



Reader ROI

- Basel II is driving banks to better manage all risk.
- The goal is a transparent and stable financial market place.
- To achieve this goal, banks need to develop a 360-degree view of their customers.
- A robust technical solution is the only practical answer to managing the comprehensive view of the customer.

Go client-centric to meet Basel II requirements and manage risk

The integration of the world's financial markets, the development of new financial products, and the emergence of complex corporate structures have outpaced the ability of risk managers to readily evaluate exposure. Consider that the typical multi-national corporation has numerous parent–subsidiary corporate entities and these relationships are further complicated by the corporation's number of partnerships, alliances, and prime vendor/customer relationships.

Then, too, the emergence of sophisticated financial products enables corporate treasurers to hedge exposure and results in the possibility that the interconnections between corporations can grow to be very complex—so much so that a U.S. pension fund investing in foreign securities can hedge its investment through a foreign exchange swap with a corporation that has future payments in the foreign securities' base currency. Now that pension fund's risk exposure is linked to the foreign corporation. Multiply this scenario by millions of contracts. The magnitude increases even to a worst-case scenario level of the potential threat of economic meltdown.

Enter Basel II, which provides regulatory guidelines for international banking. Created by the Basel Committee, Basel II is an effort by international banking supervisors to improve the consistency of capital regulations internationally, make regulatory capital more risk-sensitive, and promote enhanced risk-management practices among large, internationally active banking organizations. Put simply, Basel II, which updates the original 1988 international bank capital accord (Basel I), addresses the needs of an increasingly complex global financial market.

Basel II requires organizations to develop and maintain a comprehensive operational risk framework to provide a complete view of the client, including all of its subsidiaries, parents, and other partnerships (collateral and guarantee)—a total risk picture that is made possible only through a client-centric solution and its enabling infrastructure.

Overview of Basel II

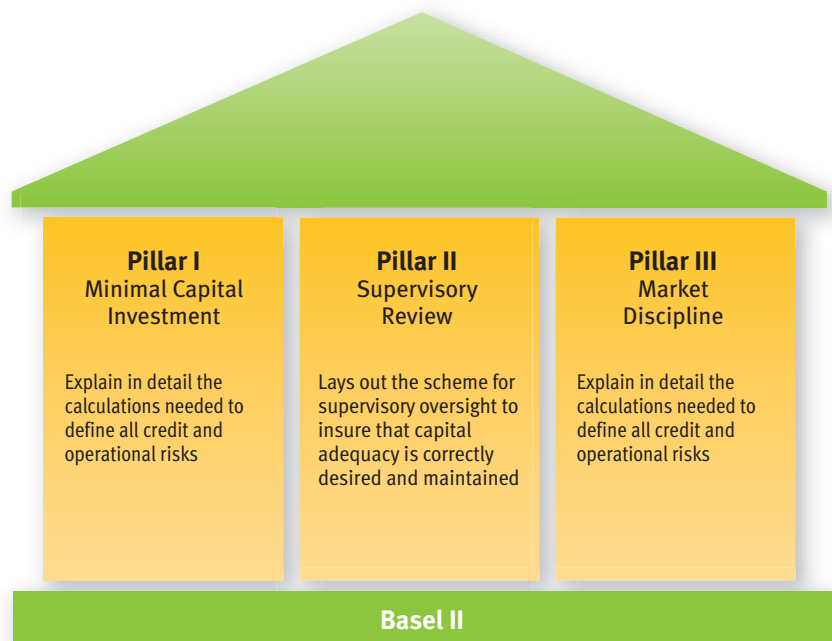
Basel II consists of three pillars: I) the minimal capital requirements for credit, market, and operational risk, II) supervisory review processes, and III) market discipline.

Pillar I establishes the minimum capital requirement to weather financial loss driven by credit risk, operational risk, or market risk. Basel II defines credit risk calculation as including the risk weighting of assets and individual counter-party risk driven by the probability of default and its subsequent exposure. Operational risk can be assessed in a variety of ways ranging from a fixed percentage of revenue based on past operational losses to a complex probability matrix of event versus impact to the organization. Market risk is the risk aggregate associated with change in interest rates, foreign exchange, and/or prices in the financial markets or in commodities such as oil.

