

“The litany of regulations just keeps growing.”

Paul Lockyear, CEO, Quadrant

Taking the bite out of compliance

Quadrant Risk Management puts Basel II in its place

RRISK. IT'S EVERYWHERE IN THE FINANCIAL SERVICES industry. For example, it includes internally driven strategic risk, as well as business risk that lies outside the control of the enterprise. Then there's market risk, based on changes in interest, currency, or other market rates. There's credit risk, which revolves around the likelihood of a credit risk exposure being repaid at a predetermined point in the future. And there's operational risk: Will deficiencies in the organization's operating infrastructure result in loss to the business? Finally, there's the ever-present risk to the reputation of the enterprise, linked to relationships with high-profile individuals, investor confidence, credit ratings, and analyst expectations.

Today Basel II has banks thinking hard about risk. This sweeping accord—which mandates more effective management of credit, operational, and market risk across all asset classes—is being implemented around the world. Compliance with Basel II brings with it significant benefits, not the least of which is the possibility of a reduction in the “prudential capital” that banks must set aside to offset risk exposure. At the same time, however, compliance can involve huge costs in terms of money, time, and resources. A company called Quadrant Risk Management aims to change all that.

Quadrant was involved in early discussions on Basel II with the Bank of International Settlement (BIS). “We noted that there would be significant commonality across the global banking community in risk-critical data,” said Quadrant CEO Paul Lockyear. “We could have treated every bank as a ‘one-off’ development opportunity to turn a gap analysis into a Basel II risk-critical data repository. But commercially, we felt there was no justification in doing so.”

The data model created by Quadrant is essentially a compliance engine. “Using a broad range of ETL tools, we can pull any desired risk data into this model,” continued Lockyear. “Today, Basel II; tomorrow, Sarbanes-Oxley, Solvency II, the Patriot Act, and the Markets in Financial Instruments Directive (MiFID). The litany of regulations just keeps growing.” The Quadrant data model is a core element of the preintegrated, prepackaged HP Risk Management Solution, and runs on multiple HP platforms including the Integrity NonStop server.

REALITY CHECK WITH BI

The ability to scale the solution with virtually no performance degradation is critical, according to Quadrant CTO Jon Simmons. “When a bank starts

on the process of compliance, it never really knows how much will be required; the data volumes grow, the requirements creep. Not having to worry about the technical infrastructure makes the deployment of the solution much safer, with less risk for the future because the platform can expand as the program evolves.”

The Quadrant data model is closely tied to business intelligence. “Once you’ve set the expectation of where you want to go in terms of risk limitation, you then need to understand whether that actually happened,” said CEO Lockyear. “That bit about ‘did it actually happen’ is business intelligence. Our solution supports business intelligence by storing data at the atomic level with myriad connections to other data elements.”

Lockyear offers a simple example to illustrate the point: “Say I’m running a trade finance desk in a bank and I want to bring in engineering equipment from another country. As the bank handling that transaction, I’m going to pick up credit risk because I am lending money to somebody. I’ll pick up market risk because I’m going to use a financial instrument to fund the deal. And I’m picking up operational risk because the barge that shows up may be full of rocks and not engineering equipment—in other words, fraud. I need to understand the correlation and integration of all the risks, and I can only do that through business intelligence.”

At the end of the day, risk is unavoidable—but it doesn’t have to keep financial services executives awake at night. With the optimal combination of industry expertise, intellectual property, and information technology, risk can be effectively mitigated, managed, and controlled. This is the value proposition that Quadrant offers, and it couldn’t come at a better time for the global financial services community. ♦



HP Risk Management Solution

Over the long term, full Basel II adoption calls for a significant advancement in the way banks identify and manage the drivers affecting their risk portfolio. A critical success factor in enabling this advancement is readily available risk data that is consistent, of high quality, and (most important) predictive of behavior.

To help banks move up the risk management sophistication curve, the HP Risk Management Solution provides a cost-effective, predesigned data warehouse platform that is ready to meet Basel II data needs, right out of the box. The solution uses industry-standard hardware components to significantly reduce total cost of ownership, as compared with other compliance solutions currently available in the marketplace.

The turnkey HP Risk Management Solution enables ready access to the often disparate, enterprise-wide information that financial institutions need in order to meet Basel II requirements. Banks can use their preferred ETL (extraction, transformation, and load), business intelligence, and analytics tools with the HP Risk Management Solution to achieve an integrated, correlated view of risk across the enterprise. Further, this solution is easily incorporated into a heterogeneous computing environment and can evolve as business and regulatory requirements change.

“I need to understand the **correlation and integration** of all the risks, and I can only do that through **business intelligence.**”

Paul Lockyear, CEO, Quadrant

