Frameworks and committees to support.
- Informing risk appetite.
- Strategic planning.
- Contingency planning.
- Capital Adequacy.
- Pillar 2 and integration into the ICAAP.

Challenges

- Agreeing on scenario creation – How much and how long?
- Overseeing the program.
- Aligning stakeholders to develop consistent scenarios across business units.
- Practical use of the output in risk appetite and contingency planning.
- Data.
- Cost, time, and IT restrictions.
- Model risk and the accuracy of forecasts.
- Staying up to date and relevant as macro conditions and risks change.
- How to bring it all together—for instance the macro input on a bank may affect credit, IRR, liquidity, deposits, NIM, loan demand, balance sheet composition, impairments or allowance, and drawn and undrawn.

Developing an action plan

- Kicking off the project and building the necessary consensus.
- Identifying key stakeholders .
- Scenario creation.
- Developing the competencies, models, and resources required.
- Determine the macro relationships.
- Gaining practice in working together to determine the impacts.
- Develop reporting requirements.
- Integration into planning.

Course Instructor

Bill Nayda, Ph.D.

Principal and Founder, *Second Pillar Consulting*

Bill Nayda, Ph.D., is the principal and founder of Second Pillar Consulting. Bill and his team assist banks with risk management initiatives including: enterprise risk management, balance sheet strategy, regulatory exams and relations, capital planning and adequacy, Basel II and III, interest rate risk, liquidity risk, portfolio valuation and due diligence, risk based profitability, and model validation. Bill has led courses in various parts of the world with the top 50 banks covering, in particular, capital adequacy, regulatory compliance and model validation. He has also developed stress testing, balance sheet, and income statement forecasting solutions for smaller banks. The team has also developed various valuation models for Bloomberg and hedge funds. Core to their philosophy is ensuring that boards and management own the banks risk through enhanced education. Accordingly therefore, SPC developed and teaches ERM for RMA and Bank Credit Analysis for SNL Financial. SPC frequently publish in the area of risk management and are quoted in many banking periodicals. Bill's almost 20 years of banking and insurance experience is focused on risk management regulatory compliance, corporate governance and structure, and risk-based pricing. Prior to founding Second Pillar Consulting, Bill spent ten years at Capital One overseeing balance sheet strategy, economic capital, regulatory relations, and pricing models.

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