

Strategic Risk and Business Model - Shifting Supervisory Horizons¹

Allow me make you a bit uncomfortable at the outset with a non-AI prompt. Its 10 am on a Thursday. Imagine, just imagine: you get this heads-up before it becomes a media headline - the bank which has sponsored you for this program is going to fail this Monday morning. You have to beat that event before the weekend is out. Take 60 seconds to gather the thoughts that spontaneously cross your mind in terms of what could have gone wrong or what information you want immediately. Your time starts now..... Excluding those, whose first thoughts were like ‘my bank is too good to fail’ or “I know where to look for a new job”, all others have probably started working on a business strategy in some shade. The most potent risks that failed / near-failed banks in the recent past, were not exactly on their risk register but hidden in the assumptions behind their strategy or business model. Its difficult to resist quoting Earnest Hemingway’s cliched saying about bankruptcy happening in two ways - ‘gradually and then suddenly’. This succinctly captures the invisible and non-linear momentum of strategic risk building up before reaching the melting point. The power of compounding may be a good selling point for capital market but its power in risk management space remains under-described. While some institutions are busy managing risk to survive yesterday's mistakes, strategy is actively conspiring in nexus with multiple ingredients, whether tomorrow will even exist.

2. Prefacing the day’s program with a talk on supervisory horizons is not a random choice, but to set the frame of reference upfront. In the regulatory ecosystem, the ‘strategic risk’ as a formal taxonomy, made its first appearance in a BIS report of Electronic Banking Group (EBG) published in October 2000 in the limited context of e-banking. The risk assumed its overarching scope under Pillar 2 of Basel II standards in June 2004. Radical redesign of business model by some banks precipitated GFC in 2008 and that sparked its regulatory renaissance. From introduction of Basel III (2013-15) onwards, strategic risk sits outside the quantitative risk models as a distinct risk class. Approach of sectoral supervisors is uniquely relevant for grasping the nuances of business strategy as well as strategic risk - a subject straddling both First and Second Line in Three Lines Model. Firstly, strategy for banks does not exist in a vacuum but must operate within certain boundaries, regulatory being the foremost. Secondly, supervisors oversee the entire financial system and acquire a panoramic, longer-horizon view of how strategies survive real world stress.

¹ Keynote Address by Jayant Kumar Dash, Former Executive Director, Reserve Bank of India at ‘Program on Business Strategy and Strategic Risk’ by CAFRAL on September 10, 2026 in Mumbai

Banking Risks and Capital Dimension

3. Commercial banks used to be ones with highest degree of financial leverage, before the economic leverage of certain other structures like hedge fund, specialised NBFIs, broker-dealers etc. outdid them. Call it an 'oldest child syndrome' or emphasis on depositor protection, much of the prudential regulations for banks, globally is capital or solvency centric. The modern prudential regulation architecture did not form a shape until the 1930s and India was one of the pioneers. The bedrock of Indian banking regulation was formed in 1936 through an amendment to Indian Companies Act, 1913 by inserting a special Part for banking companies. Section 277I in the Part stipulated a minimum paid-up working capital of 50,000 rupees. Considered low, but the rigidity of this provision led to the collapse of undercapitalised entities and had to undergo two subsequent modifications. Finally, it was replaced by Section 11 of the Banking Regulation Act, 1949 which prescribed an escalating minimum paid-up capital and reserve criteria, dynamically tied to the geographical spread of the bank's branches. Probably, this was the earliest example of capital requirement for Indian banks tied to, what could be called, strategic risks / business model back then. Sec. 23 (3) of the Act on licensing conditions requires RBI to be satisfied by an inspection or otherwise, bringing in the supervisory angle thereby, that the bank has adequate capital structure and earning perspectives. Mark Twain once said, cauliflower is a cabbage with college degree. In that spirit, the strategic risk / business model analysis we are going to discuss may be Section 23(3) with a foreign college degree.