Pillar I provides a common denominator for the capital requirements across all countries and, as importantly, enables a significantly more accurate and standard estimation of risk to a banking organization.

Pillar II specifies the requirement for an internal review function for the calculation of risk exposure and the resulting minimal capital requirements. These results are subject to review by the bank's central regulatory body. The second pillar increases the frequency and structure of the interaction between the bank and its regulator, resulting in an ongoing dialogue, and through event tracking, enables early identification, and subsequent measuring, monitoring, and management of operational risk.

Pillar III expands the information distribution to the logical third constituent: the users of the financial organization's services, and allows products to be more effectively risk-priced in the market. It also reduces valuation swings caused by concerns about counter-party instability.



Need for a 360-degree view of the client

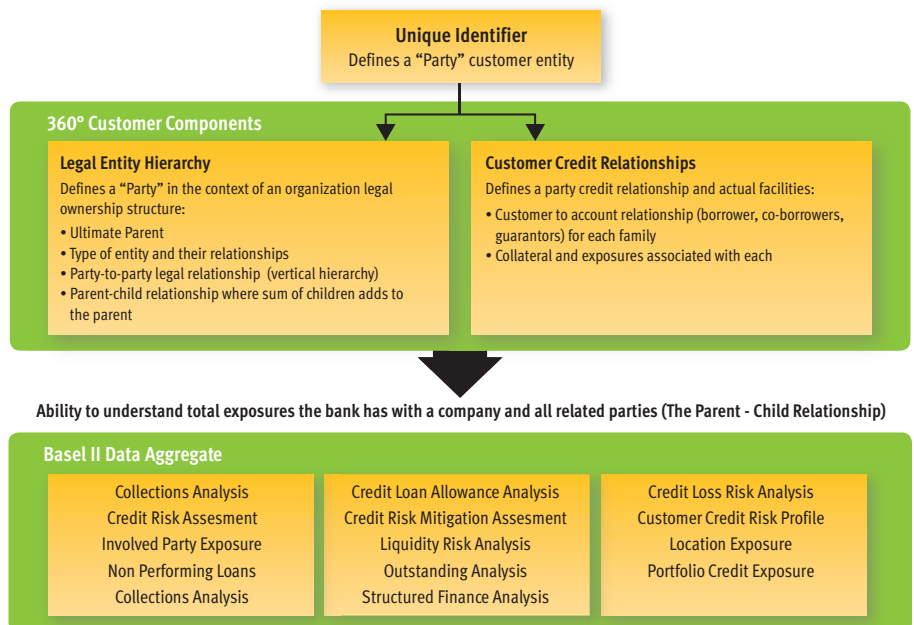
EMC[®] Consulting believes that banks must employ robust technical solutions that manage customer relationships and provide a 360-degree view of corporate and client information to fulfill the following compliance requirements of Basel II:

- The need to provide a view of all legal relationships to a business party along with the definition of those relationships
- The capability to view a history of all changes and approvals
- The ability to manage and maintain hierarchies while ensuring that only appropriate people can alter them
- The ability to view risk associated with each party within an organization
- The ability to track percentage of ownership if ownership is split
- A bank's ability to identify and aggregate customer data is pivotal to implementing Basel II.

At the end of the day, various components must work together across business and technology layers to support a client-centric organization and its supporting infrastructure. The result: integrated processes that facilitate accurate reporting of credit risk and, in the long-term, provide the business capabilities that resolve current customer interaction limitations. The centralized customer data hub provides the services necessary to maintain data integrity and create the appropriate hierarchies of information and makes it possible to view client hierarchies from across multiple legacy systems. Further, regardless of the entry point, data is reused and shared consistently to reduce risk.

It is only through a comprehensive client-centric solution and its supporting infrastructure that captures data in an accurate and timely manner that banks can meet and manage the compliance demands of Basel II. Achievement of a truly integrated customer/corporate view will strengthen the financial services industry's ability to manage, minimize, and avert risk and the potentially escalated scenarios that could accompany it.

Pivotal to addressing Basel II implementation is client's ability to identify and aggregate customer data



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