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Towards a stronger stress testing culture



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Cultural drivers	Some key questions for the Board to consider	Suggestions to close gaps
Purpose	<ul style="list-style-type: none"> • Does the ‘purpose’ of stress testing extend to informing wider strategic and business decisions? • How do we [the Board] think the ‘purpose’ of stress testing is understood by the rest of the business? • How could we use stress testing to identify business vulnerabilities? • How could we use stress testing to support the following: <ul style="list-style-type: none"> • Financial and capital planning • Contingency planning • Recovery and resolution planning • Portfolio management • New trade/product approval processes • Operational resilience 	<ul style="list-style-type: none"> • Review stress testing objectives to ensure alignment with the risk management framework, recovery plan and strategy setting process. • Communications to staff involved in stress testing to clarify ‘purpose’ of stress testing.
The “tone from the top”	<ul style="list-style-type: none"> • What degree of engagement do we have with stress testing beyond the supervisory exercise? • Do we have a holistic view of how different stress testing and scenario analysis processes come together and how the insights from these can be leveraged to inform wider strategic and business decisions? • Do we communicate the insights and benefits of stress testing to the wider business? • Is there a means of cascading information discussed by us to those who need to build on it, execute it, or act on it? 	<ul style="list-style-type: none"> • Firm-wide communications to heighten awareness of the wider insights generated by stress testing and scenario analysis.
Individual accountability and collective responsibility	<ul style="list-style-type: none"> • What degree of ownership is demonstrated by the individual holding the prescribed responsibility for internal stress tests? • How will the holder of the prescribed responsibility for stress testing demonstrate the “reasonable steps” they have taken to discharge their duty? • How will we demonstrate that we operate in a spirit of collective responsibility regarding stress testing? • What steps have we taken to assure ourselves that the stress testing framework is robust, and the results accurate? • What steps have we taken to ensure the data we receive on stress testing is accurate? • What action have we taken where we have identified weaknesses in the firm’s stress testing framework? 	<ul style="list-style-type: none"> • Ensure that statement of responsibility for individual accountable for internal stress testing is clear, particularly in relation to delegation of responsibility. • Documenting Board scrutiny and interrogation of the stress testing framework and results. • Documenting the actions taken by the Board to address any weaknesses.

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Challenge and diversity of thought	<ul style="list-style-type: none"> • Does the stress testing framework encourage collaboration across the business to ensure that all material risks are included and the aggregation of results is sound? • Are expert judgements, including assumptions, subjected to challenge? • Does the Board have sufficient knowledge and experience to challenge the assumptions and models used in stress testing? 	<ul style="list-style-type: none"> • Mapping exercise to identify key stakeholders within the wider business who could provide credible challenge/feedback on the assumptions, results or performance of stress tests. • Incorporating and documenting, within the stress testing governance framework, sufficient opportunities for review and challenge from the business.
Governance and controls	<ul style="list-style-type: none"> • Have we approved the stress testing governance framework? • Is the governance procedure appropriate for different types of stress testing and scenario analysis e.g. firm-wide vs more targeted, internal vs supervisory exercise? • Does the governance procedure clearly specify the roles and responsibilities of the following: <ol style="list-style-type: none"> i. Scenario development and approval ii. Model development and validation iii. Reporting and challenge of results iv. Use of stress test outputs • Do the second and third line have clear roles regarding the validation and review of stress tests? • Is there clarity regarding responsibility for actions, particularly those identified by the second and third line? • Is there a clear process in place for escalating risks? • How confident are we that policies and procedures in relation to stress testing and scenario analysis are comprehensive and kept to date? 	<ul style="list-style-type: none"> • Leveraging governance, risk and compliance (GRC) processes and software to track actions arising out of stress testing (and reviews of the stress testing framework) to completion.
Incentives and remuneration	<ul style="list-style-type: none"> • Does the performance management process include metrics to encourage the embedding and integration of stress testing, particularly for the wider business? 	<ul style="list-style-type: none"> • Inclusion of embeddedness metrics (e.g. provision of review and challenge of the stress testing framework, use of stress testing results) within balanced scorecards.



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