4. Banking regulations became international in scope from the mid-1970s with setting-up of Basel Committee of Banking Supervision (BCBS) under Bank for International Settlement (BIS). The Basel Accords / Standards produced by BCBS are fundamentally international capital regulations. I am sure about your familiarity with three and half generations of Basel Accords. To appreciate how these standards treated the strategic / business model risk for capital adequacy purpose, we can skip Basel I of 1988 which focused on credit risk alone. The Basel II in 2004 introduced the core concept of three pillars and transitioned from single risk focus to a multi-risk framework for the minimum capital requirement, by adding market risk and operational risk to credit risk. While defining operational risk, 'strategic risk' made an exclusionary entry through a caveat to operational risk which 'included legal risk, but excluded strategic and reputational risk'. No Basel document provides a formal or precise definition of strategic risk. The areas suited to treatment under Pillar 2 principles included those factors not taken into account by

pillar 1 process (e.g business and strategic risk). Recognising that strategic risk as not easily measurable, it expected senior management to establish a risk measurement / management process for all material risks including strategic risk. Strategic risk does not have a standardised, mandatory regulatory capital charge like credit, market, or operational risk under Basel frameworks. Instead, financial institutions are expected to determine a capital charge for strategic risk internally under pillar 2 which needs to be assessed by the supervisors.

Understanding Strategic Risk

5. Strategic risk, often used interchangeably with business model risk, was categorised as a soft risk under Pillar 2 due to its non-quantifiability or qualitative attributes. Hence, it was named as a category of risk for assessment, not as a defined term but a label. In the absence of a textual definition, operative definitions used by supervisory agencies may help. The clearest and oft-quoted supervisor-level definition comes from the OCC². It defines strategic risk as the risk to current or projected financial condition and resilience arising from adverse business decisions, poor implementation of those decisions, or lack of responsiveness to changes in the financial services industry or operating environment. Few other supervisory agencies such as Committee of European Banks Supervisors (CEBS), Australian Prudential Regulation Authority (APRA) etc. have developed their definitions around that of the OCC.

6. Breaking the above down, the essential elements for strategic risk could involve:

- (a) Adverse Change in Business Environment: Unexpected, adverse shifts in the external environment such as economy, politics, regulations, technology, or competition which pose risk to earnings, capital, or overall viability.
- (b) Impairment of Profitability: Above element rendering net income of the institution falling below a critical profitability threshold, say, Cost of Equity (COE) which can usually be quantitatively modelled (e.g Earnings at Risk / Capital at Risk model).
- (c) Flawed Strategy Adoption / Execution: The risk from adopting the wrong business strategy, failing to execute a chosen strategy properly, or failing to adapt a strategy as environments change. The three-dimensional COSO³ philosophy shows strategic risk in

² OCC Bulletin 2017-63 of October 20, 2017 - New, Modified, or Expanded Bank Products and Services: Risk Management Principals as well as Comptroller's Handbook - Corporate & Risk Governance Version 2.0 (July 2019)

³ COSO's Enterprise Risk Management (ERM) - Integrating Strategy and Performance', 2017

three lenses viz. (i) possibility of strategy not aligning; (ii) implications of the strategy chosen; and (iii) risk to executing the strategy.

7. Basel isolated strategic risk from mathematical formulas for capital-charge but used the closely linked concept of Business Risk. This is the risk that transaction volumes decline or margins shrink with no immediate opportunity to offset revenue drops by reducing costs⁴. Recent (April 2024) revisions of Basel Core Principles (BCP) - 8 directs the thrust toward business model “sustainability” as the practical proxy for actual supervisory assessments. That explains why supervisors today talk more about Business Model Analysis (BMA) as a freestanding, defined term than about strategic risk.

