

# Basel III Services

**Driving Business Value in Risk and Compliance Programs**



The July 2013 introduction of the Basel III US Final Rule has brought risk-related compliance and regulatory issues to the forefront. As such, both banks and supervisory bodies are reevaluating the adequacy of their risk management programs in an effort to ensure their efficacy. Banks have already spent a significant amount of their tier 1 capital on Basel II compliance, and the same is expected with regard to Basel III. This cost increases if other regulations, such as Dodd-Frank (DFAST, CCAR) and Sarbanes-Oxley are included.

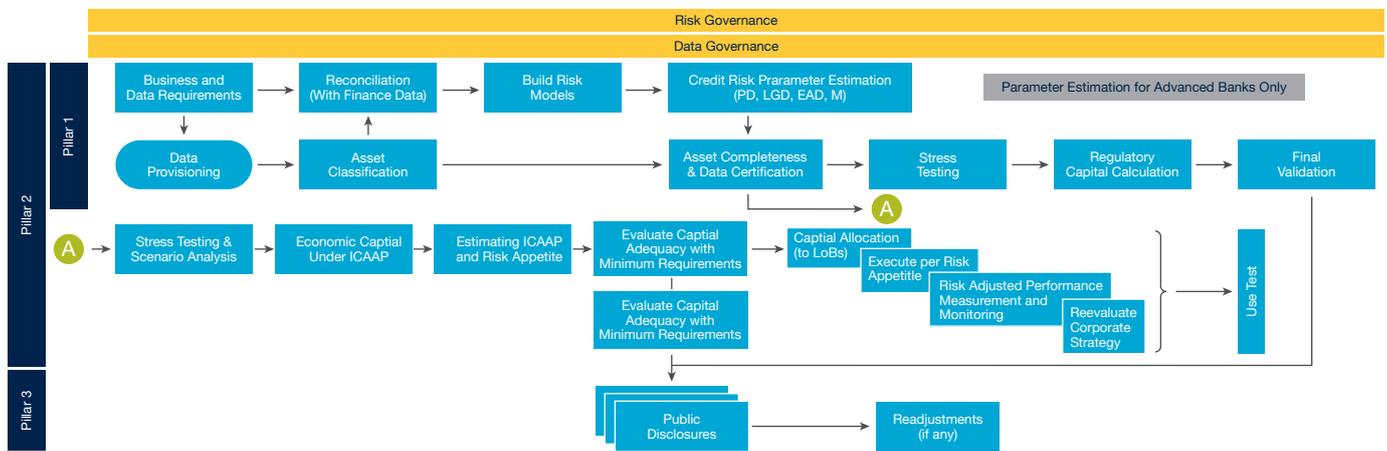
Fulfilling regulatory expectations can be an arduous task. However, our clients tell us that in order to gain a competitive edge, they need to go beyond meeting minimum requirements and that exceeding expectations is the only way to gain stakeholder support. Capgemini provides both the end-to-end holistic view and the domain expertise to run Basel III compliance programs that add business value for our clients.

By using our global experience of involvement in 100+ Basel I, II and III program implementations, Capgemini can help you avoid costly mistakes. We leverage our existing intellectual property, including requirements, reference data models, template scorecards, report templates, and other accelerators to reduce your timeline to achieve compliance.

Beyond pure compliance, Capgemini takes a business view of Basel III. By working collaboratively with clients, our Basel III services enhance business processes, thereby leading to improved returns, better pricing, reduced charge-offs, more automated reporting, and more effective portfolio management.

Our approach is built on a commitment to help you achieve success in reaching critical program milestones through a partnership framework. See for yourself how Capgemini can help you realize the benefits of Basel III.

# Capgemini's Basel III End-to-End Implementation Approach



Capgemini's business knowledge and technology expertise enable us to assist with all aspects of a Basel implementation

## The Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision (BCBS), which is housed at the Bank for International Settlements (BIS), is a group tasked with providing thought leadership to the global banking industry (<http://www.bis.org/bcbs>). Over the years, the BCBS has released volumes of risk-related guidance in an effort to promote stability within the global financial sector. By effectively communicating best practices, the Basel Committee has influenced financial regulations worldwide. Basel regulations are intended to help banks:

- More easily absorb shocks from economic and financial stress, by holding enough capital, thus allowing for adequate liquidity
- Improve enterprise risk management and its governance
- Enhance supervisory oversight, regulatory reporting, and transparency

## The Basel III Regulations

In June 2011, the BCBS released Basel III: A global regulatory framework for more resilient banks and banking systems. This was followed by the issuance of a U.S. Basel III Final Rule in July 2013. This newest set of Basel regulations includes many enhancements to previous rules and will have both short- and long-term impacts on the banking industry.

The Standardized Approach to Basel III applies to all bank holding companies with consolidated assets greater than \$500 million, and all savings and loan holding companies. Meanwhile, the more stringent Basel III Advanced Approaches applies to all institutions with total consolidated assets greater than \$250 billion, and all institutions with greater than \$10 billion of foreign exposure on their balance sheets.

## Implementation Challenges

Basel III is a complex set of regulations covering all aspects of a banking organization. Its successful implementation not only necessitates accurate interpretation of supervisory rules, but also requires the integration of many systems, databases, mathematical formulas, and sophisticated algorithms. As such, Basel III presents a variety of implementation challenges. Additional difficulties banking institutions face when implementing Basel III include challenges related to data, technology, modeling, and demonstrating regulatory compliance.

