# A practical case: build an approval framework

**Teacher's note**: this practical case is intended to make you think about how to put in practice the concepts seen so far. After the Risk Management theory and the two cases, you should be able to think what is really important, going beyond the quantitative study.

You are working for Bank AGH (BAGH). So far, BAGH is doing only very basic banking, going no further than deposits, accounts, loans, residential mortgages,… However, BAGH is slowly losing customers, particularly from the medium/high segment, which are going directly to BAGH's most direct competitor, BAGH.

The Board has decided to enter into more complicated products and offer complex bonds. The Product Design & Development department has already a number of them, but by regulatory requirements an approval framework is needed. This framework must take into account several factors:

* The potential risks involved in the products' sale;
* For what customer risk profile is suitable each of the products.

You, as members of the Management team, need to design and propose such framework. The next pages contain some examples of products, to give you an idea. The outcome should be a workflow that contains all steps, from ideation to final internal approval[[1]](#footnote-1).

Hints and details to think about:

* Note that the workflow should have one start node. How many exit nodes are needed?  Who are the main internal stakeholders involved? Who must sign and at what steps?
* The financial products should be classified in several customer risk profiles, depending on how big losses can be. You can decide this classification, but it must fulfill this condition:

o Each level should be expressed by one or two words; o You have to set and justify the thresholds of potential losses for each level.

* Given the previous classification you created, what effect does it have on the risks involved? Are all of them equally important?
* Pay attention to all details in the products. Identify the key words and check if everything is coherent7.
* Once you identified them, how to articulate them in an efficient and automated way?

And most important: if you think you miss information or something doesn't add up, just ask.

1. Note that in real life there are more steps in the process after internal approval. As the most important, the product must be registered, marketed (channels, target,…) and effectively commercialized. 7 You don't need to be expert quants for it, just apply common sense. Put yourselves in the situation of having the money to invest, you might not be experts and need to carefully understand what the product is. Hint: one of them looks very suspicious! [↑](#footnote-ref-1)