Understanding Business Model Analysis (BMA)

8. The supervisor uses a variety of vehicles to review and assess the safety and soundness of banks. One of the vehicles that radically changed speed in recent times is BMA - fundamentally linked to both business strategy and strategic risk. This works more as a lens through which supervisors observe a bank rather than being another module of risk. It evaluates how a bank intends to generate returns through its strategic choices while simultaneously measuring the strategic risk. Erstwhile Financial Service Authority (FSA) of UK is credited as the first to conceptually⁵ practice this in 2011-12 in the aftermath of GFC. It was European Banking Authority (EBA) first to codify this as foundational step in their Supervisory Review and Evaluation Process (SREP) Guidelines in 2014. The guidelines specify that, without undermining the responsibility of the institution's own management body for organising and running its business, the focus of BMA should be the viability assessment of the bank's current business model and the sustainability of its strategy.

9. From regulatory perspectives, strategic risk and business model risk are analysed within the same supervisory block (Pillar 2/SREP) due to their cause-and-effect relationship. Though deeply interconnected, they are analytically distinct owing to their underlying mechanics. Strategic risk is the risk of selecting or executing the wrong plan (choice risk), whereas business model risk is the structural consequence (structure risk) of trying to run that plan with ground realities. The choice risks are often embedded in conception flaws, execution deficits or slow adaptability. The structure risks are supervised

⁴ Analyzing Banking Risk: A Framework for Assessing Corporate Governance and Risk Management, Hennie van Greeuning and Sonja Brajovic Bratanovic, World Bank Group

⁵ Promoting a Prudent and Stable Financial System - Speech by Andrew Baily (current Governor of BoE and then a Director of UK Banks & Building Society at 'Future of Retail Banking' Conference on November 24, 2011.

by looking at the viability and sustainability of the choices made. When a poor choice is made (Strategic Risk), that eventually hardens into structural weaknesses, e.g low margins and bad assets, that ultimately ruins the viability of the bank's core engine and that is Business Model Risk.

(On a superfluous note, BMA should not be confounded with 'model risk', for which RBI has recently issued draft guidelines - they bear little connection.)

BMA in Practice

10. The most extensive regulatory architecture around BMA is the one from the European Central Bank (ECB) and European Banking Authority (EBA). The latest updates of the EBA Framework⁶ was in June 2026, replacing the 2022 version. The business risk is evaluated primarily through a structured BMA under the multi-year SREP exercise (annual earlier). Under the Framework, BMA is codified as a core block of supervisory assessment under pillar 2. The other three blocks are (i) Internal Governance and Institution-wide Risk Controls; (ii) Assessment of Risks to Capital (Credit, Market, Operations etc.) and (iii) Assessment of Risks to Liquidity and Funding. The five operational methodologies involved can be outlined as under:

(a) Dual-Horizon Viability & Sustainability Testing: Regulator asks banks to break strategic plans into two distinct timelines: (i) 12-Month Viability Test evaluates if the bank can maintain a steady state of earnings over the next year, given current market realities. (ii) 3-to-5-Year Sustainability Test reviews whether the bank's strategy will survive structural shifts, changing cost-to-income ratios, and shifting asset margins etc.

(b) Forward-Looking Analysis of Earnings & its Drivers: Supervisors are required to critique bank's profit forecasts through (i) deconstruction of management forecasts and challenging the assumptions for projected NIM or asset growth (ii) distinguishing 'tactical' from 'sustainable' earnings through assessment of recent profits to test if driven by genuine competitive advantages or short-term, high-risk tactical plays (e.g., under-allocation of risk capital, or cutting back internal control budgets).

(c) Comprehensive Quantitative Anchoring & Peer Group Analysis: Supervisors use continuous automated data-analytics programs for the entire systems and generates (i)

⁶ Title 4 of EBA Guidelines (revised) on common procedures and methodologies for the SREP and Stress Testing under Directives 2013/36EU dated 26 June 2026.

Peer-Group benchmarking with proximate business-model peers (e.g., universal, retail, digital, D-SIBs). A bank's ROE, RWA expansion, and funding costs are automatically benchmarked against the cohort. (ii) Early-warning outliers are flagged e.g If growth or business-line concentration significantly diverges from its peer group, which triggers automatic supervisory intervention long before threshold capital breach happens.

