ROCKALL
COLLATERAL MANAGEMENT TECHNOLOGY

ENTERPRISE COLLATERAL MANAGEMENT

Supporting Banking Profitability

White Paper

Background

Banking profitability has never been under greater pressure. Increasing regulatory compliance costs are combining with historically low interest rates and a progressively competitive operating environment to drive banking ROE down.

Pre-crisis, the average ROE of the 200 largest banks was at a very healthy 17% (2005–2007). Post-crisis, this average fell to 9% (2011–2013). Bain has recently reported that the gap in shareholder return between the best and the worst of the world's 20 largest banks has widened from a 5% standard deviation from the average return between 1993 and 2003 to 9% over the 2003 – 2013 period.

The global regulatory reform agenda shows no sign of slowing down, exacerbating the impact of legacy system and process complexity. Banks can mitigate these pressures by cutting costs, optimizing RWA and deploying "capital-light" products.

A lack of data integrity and full traceability of the credit lifecycle is hampering banks' strategic responses to this difficult environment. The solution is Enterprise Collateral Management (ECM), which offers a secure information layer with golden source data integrity, granularity of risk data and deeper business control and risk management of lending.

ECM resolves banking pain

Basel III is expected to push average ROE down by between 3% and 4%

Banks can mitigate the costs of Basel III by optimizing Risk-Weighted Assets to reduce cost of capital. This can be achieved by accurately classifying and tracing all loan collateral.

A trusted, authorized source of collateral data ensures data integrity, helping to optimize risk management and the delivery of "capital-light" products by a reporting on all collateral relationships and risk exposures at a corporate level with drill-down to account level.

Ever more strenuous risk management frameworks required

Banks can satisfy aggressive risk management demands by using Enterprise Collateral Management to ensure that the right information is available to decision makers at all times.

By understanding exposure at enterprise, business and account levels, concentration analytics can be used to reveal risk in the collateral mix at any point; the impact of various actions and scenarios on risk/exposure can be easily evaluated.

Heavier-touch regulation, deeper exams and reporting requirements (e.g. CCAR, Basel III and internal audit)

Banks are facing tougher reporting requirements and regulatory demands for:

(i) traceability of reporting data from loan-to-collateral,
(ii) justification/verification of valuations and models used and
(iii) accountability for all collateral relationships.

Enterprise Collateral Management can be used to report loan exposures and marked-to-market collateral values at all levels of granularity. This data can be traced through the credit lifecycle, helping to monitor processes and practices for accuracy and risk.

Increasing complexity of IT infrastructure, systems and products

Banks can streamline and simplify their infrastructure and systems by introducing a single system of record for collateral data. An Enterprise Collateral Management approach generates efficiencies and makes data integration easier.

More importantly, this step delivers a unified view of enterprise risk, facilitates cross-collateralization and complex loans and ensures clear control of the collateral release process.

Proliferation of legacy systems and non-standard manual processes

Regulators are becoming less accepting of the "fuzzy matching" involved in manually filling and augmenting gaps in reports or databases.

An automated, configurable enterprise collateral management system can provide an end-to-end, standardized data handling process; reducing or eliminating manual process risks, allowing continuous verification of data integrity and ensuring process scalability across multiple integrated systems.

> "All other things being equal, Basel III would reduce return on equity (ROE) for the average bank by about 4 percentage points in Europe and about 3 percentage points in the United States."
> - McKinsey

ECM resolves banking pain

Inaccurate, unclassified or untraceable collateral data increases banks' cost of capital

Banks often don't have full control of collateral management - at the expense of balance sheet optimization and cost of capital

Operational collateral lifecycle management and associated risk reporting systems often operate separately, leading to information gaps, lack of automation and inaccurately-valued loan assets

By thoroughly accounting for loans and exposures, banks can reduce their Risk Weighted Assets and, as a result, their regulatory capital requirements

Regulatory, finance and risk management functions are demanding more extensive and timely data for reporting than ever before

> "Banks have reached the tipping point. Regulatory, market and operational needs are converging; lenders are recognizing their commercial lending processes and systems will not carry them through the next business cycle."
> - PwC

A deeper understanding of credit risk throughout the organization is needed by banking management. The need for a unified enterprise view of risk and collateral has never been greater

Banking systems are under pressure to deliver reporting data with the range and granularity required for both regulatory and internal requirements

A unified view of credit risk and exposures which enables drill-down right through to account level can deliver collateral and risk reports on-demand, exposing the linkages and relationships associated with complex and cross-collateralized loans

Non-standard, manual reporting

Regulators are increasingly demanding automation and integrity of credit reporting systems. As well as offering efficiencies and reducing operational risk, an end-to-end collateral management system satisfies this need

Hangover of IT system complexity ensuing from acquisitions and mergers

Complex, dispersed and unintegrated systems are difficult to manage and to report from. Credit risk and exposure information is fragmented, porous and not accurately valued

A golden source for collateral data offers a secure information layer with data integrity, reporting granularity and enabling enhanced credit risk management

> "While economic recovery from the financial crisis has been slow, it will eventually give way to economic expansion. Banks that prepare now for the expected growth will enjoy multiple advantages over competitors that rely on fragmented legacy systems to continue shouldering the weight of their commercial lending businesses."
> - PwC

