



Case Study

Financial Services Consulting

How to align business and risk perspectives?

RAROC framework development and applications

A leading regional Asian bank had an issue of capital scarcity and would like to implement a straight-forward yet effective framework to steer every BU to consume capital in an efficient manner.

Challenges

- Calculation of RAROC at different levels (e.g. facility, customer, product, AO, BU) requires robust revenue recognition and cost allocation methodology.
- Calibration of risk parameters (PD/LGD) and estimate of capital cost are also highlighted.
- Need to manage communication carefully with many stakeholders with differing agenda.

Results

- Developed comprehensive and robust RAROC framework with key assumptions supported by business rationale.

- Recommended five key tangible business applications, with illustrations and excel tools provided.

Impact

- RAROC tool embedded in credit approval process, with inputs to underwriting decisions as well as pricing disciplines.
- Performance measurement will be incorporated at different levels in the coming years.
- Overall concept will also be adopted by capital allocation and broader annual budgeting process.

Company: Leading regional Asian bank

Country: Greater China

Sector: Financial Services

Assignment: Implementation of an advanced performance metric – RAROC (Risk-Adjusted Return on Capital).

Offering: Business Consulting

Audience: CRO and BU Heads

Team: FS Consulting team in Asia

Our track record: The Mazars FS Consulting team have a proven track record in financial services consulting across Asia, having advised leading banks across topics on business improvement, analytics and risk management.