(d) Direct ICAAP & Risk Appetite Integration happens by formally fusing strategic risk into capital preservation models, rather than treating them as an abstract concept. This is done by (i) requiring the banks to explicitly map their BMA conclusions directly into their ICAAP. (ii) expecting banks to allocate explicit quantitative capital blocks against unhedged systematic changes or structural business-line updates to build strategic risk capital buffers.

(e) Transition, technological, and structural disruption assessments by supervisor's requiring banks to demonstrate strategic adaptability to modern disruptions such as (i) Prudential Transition Plans to absorb climate-transition financial risks / avoid balance sheet degradation as corporate lending transforms. (ii) Fintech & Digital Vulnerabilities as supervisors challenge banks relying heavily on specialized deposits or embedded digital third-party platforms (BaaS) to ensure their core funding remains resilient. The separation between digital capabilities and digital operational resilience was dissolved in the June 2026 updates of EBA.

11. Under the modernised Pillar 2 Requirement (P2R), a poor BMA score acts as a direct multiplier attracting a hard capital add-on as a buffer against potential earnings drops. BMA receives an independent numerical supervisory score (scale 1 = low risk/high viability to 4 = high risk/serious threat to viability), which can feed directly into the composite SREP score. A deficient BMA score also directly justifies qualitative supervisory measures such as restructuring, divestments, restrictions on business/ dividend distributions etc.

12. Other non-EU global jurisdictions where pillar 2 has been implemented handle BMA with varying level of formalisation.

(a) The Office of Superintendent of Financial Institutions (OSFI) of Canada came out with its new / modernised Supervisory Framework in April 2024. It names a 'Business Risk' category, explicitly defined it in terms of business model sustainability. The supervisor assesses a bank's ability to achieve targets and generate capital in alignment with its risk

appetite against the competitive pressures and its ability to execute its strategic plan. Reputational risks and the level of vulnerability to external factors are also coalesced in this category.

(b) Australian Prudential Regulation Authority (APRA) upgraded its earlier Risk Based Supervision (RBS) model of PAIRS & SOARS (equivalent of RBI's SPARC & IRISc)⁷ to a new integrative model called 'Supervision Risk and Intensity' (SRI) in June 2021. Instead of BMA's appearing as a separate pillar, the cross-cutting dimensions of business model viability and strategic risk are integrated with and embedded across its core supervision framework. It assesses whether an entity's business model, revenue concentration, or competitive positioning introduces vulnerabilities that could impair financial resilience or lead to failure. APRA's prudential Practice Guide on ICAAP as well as Prudential Standards on Capital Adequacy formally linked capital planning directly to the viability of the business model. The bank's board is required to demonstrate that capital targets explicitly account for the risks inherent in the it's strategic plans and business blend. Supervisors review medium-term financial projections, earnings volatility, and strategic growth initiatives to evaluate whether projected returns realistically support the capital buffers through the economic cycle.

(c) The Prudential Regulatory Authority (PRA)⁸ of UK treats BMA as an important part of their supervisory approach since 2018. They examine the threats to the viability and sustainability of a firm's business model, and the ways in which a firm could create adverse effects on the system. The analysis includes an assessment of where and how a firm makes money, the risks it takes in doing so and whether this remains within its own risk appetite, and how it funds itself.

(d) As for OCC, the phrase BMA is absent in its Handbook⁹ but the Strategic Planning section functions as a practical equivalent, not amounting to a substantive model viability assessment. A bank's strategic planning process is required to answer the four questions for the board and senior management i.e: i. Where are we now? ... ii. Where do we want to be? ... iii. How do we get there? ... iv. How do we measure our progress? Federal Reserve, on the other hand, framed business model and strategic risk under Large Financial

⁷ PAIRS - Probability And Impact Rating System; SOARS - Supervisory Oversight & Response System; SPARC - Supervisory Program for Assessment of Risk and Capital; IRISc - Integrated Risk & Impact Scoring

⁸ The Prudential Regulation Authority's approach to Banking Supervision, July 2023 edition

⁹ OCC Comptroller's Handbook: Corporate & Risk Governance Version 2.0, July 2019

Institution (LFI) rating system, not as a stand alone score but by weaving it into the governance controls and capital planning pillars.

