ORACLE FINANCIAL SERVICES RETAIL PORTFOLIO RISK MODELS AND POOLING

Increasing consumer debt in the global markets has increased the size of retail assets on the banks’ books. The number of exposures can touch millions, combined with Default Probabilities that could range from a few hundredths of a percent (0.01%) to over 20%. Basel II mandates banks to group their retail exposures into pools, to satisfy certain key regulatory requirements. Oracle Financial Services Retail Portfolio Risk Models and Pooling, part of the Oracle Financial Services Enterprise Risk Management suite of advanced risk analytical applications, provides a pre-built, scalable and easily deployable method for retail pooling and loss measure estimation.

About Retail Assets

Retail portfolios are quite different from their commercial counterparts, in terms of the number, ticket size and expected loss measures. The size of retail assets can add up to millions in the banks’ books. Individual exposures at default are typically much smaller for retail than for commercial lenders: for unsecured lending, this varies between about $100 to $20,000. Actual default rates range from a few hundredths of a percent (0.01%) to greater than 20%. The distribution of default rates for retail assets are wider, as compared to banks’ commercial assets and therefore, require a different methodical approach.

The Oracle Financial Services Retail Portfolio Risk Models and Pooling solution follows the practical method described above and presents an auditable and transparent framework through various steps along with the necessary checks and balances.

Internal Model for Retail Assets Segmentation

The computation of Basel capital ratios for retail exposures in a bank portfolio typically depends on a segmentation scheme that groups borrower accounts into pools that are homogeneous with respect to default behavior. These pools then form the basis for estimating a probability of default (PD) for exposures in the pool. Banks need to create pools of retail exposures for varied reasons such as differentiating borrowers for the purpose of risk-based pricing, credit limit assignment, capital charge, profitability, etc.

The IRB capabilities includes:

- Manage much larger volume of retail exposures in a smaller number of pools.
- Obtain a unified, enterprise-wide, view of portfolio loss behavior of retail pools.
- Adopt a Basel compliant method for loss measures estimation for capital computation.
- Provide a transparent framework for pool creation and pool validation for the distributed exposures across pools.
- Easier deployment and prediction of incremental exposures.
- Flexible and stable pool definitions for comprehensive analysis.
Gather Risk Insights

It also provides significant business insight into the risk characteristics of borrowers including visualization capabilities:

- Segmentation, to understand the greater portfolio loss behavior.
- Obtain critical insights of risk characteristics of pool level borrower defaults
- Gather pool migration and stability behavior and default transition of borrowers
- Visualize estimated loss measures using reports and drill down within pools

A unified and enterprise wide analytical approach to risk modeling, combined with a greater understanding of the business and retail risk domain itself, helps organizations fulfill both the regulatory compliance and business needs related to retail asset management. Flexibility in the preparation of dataset variables, transformations, data reduction, sampling, data exploration, model fitting, stability and validation enables pooling and modeling to be performed in an auditable, transparent and secure manner.

About Oracle Financial Services Analytical Applications

Oracle Financial Services Retail Portfolio Risk Models And Pooling 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

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