



Hidden Opportunity

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In preparation for a 2008 deadline, banks are starting to buckle down and initiate their Basel II strategies. With the purchase of a credit risk product from Reveleus, an i-flex solutions (Mumbai) company, San Francisco-based Wells Fargo (\$482 billion in assets) is among the financial institutions readying itself for the new regulation.

Basel II is an international standard designed to better align banks' capital requirements for risk purposes -- credit, market and operational. The Reveleus Basel II Solution will help San Francisco-based Wells Fargo calculate its credit capital risk, relates Nick Deshpande, head of the bank's corporate project office. The solution will provide the bank with a set of rules, computations, business definitions and underlying data structures to support its calculations according to the advanced internal ratings-based approach of the Basel II Accord.

According to Deshpande, Wells Fargo faced a challenge in searching for a solution. "The whole Basel II [solutions] marketplace is fairly immature -- especially relative to other applications we have in the bank," he says. "So among our criteria for a vendor was how mature their solution was." In the end, Reveleus was the most established product when compared to its competitors, Deshpande contends.

Further, the Reveleus platform also worked well with Wells Fargo's existing systems, Deshpande adds. And the ability to execute and implement a solution was vital, given the Basel deadlines, he notes. The fact that Wells Fargo is a long-time Oracle (Redwood Shores, Calif.) customer helped the process along -- since Oracle purchased i-flex last year, the system was a natural fit for the bank.

The purchase of packaged solutions such as Reveleus' for Basel II is not uncommon on the credit risk side, relates Cubillas Ding, a senior analyst for Celent (Boston). On the operational risk side, however, banks turn more to home-grown solutions since that market is somewhat in its infancy and remains fragmented, he asserts.

More Than a Compliance Exercise

Wells Fargo began implementing the Reveleus solution in February and the application is slated to go into production by January 2008, just in time for the Basel deadline. However, that does not mean Wells Fargo won't use its new application for other things. "It's not just a compliance exercise -- it's also a credit analytics tool, too," says the bank's Deshpande. "This is a key application for us. When we approached Basel, we wanted to make decisions to bring value to the firm and to our customers. There are tremendous opportunities for Basel II on the credit side." Deshpande notes that some of the solution's analytics capabilities should be available by this spring.

Celent's Ding acknowledges that Wells Fargo should benefit from the implementation. "Its retail portfolio will benefit substantially by going to the Basel regime because Basel II has provided benefits regarding capital relief for banks with big retail portfolios," he says.

Ding points out that Wells Fargo isn't the only bank looking beyond the Basel standard's regulatory aspect, suggesting that there is more urgency in Europe and Asia than in the U.S. "In Asia -- particularly Singapore, Australia and Hong Kong -- banks are using Basel II to develop best practices in the organization and to change their internal risk management practices," he explains. "Being Basel-compliant provides a badge of credibility for these banks."



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