Where does RBI stand ?

13. There's no RBI Master Direction, Guidance Note, or Circular titled or sectioned around "Business Model Analysis." What exists instead is the implicit entrenchment of BMA inside RBI's supervisory methodologies, supervisory speeches etc. The "Supervisory Review Process under the New Capital Adequacy Framework - Guidelines for Pillar 2" document of RBI (March 2008) included Strategic Risk as one of the 10 illustrative pillar 2 risks for which additional capital beyond the minimum-required might be necessary. It was meant to be a residual risk for self-assessment as a bank-side ICAAP obligation, not an RBI-side supervisory process. It also guided that annual capital planning must explicitly tie the bank's future business development strategies and macro-economic forecasts directly to its capital projections and not merely as a standalone math exercise. The RBS framework, SPARC, introduced by RBI from 2014 required the banks be grouped based on, among other things, their business model. This is the closest RBI came to a textual reference to "business model", but it was again a classification input, rather than a named analytical methodology. The Financial Sector Assessment Program (FSAP) for India, published by IMF in 2018, noted that SPARC assessments were updated dynamically in response to changes in strategy and circumstances. This implied strategy/business-model shifts were monitored as an input to scoring, if not as a discrete exercise. The FSAP report published in 2025 recommended RBI to strengthen its RBS/SPARC framework and extend supervisory framework, without explicitly mentioning relative underdevelopment of a codified BMA-equivalent. All this, however, does not reinforce that RBI supervision were not anchored on BMA in their *de facto* supervisory processes, it was all about process documentation.

14. The 2008 guidelines on Pillar 2 of RBI were consolidated into the Master Direction on Prudential Norms on Capital Adequacy in November 2025. The strategic risk continues to remain one of the expanded 15 residual risks. Banks are required to make their own assessment of such risk exposures, through a well-defined internal process, and maintain an adequate capital cushion for all such risks - that has become a formal regulatory mandate now. RBI's detailed approach to conduct of SREP as part of its RBS framework also debuted in this document, albeit without any reference to BMA. However, as a part of ICAAP responsibilities, the assessment of pillar 2 risks under a bank's ICAAP and the

supervisory review process were advised not to be a mechanical process, but one in which each bank determines, depending on its business model, its own specific vulnerabilities. The senior management is required to understand the underlying assumptions regarding business models, valuation and risk management practices with respect to new or complex products / activities. In addition, evaluation of the potential risk exposure if those assumptions fail is also warranted. The RBI requires banks to adopt a comprehensive, formalised qualitative assessment methodology under Pillar 2 (ICAAP) to identify and evaluate strategic risk. Since strategic risk cannot be modelled using precise historical loss data (unlike market or credit risk), banks might use structured semi-quantitative scoring tools, risk self-assessments, and scenario analysis to justify capital add-ons.

15. The RBI has expanded its Pillar 2 capital add-on architecture beyond traditional commercial banks. Under the Scale-Based Regulation (SBR) framework, Top-Layer NBFCs are subjected to higher capital charges. These incremental capital requirements are specifically computed using Pillar 2 principles. RBI's intent is clear-sounding: "As part of our vision for the next decade, ...We are dedicated to establishing a global model of risk-focused supervision, one that emphasises strong risk discovery ..., and builds a "through-the-cycle" risk assessment framework¹⁰." The "Through-the-cycle" framing is itself BMA-adjacent referring to a forward-looking earnings/strategy resilience, not point-in-time balance sheet health.

