OLIVER WYMAN

# RHOMBUS

## A UNIQUE TOOLKIT TO HELP RESPOND TO THE EUROPEAN BANKING AUTHORITY'S 2016 STRESS TEST

MARSH & McLENNAN COMPANIES

# THE TIME IS NOW

## EUROPEAN BANKING AUTHORITY (EBA) 2016 STRESS TEST

53 major European banks will shortly undergo EBA's 2016 stress test. Banks have invested a huge amount of resources into their stress testing capabilities in the last five years, but the requirements from regulators continue to evolve.

The 2016 stress test will be more onerous than 2014, where a full, macro-dependent, migration approach will be needed, along with additional data requirements, to add to the complexity of completing the exercise. Furthermore, the impending IFRS9 changes also increase the reporting burden on institutions.

The typical bottom up approach employed to complete stress tests is slow, and the processing and modelling improvements we have seen are not being sufficiently aligned to the future implications of IFRS 9.

# OLIVER WYMAN'S **RHOMBUS** TOOLKIT

## WHAT RHOMBUS DELIVERS

Rhombus is a proprietary stress testing toolkit developed by Oliver Wyman which addresses current and known future regulatory requirements. In particular, Rhombus can resolve many of the operational difficulties encountered in the stress test, including automatic population of the 2016 EBA templates .[1]

The toolkit has three key elements, illustrated overleaf.

1. It should be noted that market risk, including AFS and FVO, and operational risk projections are not currently included

# **RHOMBUS** ELEMENTS

### DART

Provisions and credit RWA forecasting and stress testing engine

Both static and dynamic balance sheet capability

Supports IFRS 9 and IAS 39 views

### DIAMOND

NII and non-interest income and expense projection

Follows EBA 2016 methodology (i.e. static balance sheet)

### KITE

Capital roll forward calculation, capturing differences in legal entity structure, transitional arrangements and national discretions

### REPORTING LAYER

Supports population of EBA 2016 templates as well as bespoke management reports

# WHY **RHOMBUS**

## RHOMBUS ADDRESSES MANY OF THE OPERATIONAL COMPLEXITIES WITHIN STRESS TESTING:

- The toolkit can be tailored to adapt to existing processes, and fully aligned with bottom-up inputs on new lending volumes, pricing etc.
- It can be broken down to a modular basis, individual elements can be utilised independently
- The output from the toolkit is automatically populated into the 2016 EBA's reporting templates
- It is implemented in Excel and SAS to provide both speed for top-down reviews and robustness to conduct an enterprise level stress test; the code can also be translated into different languages
- It is designed to comply with IFRS 9

# RHOMBUS and **StratBox**

The Rhombus Dart model can work seamlessly together with the business focussed Oliver Wyman StratBox planning toolkit.

**BOTTOM-UP FORECASTING**

- Scenario generation
- PPNR modelling (vol/price/fees)
- CREDIT LOSS MODELLING[1]
- PROVISIONS FORECASTING[1]
- ALM/Liquidity forecasting
- Operational and Conduct risk
- Market risk

**StratBox[2]**
SCENARIO PLANNING

PROFIT & LOSS

BALANCE SHEET

SOLVENCY

*Group*

*Business Unit XXX*

**REPORTING**

Management reporting (iPad-ready)

Net Profit

CET1

Regulatory reporting (e.g. EBA16 template)

1. Existing client models or Oliver Wyman solutions (e.g. RHOMBUS / PPNR)
2. StratBox– Strategic Planning and Regulatory Stress-Test (incl. EBA 2016)

# WHAT OLIVER WYMAN CAN OFFER

Our team of experts have the deep industry knowledge to simplify complexity through specialised process and methods. Combined with our experiences in working with leading financial institutions, Rhombus can address modelling, estimation, analysis and reporting, ensuring readiness in meeting all the requirements in the stress test, simultaneously delivering real benefits.

## FOR MORE INFORMATION PLEASE CONTACT:

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OLIVER WYMAN IS A GLOBAL LEADER IN MANAGEMENT CONSULTING THAT COMBINES DEEP INDUSTRY KNOWLEDGE WITH SPECIALISED EXPERTISE IN STRATEGY, OPERATIONS, RISK MANAGEMENT, AND ORGANISATION TRANSFORMATION.

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