

PRINCIPLES BASED RISK MANAGEMENT »»

MEETING THE CHALLENGES OF OPERATING RISK THROUGH AN EFFECTIVE PRINCIPLES BASED RISK REGIME

After each catastrophe, regulation and processes often highly prescriptive in nature are put into place to prevent similar events happening in future. However, future shocks in the Financial ecosystem always differ from past events and their frequency is increasing.

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Background

The Sub-Prime 'Credit Crunch' in financial markets is the latest in a series of events going back to the 18th century South Sea Bubble, the stock market crashes in 1929 and 1987; the collapse of BCCI, Barings and Long Term Capital Management, and the Asian crisis all in the 1990s. This time the market has demonstrated it can be resilient, however, the full extent of the losses has not been realised by all institutions (banks, hedge funds, pension funds) and it may not be until later in 2008 that all the losses will have been reported.



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Clients, investors and regulators have called for increased transparency in the identification and management of risks. Steps need to be taken to restore the reputation of financial market to manage risks and to restore confidence with investors. For example, Basel II requirements provide some information to the market through daily reporting but this does not cover every eventuality, e.g. Special Investment Vehicles, valuation in illiquid markets and off-balance sheet assets. No regulation can anticipate all risks, nor can it prescribe remedies. Regulation that is too specific encourages the development of exceptions.

The challenges

The tension between taking profits and managing risks is being handled differently by each institution. For example, Goldman Sachs, in mid-2007, identified the point at which it needed to exit the market and realise profits as the volume of business required to generate profits had distorted the revenue streams and increased the risks. The bank's management made this decision based on risk principles rather than responding to a regulatory directive. Other banks continued to take profits and to take on more risk until the liquidity problems became obvious and it was too late to avoid heavy losses. In the clamour for profit the risk managers were shouted down and afterwards many have been blamed for not bringing it to the attention of the banks.

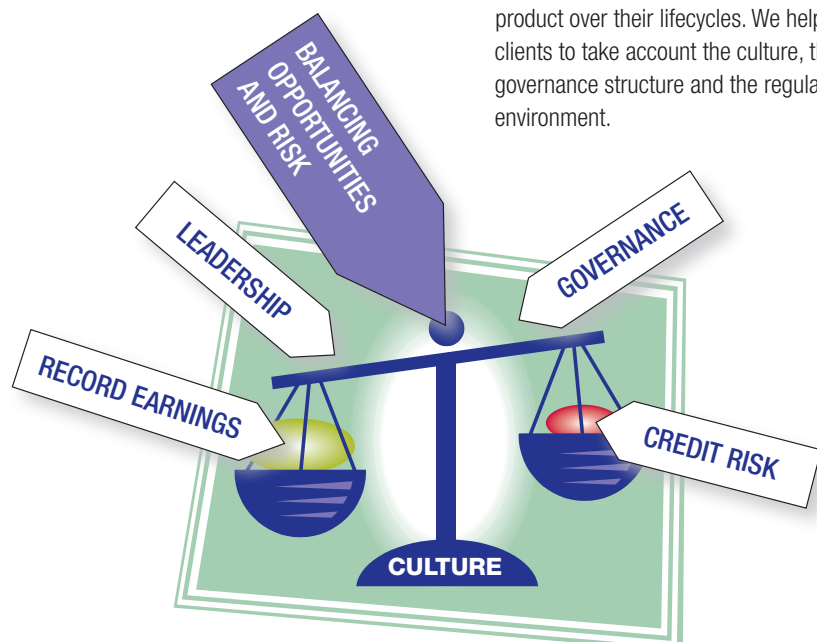
Risk managers need to do more than measure risks. Basel II and Solvency II embed principles requiring financial institutions to take responsibility from the very top in the management of risks. Firms need to have the maturity of governance and culture to be able to take the hard decisions to exit markets or reduce exposure.



The failure of firms to embed adequate risk management now carries a financial penalty in the form of increased regulatory capital requirements and increasing pressure from financial markets as a result of improved risk reporting.

Our approach

Atos Consulting is experienced in the implementation and management of principles-based regulation, such as Basel II and MiFID. We help our clients to gain competitive advantage through balancing opportunities and risks, for instance in structuring a target operating model or in aligning data requirements with business needs based on a full spectrum of risks, such as credit, market, operational and technological. The principles and the choice of methodology will vary within the context of each organisation and in respect of the complexity and maturity of product over their lifecycles. We help our clients to take account the culture, the governance structure and the regulatory environment.





RISK MANAGERS NEED TO DO MORE THAN MEASURE RISKS. BASEL II AND SOLVENCY II EMBED PRINCIPLES REQUIRING FINANCIAL INSTITUTIONS TO TAKE RESPONSIBILITY FROM THE VERY TOP IN THE MANAGEMENT OF RISKS >>

A programme of work needs to be put into place that can deliver results quickly and will continue to deliver benefits once the programme becomes business as usual.

An initial gap analysis of current processes and available information is vital to ensure that the right information is available at the right time to make decisions. From this we can establish that an adequate business intelligence infrastructure is in place, or, if not, to work with our clients to create the infrastructure. Working in both a top-down and bottom-up fashion with banks we design a set of principles and a framework to ensure that the relationship between profit and risk is understood, communicated and embedded into the organisation. We can bring our experience in risk management, compliance and organisational change to put this in place.

This includes our expertise in culture change in developing new organisational mindsets and behaviours at a firm-wide, functional and individual level associated with an effective principles based regime.

Client benefits

- > Enhanced effectiveness of risk management framework to mitigate the adverse impact of future extreme market events
- > Identify and remediate exposure gaps in advance of formal regulatory reviews
- > Incorporate best practice and gain an independent perspective on the effectiveness of the risk framework and governance processes.

Why Atos Consulting?

Atos Consulting, the global consulting practice of Atos Origin, is a leading provider of business, process and technology consulting services. With more than 2,500 staff globally, it focuses on working with clients in the financial services, telecom, manufacturing and public sectors. We are a market leader in risk management, regulatory compliance and business process transformation for the Financial Sector.

Next steps

For further information please visit www.atosconsulting.com or email ukconsulting@atosorigin.com

About Atos Origin

Atos Origin is an international information technology services company. Its business is turning client vision into results through the application of consulting, systems integration and managed operations. The company's annual revenues are EUR 5.4 billion and it employs over 50,000 people in 40 countries. Atos Origin is the Worldwide Information Technology Partner for the Olympic Games and has a client base of international blue-chip companies across all sectors. Atos Origin is quoted on the Paris Eurolist Market and trades as Atos Origin, Atos Euronext Market Solutions, Atos Worldline and Atos Consulting.

About Atos Consulting

Atos Consulting, the global consulting practice of Atos Origin, is a leading provider of business, process and technology consulting services. With more than 2,500 staff globally, it focuses on delivering proven, pragmatic solutions to the telecom, manufacturing, financial services and public sectors.

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