THE APPLICABILITY OF BUSINESS INTELLIGENCE TO BASEL II

BY LAURENCE TRIGWELL, Financial Services Director - EMEA

In June this year the Bank of International Settlements are due to finalise what has become known as the Basel II Capital Accord. The Accord is a revision to the previous 1988 Accord and widely accepted as outdated. The principle objectives of the revisions are to reflect the changing nature of risk in today's global banking business and encourage banks to adopt varying benchmark standards of risk management. The concept is simple, the higher the level of risk management a business is able to demonstrate the less capital regulators will require the business to set aside to cover losses (ie defaults). For both board level senior executives and business managers throughout the business the ramifications and incentives are significant: by attaining high standards they are able to employ capital more effectively. It is also worth noting that different lines of business are required to set aside varying levels of capital to reflect the risk inherent in that line of business. It's the aggregation of these business lines that determine whether a bank receives a net capital increase or decrease after the Accord is implemented.

So that's the objective, the ramifications however for a bank's processes, structure and technology are significant. The emerging nature of banking products, international banking operations and consolidation have created an environment in which banks employ a myriad of disparate, un-integrated risk management systems and structures. A single enterprise-wide risk system able to support the specific requirements of all business lines and regions has not been required or available. So there's no shortage of risk management expertise, technology or data at banks, the issue is about consolidating it and increasing visibility: internally and externally.

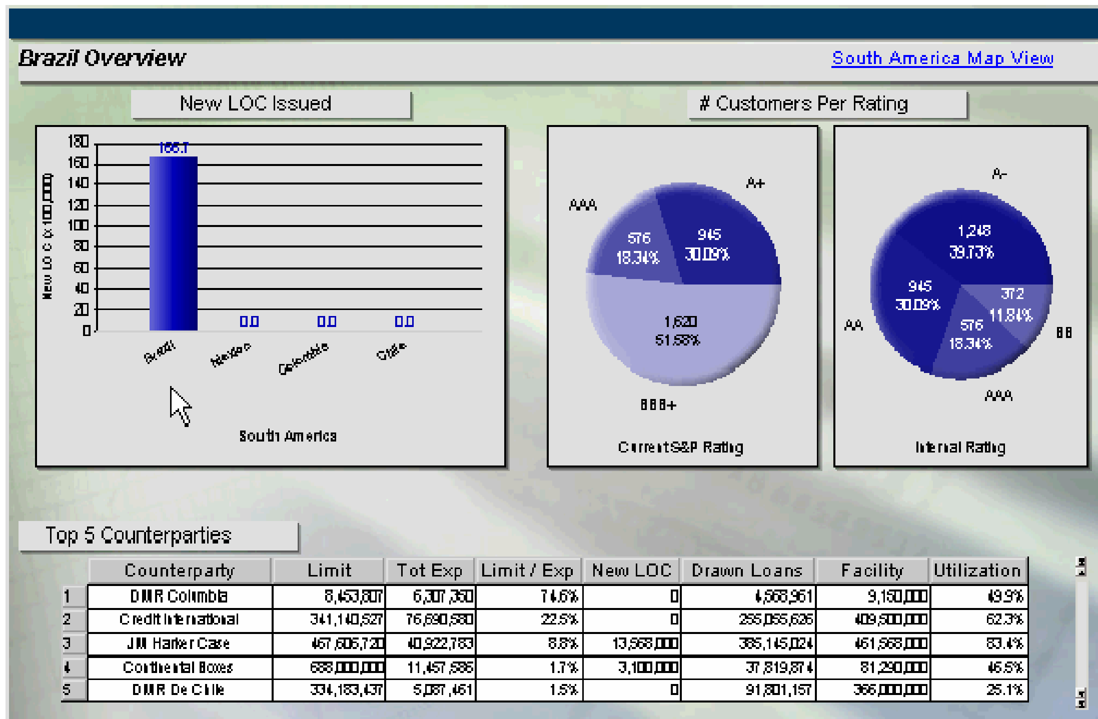
Internally - to disseminate a single shared perspective of the risk profile of the bank at both a consolidated and business unit/regional level. Historically risk management systems have been considered back office functions, often administered by the finance function and the information accessed by relatively few. The Accord requires a more integrated approach to way risk and business managers operate and by implication more involvement from senior management.