## Data Challenges

- **Data Quality:** Includes standards around valid ranges of values, acceptable error rates, and metadata management.
- **Data Lineage:** Includes recording the flow and transformation of all critical data elements as they are transferred from systems of entry into regulatory reporting.

## Some key features of Basel III include:

- *A stronger capital base*
  - More stringent capital standards and higher capital requirements
- *Additional risk coverage*
  - Enhanced quantification of counterparty credit risk
  - Credit valuation adjustments
  - Wrong-way risk
  - Asset Value Correlation Multiplier for large financial institutions
- *Liquidity management and monitoring*
- *Introduction of the supplementary leverage ratio*
- *Introduction of capital buffers*
- *More rigorous data requirements than those of Basel II*

- **Data Dictionaries:** A strong and clean business glossary is needed to provide data transparency to management and regulators.
- **Data Integrity:** Requires banks to perform business checks at a series of control points to ensure that data remains uncompromised.
- **Data Relevance and Coverage:** Data is required at varying levels of granularity for myriad timeframes and data sources.
- **Data Auditing:** Requires banks to identify, check, approve, and submit data quickly and accurately.
- **Data Certification:** Owners should monitor and certify their data based on all criteria above.

### Technology Challenges

- **System Processing:** Excessive time taken to perform risk weighted assets calculations and reconciliations.
- **Technical Architecture:** Requires system alignment to ensure streamlined data handoffs, transparency and traceability.
- **Data Capacity:** Increased data volume may lead to compounding inefficiencies.
- **Data Aggregation:** Requires the ability to generate reports on a dynamic basis at product, business and entity levels.

### Modeling Challenges

- **Model Development:** Requires highly trained resources with both quantitative and subject matter expertise.
- **Model Validation:** Requires additional human resources with requisite skills that may not be readily available in-house or in the marketplace.
- **Model Documentation:** Must cover all material aspects of a bank's risk management quantifications.
- **Risk and Finance Integration:** Figures from Allowance for Loan and Lease Losses (ALLL), which are calculated by Finance, and Expected Loss (EL), calculated by Risk Management, should align.

### Compliance Challenges

- **Rules Interpretation:** Misinterpreting regulations can lead to delays in Basel III compliance and undesired reprimands from banking industry supervisors.
- **Gap Identification and Remediation:** Banks must establish processes to identify and remediate deficiencies in their Basel III programs.
- **Qualification Readiness:** It takes years of consistent effort to receive regulatory approval to use the Advanced Approaches to Basel III compliance.

### Proprietary Tools & Accelerators

Our deep business knowledge of Basel III and experience with numerous implementations has allowed us to build proprietary tools, accelerators, and templates that can help financial institutions jumpstart their Basel III initiatives. Additionally, through multiple Basel engagements, we have built valuable [relationships with banking regulators, both within and outside the US](#). This uniquely positions Capgemini to guide clients through the supervisory examination process.

Capgemini's unique approach to Basel III provides a clear, quantifiable understanding of the impact of risk-sensitive capital on business management. This helps banks quantify and prioritize gaps, ensuring that project plans and regulatory needs are aligned.

Capgemini has created a proprietary set of [Basel III Business Requirements](#) intended to help our clients translate complex risk regulations into actionable items for their work streams. Additionally, our [Basel III vs. Basel III US Final Rule text comparison](#) can be leveraged for business requirement refinement, test case creation, and gap identification. This valuable asset is a must-have tool for banks seeking to accelerate their Basel III implementation.



Our [Basel III Reference Architecture](#) provides a template to identify, design, and implement all tenets of a Basel III solution. This encompasses data collection, aggregation, and integration, as well as customer management, product management, and enterprise services.

Capgemini's [Data Quality Framework for Risk](#) and [Data Governance Framework](#) provide clients with a proven data quality scoring methodology to measure and evaluate key risk indicators. This enables clients to manage the different aspects of risk data across their organizations. Additionally, our [Metadata Framework](#) is helpful for gaining data consistency and transparency from source systems to final reporting.

Capgemini's [Data Analysis Framework](#) provides expedited profiling and quality checks on critical data elements and includes template reports for validation. Additionally, our [Business Flow Glossary](#) and comprehensive [Data Dictionary](#) can help with data rationalization across lines of business.

Capgemini's [Risk Model Development](#) services leverage our profound knowledge of risk drivers and modeling techniques to help financial institutions meet their risk management goals and better differentiate between the risks associated with various portfolio exposure categories.

Capgemini's [Model Validation](#) templates and guidelines include methods and algorithms designed to help our clients maintain their credit scoring tools at a low and affordable cost. We also offer standardized documentation, which provides continuity and transparency to the process for third parties, such as external auditors and regulators.

Our [Stress Testing](#) solution allows clients to identify problematic areas in their portfolios by assessing the impact of volatile market conditions across exposure categories.

Capgemini's repository of [Reporting & Analytics](#) templates gives clients access to real world reports, allowing them to select those that best meet their needs.

### Capgemini's Accelerated Solutions Environment

Our patented facilitation environment and process, fused with deep financial services consulting and technology expertise, provide the most powerful approach to rapidly build a transformation map to convert compliance into competitive advantage.

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For more information, contact us at: [riskmgmt@capgemini.com](mailto:riskmgmt@capgemini.com)  
or visit: [www.capgemini.com/risk](http://www.capgemini.com/risk).



## About Capgemini

With almost 145,000 people in over 40 countries, Capgemini is one of the world's foremost providers of consulting, technology and outsourcing services. The Group reported 2014 global revenues of EUR 10.573 billion.

Together with its clients, Capgemini creates and delivers business and technology solutions that fit their needs and drive the results they want.

A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

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