Global financial services institutions need to accurately forecast credit losses and create provisions for such losses in accordance with rules specified under IAS/IFRS. Regulations such as Basel III & Dodd-Frank also require institutions to forecast credit losses under baseline and multiple adverse scenarios as part of the capital management process. Oracle Financial Services Loan Loss Forecasting & Provisioning provides pre-configured & extensive computations that enable institutions to effectively forecast credit losses under multiple scenarios and compute required provisions.

**KEY FEATURES**

- Credit loss forecast under baseline and stress scenarios
- Pre-configured counter-cyclical methods for provision calculation
- Transition matrix estimation using advanced statistical methods
- Built-in cash flow engine
- Exhaustive coverage
- Estimation of Amortized Cost
- Comprehensive stress testing capabilities
- User-defined parameters
- Preconfigured reports and dashboards

**Comply with Regulatory Requirements on Loss Forecasting**

Regulations put a lot of emphasis on stress testing and require institutions to forecast credit losses under baseline and stress scenarios. Stress testing of forecasted losses is an integral requirement of the capital plan rules issued in United States under the Dodd-Frank Act. Oracle Financial Services Loan Loss Forecasting & Provisioning provides pre-configured methodologies and leverage an extensive modeling and stress testing framework that enables institutions to define multiple stress scenarios and forecast credit losses under such stress scenarios using pre-configured models. The application supports multiple types of risk factors, including macro-economic, equity, interest rate, categorical and idiosyncratic factors. Scenarios can be defined by specifying shocks to the risk factors.

**Accurately Compute Loan Loss Provisions**

Oracle Financial Services Loan Loss Forecasting & Provisioning provides pre-configured methods for estimating loan loss provisions that enable compliance with IAS/IFRS 9 regulations and other local accounting guidelines. This includes countercyclical methods that calculate amortized cost for each exposure based on its expected cash flows over its residual maturity. The application also provides the flexibility to compute provision measures on a collective basis and enables users to analyze provisions and trends through an exhaustive set of pre-configured dashboards and reports that allow the user to drill-down to the most granular level.
KEY BENEFITS

• Comply with new and emerging regulations such as BCBS 239, Dodd-Frank and IFRS 9
• Enable strategic capital decisions using a single consistent suite of applications
• Adopt counter-cyclical methods for loan loss provisioning
• Assess risk for a portfolio across multiple parameters
• Enable multi jurisdiction reporting
• Improve capital management and strategic planning
• Provide key metrics to stakeholders
• Granular level metrics for detailed analysis

Advanced Methods for Risk Calculations

Oracle Financial Service Loan Loss Forecasting & Provisioning estimates losses and calculates loan loss provisions using advanced built-in methods:

• **Transition Matrix**: The application provides multiple techniques including regression and time-series for predicting transition probabilities. Regression models can be configured based on user specified risk factors. It also provides a multi-factor method that estimates transition probability across rating classes based on credit spreads. The application has the flexibility to “host” transition matrices developed using “in-house” models or directly use transition probabilities calculated using other applications. Oracle Financial Services Loan Loss Forecasting & Provisioning uses statistical methods based on the Poisson process to estimate forward probabilities.

• **Cash Flow Estimation**: Oracle Financial Services Loan Loss Forecasting & Provisioning provides a built-in cash flow engine for estimating contractual cash flows at an account level granularity. Cash flows are estimated taking into consideration parameters such as interest rates, reset dates, spreads, and residual maturity. The application also provides the flexibility to estimate cash flows at a less granular level.

• **Risk Measure Estimation**: Oracle Financial Services Loan Loss Forecasting & Provisioning enables institutions to estimate key measures such as amortized cost, effective interest rate (EIR) and effective interest spread (EIS) at an account-level or pool-level granularity. Forward losses are estimated using a combination of contractual cash flows and forward probabilities.
Comply with Multi-Jurisdictional Mandates

Oracle Financial Services Loan Loss Forecasting & Provisioning offers the flexibility of defining multiple calculation runs, each catering to the requirements of a different regulation. The calculation process is flexible and parameterized thereby increasing the ease of reconfiguration. It is designed in a manner that allows for estimation of risk of a portfolio across multiple methods. Exposures can be mapped to multiple runs and the provisions can be estimated under multiple sets of parameters thereby enabling multi-jurisdictional reporting.

Advanced Analytics

Oracle Financial Services Loan Loss Forecasting & Provisioning has strong dashboard capability that enables the delivery of advanced analytics through pre-configured reports, charts and graphs having drill-through capability. The risk metrics reported include provisions, contractual cash flows, expected cash flows, amortized cost, transition matrix, and stress test reports.

The dashboard allows the comparison of risk measures across multiple portfolios. This allows the top management to compare the relative risk and performance of each portfolio and devise appropriate strategies.

Figure 3: Charge off reports by line of business and trend over time

About Oracle Financial Services Analytical Applications

Oracle Financial Services Analytical Applications bring financial institutions best-of-breed capabilities to proactively manage Financial Crime, Compliance, Risk, Treasury, Finance and the Front Office. The applications are built upon a commonly available analytical infrastructure consisting of a unified financial services data foundation, analytical computations, and the industry-leading Oracle Business Intelligence platform.

A single, unified data model and integrated metadata framework provides one version of the analytical “truth” to business users throughout the entire enterprise. This enables financial services institutions to confidently manage performance, governance, risk and compliance. Shared data, metadata, computations and business rules enable institutions to meet emerging business and regulatory requirements with reduced expenses and the unified platform helps financial institutions to leverage existing investments.

RELATED PRODUCTS & SOLUTIONS

- Oracle Financial Services Economic Capital Advanced
- Oracle Financial Services Retail Credit Risk
- Oracle Financial Services Corporate Credit Risk
- Oracle Financial Services Operational Risk Economic Capital
- Oracle Financial Services Operational Risk
- Oracle Financial Services Basel Regulatory Capital
- Oracle Financial Services Asset Liability Management
- Oracle Financial Services Hedge Management
For more information about Oracle Financial Services Loan Loss Forecasting & Provisioning, visit oracle.com or call +1.800.ORACLE1 to speak to an Oracle representative.

Integrated Cloud Applications & Platform Services

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