ORACLE FINANCIAL SERVICES ECONOMIC CAPITAL

Volatility and competition rule today’s financial markets. To survive, global financial services institutions must accurately understand the relationship between their existing capital and their risk exposure. The ability to clearly view and quickly adjust the balance between risk and returns is critical to achieving optimal business results. Oracle Financial Services Economic Capital provides the transparent risk insight that financial institutions need to develop their business strategy, while providing daily operational value to their stakeholders.

Improve Risk and Capital Management
Oracle Financial Services Economic Capital allows banks to implement an enterprise-wide approach to managing all types of risk. By deploying this state-of-the-art risk management solution, financial institutions can more-effectively compute capital adequacy, improve capital planning, define their risk appetite, and set risk limits. Using robust modeling capabilities, organizations can create or modify risk models to perform economic capital calculations, quantify capital needs, and determine risk-adjusted performance for their business initiatives.

Create Sound Business Strategy
Oracle Financial Services Economic Capital gives organizations an unparalleled ability to determine how much capital they need to offset risk across the enterprise, allocate capital across different business lines in an efficient and rational manner, and identify opportunities for diversification and hedging. By establishing their risk level, organizations can define their risk appetite and develop business plans that are closely aligned with corporate strategies and comply with regulatory requirements.

Proactively Address Pillar II Regulatory Requirements
The adoption of the Basel II regulations has demanded that many financial institutions implement internal capital adequacy assessment processes. With Oracle Financial Services Economic Capital, these institutions can model and assess the impact of risk concentrations, correlations, and stress tests on portfolio risk and economic capital levels in support of Pillar II requirements. In addition, Oracle Financial Services Economic Capital extends beyond the regulatory framework of risk measurement for credit, market, and operational risk and provides an integrated framework that includes liquidity, business, and fixed asset risk. The solution can rapidly perform an enterprise-wide risk simulation across all these risk classes to maximize knowledge of corporate risk. Select and delete the text box at the top of page 1 with the logo note to “USERS”.

Design Stress Testing Scenarios
In achieving Pillar II compliance, institutions must establish well-defined stress testing procedures. Oracle Financial Services Economic Capital allows institutions to design stress scenarios and assess the effect of these scenarios on risk measures and capital requirements.
Institutions can stress test all risk factors, ranging from individual factors for sensitivity analysis to a complete set of factors, jointly, for capital adequacy. The solution can also estimate survival probability—the probability that a business unit can survive the stressed scenario given its capital reserves.

**Accurately Assess Risk Level**

Oracle Financial Services Economic Capital uses a loss distribution approach for risk measurement as risk is modeled at the transaction level and aggregated to the portfolio level. This approach considers the diversification benefits across asset classes, product types, and business lines. The solution calculates two commonly accepted risk measures: value at risk and conditional value at risk. These figures are based on user-defined parameters and form the basis for estimating allocated and incremental economic capital for each portfolio asset.

**Support Risk-Based Pricing**

Oracle Financial Services Economic Capital also supports risk-based pricing, allowing institutions to identify the cost of taking on additional risk based upon their hurdle rate for raising additional capital. Traditionally, pricing methodology did not factor into the marginal risk of a transaction; however, Oracle Financial Services Economic Capital allows institutions to determine a spread that compensates for the transaction risk and achieves a target rate of return.

**Compute Risk-Adjusted Performance Measurements**

Oracle Financial Services Economic Capital allows institutions to more-effectively manage their capital allocations through risk-adjusted performance measurements. The solution supports the calculation of both risk-adjusted return on capital (capital effectiveness) and shareholder value added (the amount of capital required) for each business unit. These figures provide banks with a portfolio view of risk-adjusted returns across lines of business, asset classes, and product types so they can reassess their investments and improve decision-making.

**About Oracle Financial Services Analytical Applications**

Oracle Financial Services Economic Capital is part of the Oracle Financial Services Analytical Applications family of solutions for the global financial services industry.

Oracle Financial Services Analytical Applications are built upon a commonly available analytical infrastructure consisting of a unified financial services data model, analytical computations and the industry-leading Oracle Business Intelligence platform.

Oracle Financial Services Analytical Applications include award-winning solutions for Enterprise Risk Management; Governance, Risk, and Compliance (GRC); Enterprise Performance Management (EPM); and Customer Insight for financial services.
Contact Us
For more information about Oracle Financial Services, visit oracle.com or call +1.800.ORACLE1 to speak to an Oracle representative.

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