

Insights into enterprise risk management

How Capgemini can help enhance the value of your global risk management operation

Financial institutions operating within the current credit and broader risk crisis must critically examine existing enterprise risk management infrastructures to assess their relevance and responsiveness to today's dramatically changing risk environment. At a minimum, areas of critical focus include current business processes, data governance rules and enforcement, organization structure, and supporting IT infrastructures and software applications.

As regulatory authorities continue to lay down new guidelines for effective control over the operational activities of a bank—whether with respect to credit (lending), market (exposures), operational or contagion risk—the responsiveness of risk infrastructures has never been more important to the viability of financial enterprises, especially those with complex legal entity structures operating on a distributed global basis.

In response to the changing risk environment that defines today's financial markets, Capgemini has developed critical insights into areas where current risk management infrastructure typically falls short of meeting the challenges of the increasingly difficult economic environment. We have observed:

- *Regulators expect complete data availability and reporting accuracy.* Most risk analysis and compliance reporting models fail due to unavailability, inaccuracy and/or incompleteness of underlying data.
- *Today, middle office operations spend more time reconciling breaks than generating regular reports, computations and other critical output.* These breaks are mostly associated with uncertainties regarding position and pricing data, and sometimes result from a lack of appropriate models to process exotic instruments, including structured products.
- *High volume computing needs associated with large, complex risk operations are often unmet by current IT infrastructures* due to broad data dispersion, overlapping or competing applications, and other technology considerations that require rationalization.
- *Few best practices and virtually no industry standards exist today* to support the critical data and metadata taxonomy, semantics, governance and quality assurance requirements of enterprise risk operations. Without such facilities, banks remain significantly exposed to risk management and decision-making failures.
- *Industry standards to present, consume and analyze accurate and complete risk data are sparse.* Accordingly, underlying risk information must be assessed, verified and remediated where necessary before it is translated into data stores and warehouses for use by risk managers and other interested corporate users.



Marc Zimmerman is Vice President and Global Head of Capgemini's Financial Services Business Information Management practice. The global practice comprises over 700 financial services domain and technology specialists, including recognized industry leaders and subject matter experts. The practice also houses a Global Risk Center of Excellence that delivers unparalleled expertise in the development and implementation of comprehensive risk infrastructures for financial institutions.

Capgemini has addressed these issues head on with multiple top tier banking institutions. We have helped insure accurate and complete compliance reporting and enhanced our clients' competitiveness by facilitating more effective risk management decision-making and compliance reporting across the enterprise. For example, we have architected and deployed multiple risk data infrastructures that support front office operations real-time while equally serving middle and back office users. Our objective is simple: help our clients build risk management operations that are proactively responsive to the changing economic environment.

Our business information management solutions have helped leading banks and broader financial services firms:

- **Put appropriate measures in place to better visualize and manage credit, market, operational and contagion risks**, thereby enabling our clients to properly aggregate risk management data and mechanisms across multiple, dispersed business units. This ensures a sound reporting framework which continuously caters to bank management needs.
- **Maximize the use of technology to identify risks** across group entities to ensure a proper resolution process at the point of risk origination.
- **Scale up IT infrastructure** in line with the bank's overall projected growth to cater to increasing needs for better risk management techniques.
- **Create a baseline validation process** for risk rating models to both deal with the dynamic economic changes and focus on internal ratings-based approaches under the Basel II framework.
- **Design and develop risk models** to estimate required risk factors, such as Probability of Default (PD) and Loss Given Default (LGD), and also support critical analytics, including for example obligor rating migration (credit risk) and frequency loss distribution (operational risk) analyses.
- **Set up industry and sector benchmarks** for portfolios and integrate the systems real-time to stringently manage the portfolios against those benchmarks.
- **Build a sound management portfolio reporting framework** that reconciles with individual sub-systems across business units to provide a unified view of risk management data.
- **Define counterparty exposures** to Marked to Market on an ongoing basis and continuously monitor them to avoid crossing the limits.
- **Define a sound and dynamic operational risk framework** which spans the bank's business units and group entities.
- **Assess and evaluate existing capital charge and calculation processes** and produce a roadmap for graduating to an economic capital framework and other techniques such as Risk Adjusted Return on Capital (RAROC).
- **Design a robust risk management training program** for employees at all levels to enhance working knowledge and gain experience on new frameworks and systems based on individual role responsibilities.
- **Synthesize a methodology** to aggregate different quantifiable risk parameters for the group and closely study their impact.

Through Capgemini's enterprise information management offerings, we help banks seamlessly bridge the semantic gap between business and technology, enabling full data transparency across multiple lines of businesses. Our specialists can help your firm:

- **Implement and integrate a metadata management repository solution** so enterprise-wide taxonomy and semantic models can be defined and stored for underlying risk data.
- **Develop and deploy conceptual, logical and physical models** for enterprise risk data to enhance the operational efficiency and effectiveness of the client's global risk management function.
- **Assess and remediate underlying enterprise risk data** to facilitate accurate decision-making and compliance reporting.
- **Design and implement effective data governance and stewardship programs** to maintain the integrity of the underlying risk data infrastructure.

For more information, contact us at 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 92,000 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.