Joining the Dots

16. Regulatory tailoring is the fundamental starting point for banking supervision in all jurisdictions, after the Core Principle of proportionality. RBS, cradling the BMA, itself is a tool of such tailoring. In Indian context, identification of D-SIBs among commercial banks, Scale Based Regulation for NBFCs or Tier-based regulation for UCBs are example of regulatory / supervisory tailoring. The criteria used by Basel to identify the systemic importance of a bank are (i) size, (ii) interconnectedness, (iii) substitutability / financial institution infrastructure, (iv) complexity, and (v) cross jurisdictional activities. You will find that most of the criteria are directly a function of a bank's business strategy / business model. So, there is a growing trend among upgrading supervisors to undertake a stand-alone BMA as the leading initiation in supervisory programs.

¹⁰ Remarks by Swaminathan J, Deputy Governor, RBI (in charge of Supervision) at High Level Policy Conference of Central Banks from the Global South in Mumbai on November 27, 2024

17. The generational shift is also happening in supervisory approach around risk. In the first generation, 'risk specific' supervisory approach assessed each risks in their sandboxes and silos. In the second generation, 'risk based' supervision prioritised entities and risks but still followed a risk-by-risk architecture. In the third and current generation, it is an integrated and dynamic approach to supervision. Pillar 2 assessments for risks such as strategic risk / business model etc. are being integrated with the overall risk assessment / response model, rather than being treated as an isolated or abstract process. The architecture broadly mimics an overarching framework referred to as 'ensemble model' in machine learning context, of which the BMA plays the role of an important sub-model (inputs) and influences supervisory approach to and weightage of other vectors such as different pillar 1 risks. There is a trend to reduce the number of risk taxonomies (e.g OCC has dropped the 'reputation risk in 2025 / OSFI has also merged it with strategic risk) or converge them suitably depending upon the additivity of risk measures. Recent addition of risk categories to pillar 2 risks in RBI's SREP guidelines alongside strategic risk needs special note. The Risk = Probability x Impact is slowly transforming into Probability x Impact x Vulnerability x Velocity x Unpreparedness to determine supervisory priority.

18. The supervisory approaches to BMA and Strategic Risk have shifted to proactive pressure-testing. Supervisors are now using stress tests as a financial simulation tool to challenge management's assumptions and unravel performance of a bank's business model and strategy when hit by a macroeconomic shock. Supervisors grind bank balance sheets, say, through a hypothetical multi-year multi-variable recession (e.g., combining a severe GDP drop, unemployment spurt, real estate market collapse, and volatile rate fluctuations). The concrete mechanisms of supervisory stress-testing model and strategy risks broadly follow the undermentioned methodology:

- (a) The static balance sheet assumption - not accepting management assumption that they can change business mix if they smell risk / economic shock in any part.
- (b) Net Interest Income compression - In the tests, the core revenue engines are shocked using specific interest rate paths / granular cash flow modelling.
- (c) The Scenario Analysis are designed with tailored scenarios to test operational sustainability of forward looking strategy.
- (d) Reverse Stress Testing i.e working backward from bankruptcy or any other measurable break point to identify the chain of events to cause it.

19. Reactive risk management identifies risks after decisions are made; mitigates issues when they arise; reports exposures with time lags. In today's environment, risk is not just a control function but a core input into strategic decision-making. Strategy and risk functions need to collaborate from the word go to make better-informed strategic decisions; balance growth with resilience; anticipate disruptions before they aggravate; allocate capital more effectively. This integration is often the defining factor between resilience and vulnerability. In this context, CAFRAL should be appreciated to have brought the business strategy and strategic risk to the same class room.

20. Banks are regulatorily required to explicitly account for strategic and business risk in their ICAAP. BMA has evolved from a narrow focus on short-term financial stability to a holistic evaluation of long-term viability, technology integration, and sustainability. Supervisors now treat business models as dynamic risk factors requiring continuous oversight rather than static structures. Regardless of disclosed (or otherwise) methodologies of BMA, it has been a critical parcel of supervisory assessment in India. There is an increasing need for managements to understand regulatory and supervisory dimensions before shaping business strategy because supervisors hold the power to penalize, or restrict a bank's business model if it poses systemic risks. The regulatory consequence of a flawed business model could lead to pillar 2 capital add-ons, risk mitigation plans (RMP) and growth restriction. Regulatory knowledge must come first as it could prevent costly strategic pivots, avoid regulatory penalties, protect executive reputation, ensure capital adequacy and secure market trust.