Externally – to either avoid additional capital charges or capture capital reductions and avoid painful investigations banks need to be able to readily and accurately disclose and demonstrate a robust process.

In the next phase banks need to think about visualizing, scorecarding, analysing, reporting risk – an area where Business Intelligence has a major and emerging role to play.

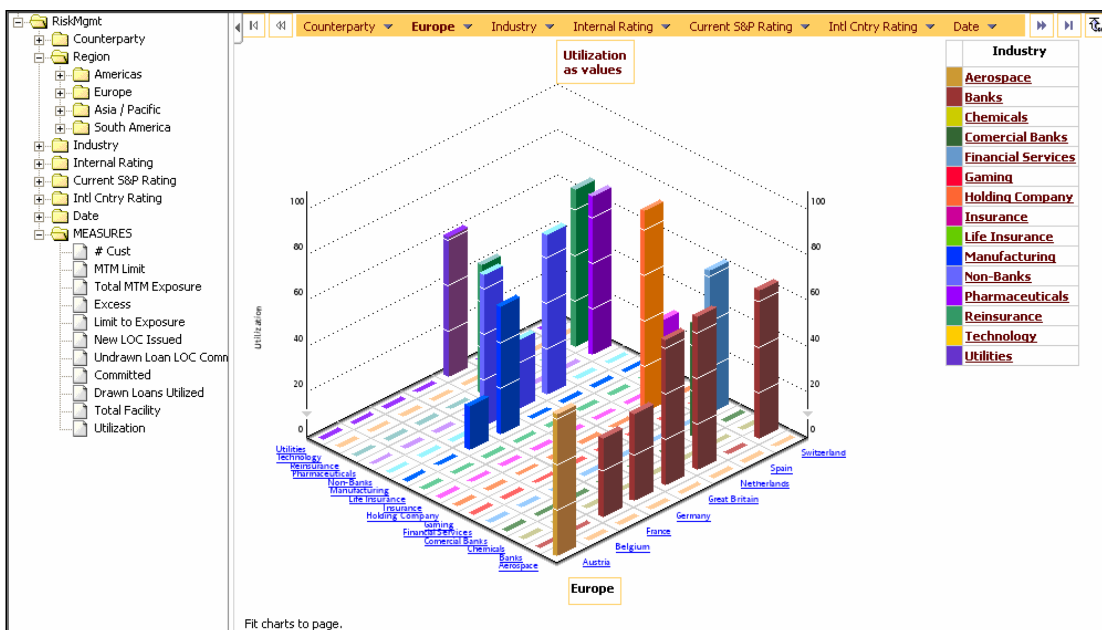
Cognos the leading Business Intelligence provider has proven capabilities in extracting data from disparate sources, transforming that data to provide consistency and loading it into datamarts ready for use within downstream tools.

Cognos visualisation tools provide graphical display of risk concentrations by client, region, business line, industry, credit rating etc. to provide senior management, risk management and business managers with both risk oversight at varying levels of security and the ability to drill into specific detail.



	Counterparty	Limit	Tot Exp	Limit / Exp	New LOC	Drawn Loans	Facility	Utilization
1	DMR Columbia	8,453,807	6,307,350	74.6%	0	4,568,961	9,150,000	49.9%
2	Credit International	341,140,527	76,690,580	22.5%	0	255,055,626	409,500,000	62.3%
3	JM Harker Case	467,606,720	40,922,783	8.8%	13,568,000	385,145,024	461,568,000	83.4%
4	Continental Boxes	688,000,000	11,457,586	1.7%	3,100,000	37,819,874	81,290,000	46.5%
5	DMR De Chile	334,183,437	5,087,461	1.5%	0	91,801,157	366,000,000	25.1%

Cognos analysis tools allow Group and divisional risk officers and business managers to identify concentrations and associations not captured through routine reporting. For example, highlighting risk exposures within specific accounts that are managed in multiple regions or different business units or product teams.



