Financial Planning and Stress Testing for the Financial Services Industry

The financial planning landscape has changed significantly with the introduction of new regulatory stress testing controls (FDSF / CCAR). There is a growing need for banks to invest in both system infrastructure, and process improvement, to ensure the planning process is positioned as a strategic management tool rather than merely a reporting overhead.

Leveraging the Oracle Enterprise Performance Management System Peak Indicators has developed strategic planning and stress testing solutions, combined with an effective delivery mechanism.

A Robust Stress Testing Framework

With the new stress testing regulations that have been introduced globally including CCAR in the United States and FDSF in the UK it is now essential that all affected organizations ensure that they have a robust systems infrastructure for delivering projections. Failure to comply with these regulations can result in reputational damage and significant penalties.

“The PRA expects firms to assign adequate resources including IT systems, to stress testing and scenario analysis, taking into account the stress testing techniques employed, so as to be able to accommodate different and changing stress tests at an appropriate level of granularity” (Bank of England)

Requirements highlighted by worldfinance.com include:

- Investment in a dedicated stress testing infrastructure that automates and streamlines the process, manages data, controls and orchestrates workflow, runs scenario analysis and automates the generation of regulatory and management reports. Minimize reliance on obsolete and inefficient tools such as Excel spreadsheets and email systems.

- Models which are appropriately designed and aligned with the goals of the stress testing program at the institution, for example producing the needed level of granularity, and using the desired top-down or bottom up approach

- Aggregation, consolidation and management of relevant data bank-wide

The regulators in the UK, USA and Europe describe their requirements at a high level as:

UK – Firm Submission Data Framework (FDSF) – The purpose of this stress-testing framework is to provide a quantitative forward-looking assessment of the UK banking systems and the institutions within it.

USA – Comprehensive Capital Analysis Review (CCAR) - The purpose is to ensure that the institutions have robust, forward-looking capital planning processes that

“A credible stress-testing framework can strengthen public confidence in the stability of the banking system”

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account for their unique risks and that the institutions have sufficient capital to continue operations throughout times of economic and financial market stress.

**European Banking Authority – Asset Quality Review** – The aim of the stress test is to assess the resilience of EU banks to adverse economic developments, so as to understand remaining vulnerabilities, complete the repair of the EU banking sector and increase confidence.

**Driver Based Modeling**
An effective driver based cost and revenue-modeling infrastructure that utilizes underlying business drivers to derive projections has become an integral part of an organization’s operational and stress planning solution. This enables finance to become a true business partner to the front office. Taking last year plus a percentage is now an out-dated methodology, instead planning teams need the ability to flex business drivers based on strategic initiatives or market expectations to provide more intuitive plan data from which to make key management decisions. The ability to integrate these underlying driver based models with the stress testing framework enables relationships to be derived between base and stress cases, and provide end to end automation allowing for more effective turnaround of plan scenarios.

**Consolidation and Reporting Capability**
To fully leverage the planning infrastructure it is vital that the mechanism used to consolidate, validate and report the data does so efficiently and accurately. The solution must offer the range of dimensionality that is required in today’s multi segmented business landscape. To be able to analyze plans by multiple products, geographies, currencies and customer segments is a vital tool within an organization’s armory, and provides a powerful platform on which to make expert management decisions. More time is made available for value-add analysis, with the software providing an efficient collection and consolidation mechanism. The design and software capability also offers control around centralized, high level overlays common within most large scale planning processes.

**How Does This Solution Help?**
Utilizing the Oracle Enterprise Performance Management System, which is used by over 10,000 organizations globally, Peak Indicators has developed and delivered a planning architecture that includes all of the key components of an effective planning solution. The solution enables the integration of the key components of stress testing and operational planning and consolidation with source MI and Risk and Treasury platforms. This provides an end to end solution for generating fully integrated financial projections for both strategic and operational purposes.

*“Fourteen of Europe’s largest banks have failed “stress tests” designed to assess the ability of big lenders to withstand a financial crisis and have been ordered to raise nearly €10 billion to plug a shortfall in their balance sheets.”*
FINANCIAL TIMES, OCT 2014

*“The Bank expects that the stress-testing framework will use a suite of models to translate these scenarios into projections of bank profitability and capital ratios.”*
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Key benefits of the solution are:

- Sophisticated economic and operational based modeling capability
- Multi scenario and version analysis allowing comparative modeling taking into consideration different strategic or economic outlooks
- Layering functionality allowing management actions and overlays to be modeled and reported in isolation or in consolidation
- A powerful calculation engine, providing the ability to consolidate large volumes of data in short time frames
- Flexible integration capability allowing multiple formats of input data and data manipulation
- Multidimensional database facilitating advanced analytical modeling over different business related dimensions (e.g. products / geography / customer)
- Detailed slice and dice reporting with the ability to drill through to source data
- Comprehensive dashboard and reporting capabilities
- Sophisticated security profile
- Comprehensive workflow and review functionality
Oracle Partner – Peak Indicators

Peak Indicators is an Oracle gold partner that has developed an operational and stress testing planning infrastructure for financial services based on Oracle Enterprise Performance Management System. The solution they offer is based on:

» An experienced team that have delivered a planning infrastructure including stress-testing capability at one of the largest banks in Europe
» A uniquely flexible and tailored implementation methodology designed for a quick effective delivery
» Detailed design documentation and live prototypes to aide demonstrations and internal design workshops
» A flexible offering covering the full range of implementation services from full implementation right through to ad hoc advisory.
» A competent and agile project implementation methodology

Leveraging the Oracle Enterprise Performance Management System, Peak Indicators can assist clients with the design and implementation of a planning infrastructure that will meet all strategic and operational planning requirements.

Oracle Enterprise Performance Management System

Oracle’s Enterprise Performance Management System is an integrated, modular suite that supports a broad range of strategic and financial performance management processes and helps unlock business potential.

Oracle enterprise performance management applications provide the following capabilities:

» Strategy Management
» Financial Close and Reporting
» Planning, Budgeting and Forecasting
» Profitability and Cost Management
» Enterprise Data Governance