21. How and when the supervisory intents and practices of RBI for BMA gets a more formal clothing may be an open question. Noting the global trends, the upgrade options tailored for Indian system could potentially have many possibilities:

- (a) Spinning off BMA from the low-weighted residual risk fold of the composite scoring approach, to a discrete evaluation pillar outside it, as the first ball of supervisory assessment process.
- (b) Leveraging the data analytics and stress testing capability of the existing supervisory infrastructure ("Risk, Analytics and Vulnerability Assessment Division") for extended testing of earnings / strategic resilience under multi-year scenarios rather as a part of BMA than for capital adequacy purpose alone.

- (c) Seamlessly integrating the BMA outcomes with Risk Assessment and Supervisory Response frameworks, including PCA, where the BMA score sets bounds / constraints / weights for the rest of risk data aggregation and response.
- (d) Seasoning the Indian version of BMA through supplementing viability and sustainability tests by clear strategic positioning analysis and strategic execution capability of senior management, alongside stress and vulnerability testing of business model.
- (e) Upgrading from a static BMA, developing a paradigm for Business Model Trajectory model, as a distinctive contribution to the supervisory domain of BMA. This would front-run the conventional 'direction of risk' to be truly forward looking supervision.

Closing

21. The maturity curve of supervisory BMA is an epitome of adaptability - fit for emulation in business strategies and strategic risk context. Starting as a test of profitability / financial viability, it has seen two upgrades viz. testing business model viability (i.e sustained financial viability) and strategic viability (i.e viability under changing competition, technology, regulatory & macroeconomic conditions) to reach where it is heading today. It will most likely to be business model resilience and adaptability test, given its sensitivity to structural disruption. Going by the practices discussed earlier, the movement is clearly towards more integrated / harmonised BMA with greater proportionality as well as greater forward looking assessment.

22. Risk-Based Supervision was conceptualised by the OCC, USA in the early 1980s¹¹ and formally structured and introduced as 'supervision by risk' in 1996. Since then, 'risk-based' has been one of the ubiquitous and unquestioned prefix to many control processes. With entry of ICAAP / SREP, as discussed, while jurisdictions like EU and India have tried to integrate them with RBS, many other jurisdictions are experimenting with alternative formulations. In the process, the term RBS, is fast gaining the status of a malapropism in capturing the current supervisory philosophy in its entirety. The cliché of allocating scarce supervisory resources by prioritising institutions / activities posing highest risk, being the distinction of RBS, is a camouflaged supervisory capacity constraint today, as all forms of tail risks get quietly added to supervisory processes. As long as there are regulations, compliance can not be wished away even under RBS. Risk is only one of the multiform dimensions for supervisory processes now. In the absence of integrated stress test, the

¹¹ The concepts and practice of risk-based supervision by Dr. J A Afolabi, Economic and Financial Review dated 12-01-2008 of Central Bank of Nigeria

traditional RBS still depends on lagging data points for all its forward looking claims and EWS are yet to be a direct product of RBS. The ultimate objective of supervision has shifted from risk to resilience. It is interesting to observe some jurisdictions now refer to it as Risk-Proportionate Supervision, rather than RBS. The emerging / next generation supervisory architecture seems poised to sequentially integrate supervisory objectives, impact assessment, vulnerability assessment, risk assessment, resilience assessment, governance assessment, early warning assessment and finally, supervisory intervention. If in days to come, you suddenly find yourself face to face with RIFLES pointed at you, by none other than your supervisor, do not panic. They might have just changed the name of RBS to RIFLES i.e Risk Informed Forward Looking Evidence-based Supervision.

I wish this program to help you, in some pieces, face the RIFLES insofar as strategic risk or business model risk is concerned.

Thank you.

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