

# Credit Risk Management

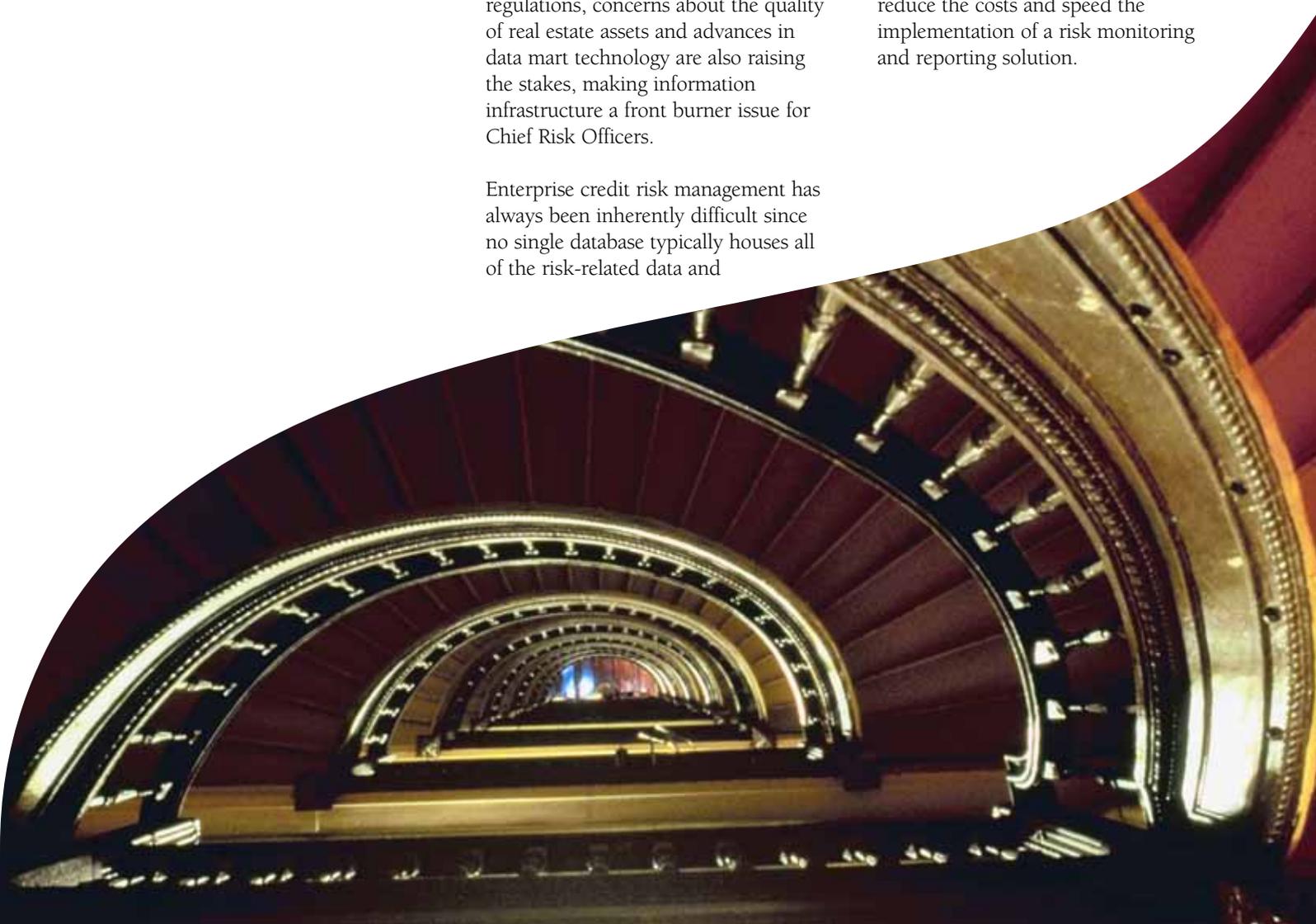
## Delivering ROI from Risk Management Mandates

For the largest U.S. banks, developing an enterprise risk approach is a regulatory imperative. However, regional banks are also discovering the economic and competitive benefits of aggregating risk information and improving the visibility of their portfolios.

Managing credit risk remains critical for these organizations – poor information and poor decisions can cost a medium-sized bank \$10-\$50 million a year or more. Basel II/IA regulations, concerns about the quality of real estate assets and advances in data mart technology are also raising the stakes, making information infrastructure a front burner issue for Chief Risk Officers.