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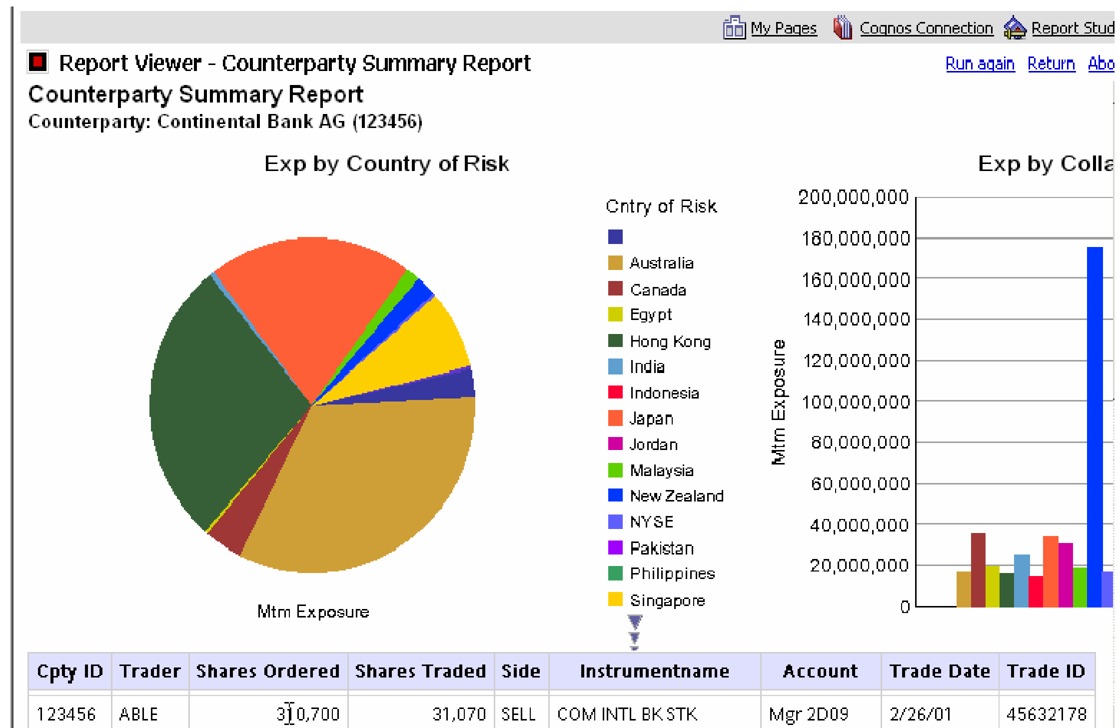
Cognos combines production and business reporting uniquely into a single class leading tool that delivers the flexibility to produce both regularly required reports (i.e. management reporting and disclosure) and ad-hoc reports produced by non-technical staff for exception reporting for example.



Cognos balanced scorecarding captures key risk indicators across business units, regions, industry and ratings dimensions highlighting performance, trends, dependencies and exceptions and enabling banks to increase ownership of risk indicators and visibility of performance against target.

Used together these tools combine to provide the bank with an integrated risk management environment that can be used consistently across the bank to create a shared understanding of the risk profile of specific business units, regions and functions. In short it delivers visibility and control. For risk managers and senior managers the benefits are obvious – not just adherence to a new standard - but tools to support the principles of risk management best practice. For those in the business e.g. loan officers and account managers, the framework provides a cost effective mechanism that encourages them to see risk from the organisational perspective and not isolated to a particular product line, region or group of branches.

“Using Cognos enables us to add much needed context around our data. We are able to quickly answer key business questions to determine our level of risk in a particular country or partner dimension and quickly make decisions to protect ourselves,” said Patrick Hendrikx, financial services, head front-end and reporting, UBS AG. “Whether you are looking for a high-level portfolio ceiling view or a more detailed transaction-level analysis, Cognos provides us with a powerful solution that lets us quickly and easily access and understand information on risk exposure.”

“With Cognos, we've gone from a situation where we've had annual reviews and a quarterly interim review of the exposures, to where we can actively monitor exposures daily to get within limits,” said Edmund Ruppmann, director of credit risk reporting, CitiGroup.