

Lessons Learned from Basel II

Laurie Mayers

Manager, Capital Planning Team

Prudential Risk Division, FSA

Programme Governance and Resourcing

- Complex Programme: requires full engagement of Group and BU executive
- BU's must be fully mobilised with full time resource
- Supplement internal resource with consultant or contract resource...don't under staff the programme
- Group and BU programme teams need mix of project management and technical skills
- IT should be engaged from the most senior levels through to BUs

Executive Engagement

- Executive engagement critical to success
- Establish appropriately populated Exec level Steering Committee
- This group essential for strategic decision making re modelling choices available and for decisions re use test
- Think about use test from the start before decide on modelling approach
- Educate the executive about the changes the new framework will bring re risk governance and capital
- Help them to understand the pros and cons of choices available under the new framework

Data and IT Architecture

- Basel II: Many firms and regulators focused on models (Pillar I) too much and for too long
- Programme success requires a clearly thought out data and IT architecture from Group to BUs
- Both Basel II and Solvency II will be difficult to implement on existing data flows and data stores between Group and Bus
- Whether a federated or a top down centralised approach is chosen, data quality and consistency must be assured

Involvement of Other Group Functions

- Basel II resulted in much closer alignment of Risk and Finance...risk data used for capital calculations while previously a Finance process under Basel I
- Self assessment exercises need to be internally challenged and validated...how will this be done?
- What role should Internal Audit play aside from auditing the programme?
- To what extent will external consultants be used to ensure that work done is compliant with FSA expectations?

Key Message

- Take a wholistic view of the new framework across all three Pillars from the start
- Do not under estimate the complexity and cost
- Resource the programme appropriately
- Ensure on going executive engagement
- Establish effective internal communication with BUs and with the regulator(s) early on