Enterprise credit risk management has always been inherently difficult since no single database typically houses all of the risk-related data and

several years of information is needed. Many institutions spend hundreds of hours manually synthesizing data from reports, file extracts, spreadsheets and other sources—time better spent actually doing risk analysis. Capgemini, in conjunction with several Top 50 banks, has developed a Bank Risk Framework for institutions looking to proactively manage credit risk across the enterprise. Our solution is a comprehensive set of templates, tools and models that address common risk challenges and help banks both reduce the costs and speed the implementation of a risk monitoring and reporting solution.



### Business Benefits

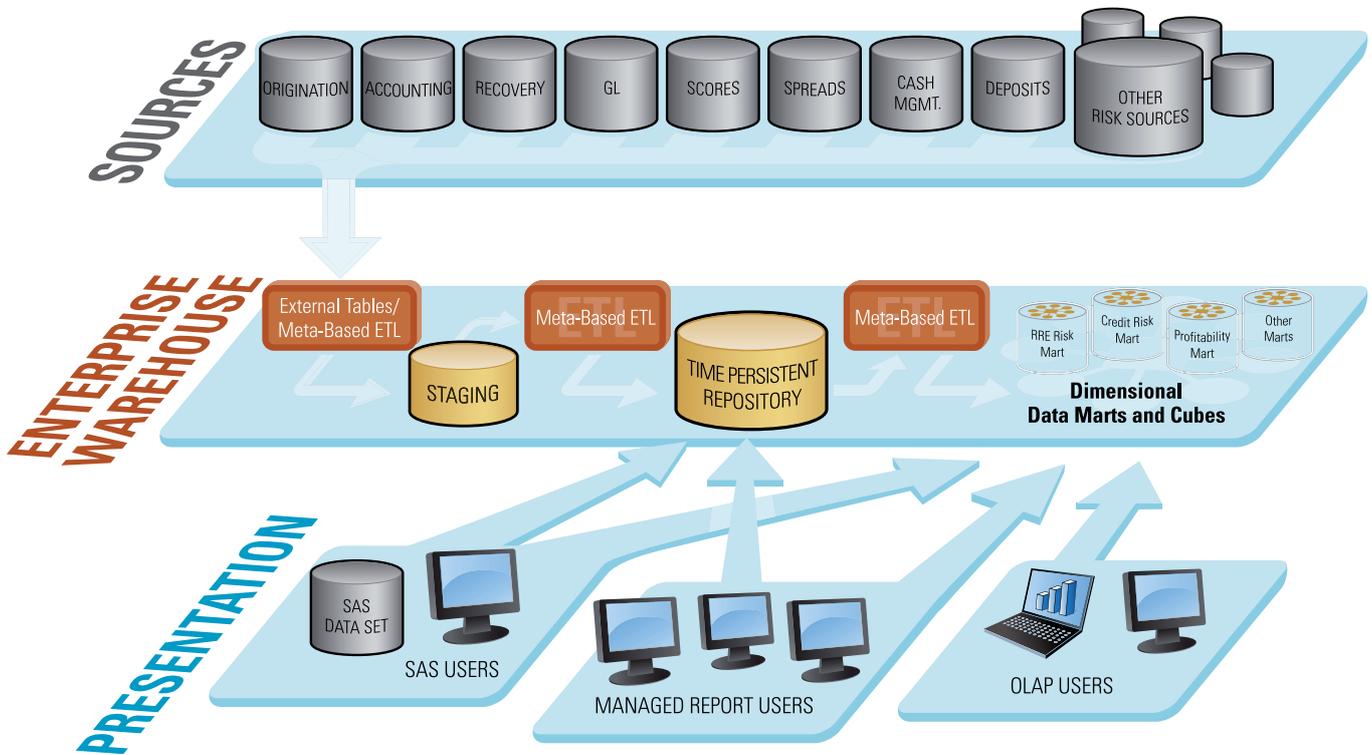
- Faster and more integrated implementation of credit risk scorecards
- Practical method to implement Risk Adjusted Return on Capital as key measure
- Centralized and efficient delivery of credit committee and LOB risk reporting
- Immediate ad hoc access to key risk questions – e.g., what is our total exposure to Construction Loans in the Washington MSA?
- Cost savings through the retirement of silo databases and manual processes
- Reduced dependency and reliance on legacy systems and individual contributors

### The Business Imperative for Regional and Mid-Sized Banks

The U.S. banking industry is evolving rapidly due to new regulatory requirements, more advanced risk practices and increasing competition. Regional and mid-size banks are especially vulnerable to larger competitors if they fail to adopt emerging best practices. The table below highlights the disadvantages a typical mid size/regional bank faces in managing credit risk.

