

BOOK REVIEW

Risk Capacity, 2nd Edition: Processes, Approaches and Implementation of Risks in the Context of SREP and MaRisk 6.0

German Title:

Praktikerhandbuch Risikotragfähigkeit 2. Auflage: Prozesse, Steuerungsansätze und Einbindung von Risiken im Fokus von SREP und MaRisk 6.0

Dr. Svend Reuse, MBA (ed.)

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With the introduction of Basel II, the three pillar approach of risk analysis was created. In pillar 2, the so-called ICAAP (Internal Capital Adequacy Assessment Process) occurs. Banks and similar institutions have to model their risk bearing capacity in order to be resistant against the risks they face. The financial crisis has shown that this is necessary and many banks fail in creating a sustainable risk controlling.

The theoretical approaches to the risk capacity quantifications were especially developed in Germany. Pillar 2 approaches do not have such a high quality in any other country. The presented book of the editor **Svend Reuse** in its 2nd edition deals with this topic in the context of the SREP (Supervisory Review and Evaluation Process) and the MaRisk (Minimum Requirements for Risk Management). It sums up all relevant aspects of the ICAAP and structures the work of more than 30 well-known authors.

The structure is as follows: after the introduction in **chapter A**, the regulatory framework of the ICAAP, based on Basel II/III and the SREP are presented in **chapter B**. It is the first book to sum up all regulatory aspects in a consistent way. Going- and Gone Concern approaches are presented and the requirements of the BaFin (Bundesanstalt für Finanzdienstleistungsaufsicht) are summed up. **Chapter C** deals with the relation between strategy and ICAAP. The derivation of an ICAAP out of the strategy is important to get a consistent approach that fits for the bank. Further, the capital planning process and its modelling are presented. There is a strong dependence between the risk capacity and the capital planning, especially in the context of the SREP. Banks get specific hints as to how to optimize their strategy processes and capital planning. **Chapter D** focuses on the risk inventory process. Only in a well-done process, all relevant risks for a bank can be recognized. Within this chapter, model risks, correlation risks and concentration risks are described and explained. The book offers specific implications of how to handle these risks. **Chapter E** analyses the models and approaches of the ICAAP. Going Concern and Gone Concern are discussed in a critical way. The differentiation between earnings approaches and present value approaches offers some real new aspects that will influence the models of risk capacity in the future. **Chapter F** deals with the

quantification of all relevant risks. Market price risk, interest rate risk, credit risk, operational risk and liquidity risk as well as their implementation into the risk capacity process are discussed on more than 200 pages. Banks as well as researchers find a lot of references how to handle these risks. **Chapter G** deals with stress testing. Banks get important information on how to model them. **Chapter H** offers a really new aspect: typical reporting of risk capacity and the main risks in a bank. It is the first book that sums up these reporting aspects in such an interesting way with very good figures on nearly 100 pages. The same can be stated about **Chapter I**. It analyses all relevant software that can be used to analyse the risk capacity and capital planning. Banks all over the world get concrete suggestions how to implement this software. The internal and external audit processes are analyzed in **chapter J**. They offer specific hints for auditors as to how to handle the ICAAP. **Chapter K** sums up the main results and offers a critical outlook according to the methodology of risk capacity analysis from the practical and theoretical points of view.

The book is the only one that deals with the mentioned aspects on such a high level. More than 2.000 footnotes and over 500 cited sources make the book valuable from the practical as well as theoretical points of view. A wide annex helps the reader and makes the book a standard reference work for the topics ICAAP and risk capacity of a bank. The book is recommendable without any restrictions, it is a must-have for all risk controllers in a bank and it is the main work that can be used for further research in this field, because it offers a lot of open academic questions. It is worth distributing widely, even in the EBA and ECB.

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