

Retail Banking
Consumer Lending
Wholesale Banking
Cards & Payments
Risk Management



BANKING & FINANCIAL SERVICES



Cognizant

CASE STUDY



Risk Management

Operational Risk Management System
for Leading North American Bank



Investment Management
Investment Banking & Brokerage
Custody & Clearing Services
Corporate Services



This project comprised development of a web-based system to automate collection of loss data on operational risk, in order to prepare the bank to comply with the requirements presented in the Basel II Accord. Cognizant developed a workflow-based, web-enabled system to centralize data capture, facilitate customized reporting and calculate capital charge for operational risk parameters, as per Basel II guidelines.

Services provided:
Application Development

The bank needed an integrated system to gather loss data from sub-systems at various geographical locations, facilitate customized reporting and calculate capital charge for operational risk management as per the Basel II guidelines

A four-stage approach was followed, involving modeling designing capturing and calculation of operational risk elements.

The Client:

A leading North American bank providing financial services to more than 9 million customers, including retail and small business banking customers, as well as corporate and investment banking customers.

Business Situation:

The Operational Risk Management Committee (ORMC) group at the bank embarked on an initiative to collate information on operational risk parameters, to prepare the institution to comply with the requirements of the Basel II Accord.

Client requirements included the following:

- A system to capture enterprise-wide operational risk parameters.
- Automatic collection of information on loss, metric, scenario, issues and exposure, from various lines of business (LOB). This automation would help the bank centralize data and facilitate customized reporting.
- A reporting and workflow tool to capture operational risk.
- Means of allocating loss to specific LOBs.
- A system to gather data from various sub-systems and geographic locations.
- A system to conduct validations of loss rates, risk indicators and size estimation for regulatory purposes.
- A system to calculate capital charge based on internal and external losses, and loss exposure, based on scenario analysis.

Approach:

- Four-stage project execution.
- Development of a sub-ledger application to capture and report internal loss, metrics and exposure, among other risk parameters.
- Development of functionality to calculate losses, exposure to loss and attribution of loss to different LOBs.
- Development of role-based data access for users, along with extensive reporting capabilities and a provision for master data management.
- Development of a calculation engine for determining risk-based capital charge.

Technology:

- J2EE
- Oracle Database
- Actuate, Struts, Exploded Deployment
- Import from Excel to Java application
- Use of CSV tags for export to Excel

Results:

- Comprehensive enterprise-wide system to capture operational risk parameters.
- System functional across various sub-systems and geographies.
- Pricing and reporting of operational risk in accordance with Basel II norms.
- System that provides regular monitoring and review of operational risk and loss parameters.
- Integrated system that calculates losses and exposures at the LOB and the loss type or sub-type level.
- System that calculates capital requirements as per Basel II recommendations.
- System that allows an LOB to choose the methodology for calculating capital requirement, thus allowing the business to decide when to move to more advanced methodologies.

A comprehensive enterprise-wide solution was developed that streamlined the collection, calculation and reporting of operational risk parameters, as per the Basel II Accord

Cognizant Banking & Financial Services Practice:

Banking & Financial Services (BFS) is one of the key industry domains serviced by Cognizant. The vertical has experienced associates in the domain, offering cross-platform software solutions to different segments in this industry. In order to specifically address the needs of the BFS industry, Cognizant's BFS Practice leverages our comprehensive understanding of the business and technology drivers, helping deliver quick and innovative solutions to an industry that thrives on speed, efficiency and bottom-line results.

Cognizant's focus is on constantly updating its domain knowledge and expertise. This favorably impacts our ability to provide quality solutions in tighter time frames, in addition to technical delivery superiority. Cognizant monitors the trends in the BFS industry closely - initiatives and developments such as Basel II, Reference Data, Check 21, MiFID, Prime Brokerage, Trading Systems, and orients itself to emerging domains quickly.

Cognizant is uniquely positioned to provide an "inside-view" of the emerging needs of the industry. A dedicated team of Business Analysts with cross-domain industry experience is involved in monitoring the industry and evolving solution offerings to give clients a sustainable competitive advantage through cost-savings and increased operational-efficiency.

Cognizant works on a diverse portfolio of projects in areas of BFS - covering Retail Banking, Consumer Lending, Cards & Payments, Wholesale Banking, Risk Management, Investment Management, Investment Banking & Brokerage, Custody & Clearing Services, and Corporate Services.



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