The disadvantages faced by regional or mid-sized banks when managing risk			
Comparison Points	Large Banks	Regional / Mid-sized Banks	
	Tools Used	Tools Used	Impact
<b>Credit Risk Assessment</b>	Quantitative scorecards	Expert judgment of bankers.	Expert judgment is not consistent. Employee turnover causes loss of institutional knowledge.
<b>Loan Pricing</b>	Risk return measures like RAROC	Market prices only.	Not considering the risk return trade-off causes erosion in loan value and profitability.
<b>Portfolio Risk Management and Credit Profile</b>	Economic Capital framework	Ad-hoc since tools, data and personnel needed to implement an economic capital framework is prohibitive.	High exposure to riskier assets without commensurate returns.
<b>Management of Loan Growth</b>	Strategic approach operationalized within a grading system framework	Ad-hoc since creating a risk grading system is cost prohibitive and too quantitative.	Unplanned high loan growth leading to low profitability.

**Capgemini Framework for Risk Data Management**



**Capgemini's Credit Risk solution is...**

- An integrated set of project accelerators and methods
- A proven technique to rapidly integrate risk data
- A practical and iterative approach to development that provides more flexibility in developing risk models
- The best way to see early benefits from your project
- A framework designed to integrate with your architecture standards

**...but it's not**

- A 'black box' solution that you will not own or understand
- The end of the credit management design process

**Our Solution is Powered by Proven Tools & Accelerators**

Capgemini has developed a re-usable framework of tools, approaches and architecture to efficiently capture origination, servicing, recovery and other sources of key data. Our approach integrates with current technology standards and accelerates time-to-market on initiatives such as Economic Capital, Securitization, ALLL enhancement and CRE compliance.



In Practice		
Challenge	Solution	Results
Gather cross-portfolio data for a retail charge-off reduction program. Meanwhile, build data mart infrastructure for the future to support new dual-risk rating system and more robust credit committee reporting.	A Credit Risk Data Mart, using techniques and project accelerators from Capgemini's Credit Risk Solution. Data was gathered from Mortgage, Home Equity, Deposits, Credit Bureaus and other sources to fuel the initiative.	<ul style="list-style-type: none"> <li>Propensity to default analytics helped identify opportunities to reduce charge-offs by \$30 million year-over-year.</li> <li>New Data Mart foundation continues to enable cross-portfolio risk reporting, vintage assessment, future economic capital reporting.</li> </ul>
A large regional bank with a global parent is required to comply with Basel II regulations for calculating regulatory capital. Because of rapid growth and acquisitions, this \$40 billion institution had regional silos and inefficient processes for managing loan data. The bank needed to provide reporting to the lines of business while new commercial origination system was being implemented on a three-month deadline.	Capgemini's Credit Risk Framework provided a template data model and proven techniques to rapidly source and integrate loan data from across the organization. The resulting data mart puts the bank back on track for Basel II improves operations.	<ul style="list-style-type: none"> <li>On track for Basel II compliance.</li> <li>New reporting delivered on time to the lines of business.</li> </ul>

For more information, contact us at [financialservices@capgemini.com](mailto:financialservices@capgemini.com).



### About Capgemini and the Collaborative Business Experience

Capgemini, one of the world's foremost providers of Consulting, Technology and Outsourcing services, has a unique way of working with its clients, called the Collaborative Business Experience.

Backed by over three decades of industry and service experience, the Collaborative Business Experience is designed to help our clients achieve better, faster, more sustainable results through seamless access to our network of world-leading technology partners and collaboration-

focused methods and tools. Capgemini utilizes a global delivery model called Rightshore® which aims to offer the right resources in the right location at competitive cost, helping businesses thrive through the power of collaboration.

Capgemini employs approximately 91,000 people worldwide and reported 2008 global revenues of 8.7 billion euros.

More information about our services, offices and research is available at [www.capgemini.com](http://www.capgemini.com).