ECM transforms credit management

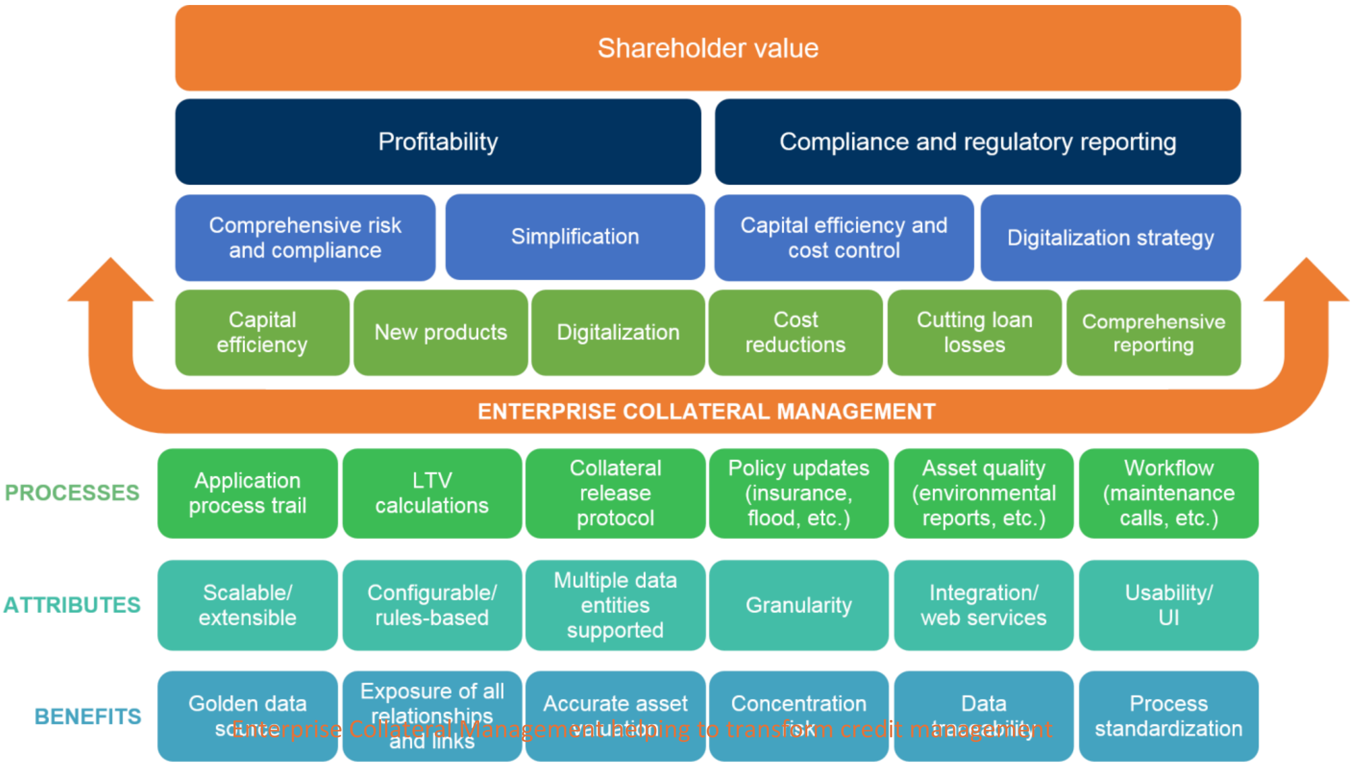
In order to counter challenging market conditions, banks are deploying strategic transformative programs to drive profitability, create shareholder value and secure market position for the future.

Successful and profitable credit transformation programs include strategies for:

- Comprehensive risk and compliance systems & processes
- Reductions in system complexity
- Cost controls and capital efficiencies
- Digitalization

These strategies reveal important change levers that will deliver profitability and market position for transformational banks:

- Reducing risk-weighted assets
- Controlling costs
- Cutting loan losses
- Deploying new “capital-light” products
- Improving fee income
- Exploiting digitalization opportunities



Enterprise Collateral Management helping to transform credit management

Enterprise Collateral Management supports the strategies and change levers that drive enhanced credit risk management, regulatory reporting, process simplification and capital efficiency. The ideal ECM platform will deliver process standardization, data traceability, accurate asset valuation and verification and the exposure of all collateral relationships and links.

ECM drives value creation

Attributes

Sophisticated Enterprise Collateral Management systems offer the flexibility, configurability and granularity to deliver a single, unified view of risk exposures across multiple, fragmented systems. Essential attributes include:

Extensibility

Facilitates a comprehensive, industry-standard selection of extensible Legally Enforceable Documents, asset types and attributes.

Configuration

Uses rules-based business logic to support business complexity, sophisticated lending structures and multiple credit policies.

Multiple data entities

Supports the multiple data entities needed to record collateral and its potentially many and complex relationships. This capability underpins full collateral artefact lifecycle management.

Asset categorization and granularity

Granularly categorizes collateral data for automatic RWA calculations and other strategic/regulatory reporting.

Integration

Rapidly and repeatedly integrates with the wider bank ecosystem, e.g. Web-services, bulk/batch upload and Workflow

User interface

UI flexibility for service-only or UI- and service-based usage to enable optimal usability and uptake.

> "Basel III guidelines require financial institutions to perform more calculations and submit more data to regulators than ever before; all while meeting greater pressure to increase their capital, liquid assets and collateral."
> - Chartis

Benefits

Providing a best-in-class information layer in the banking core system enables efficient delivery of:

Golden source for all collateral data

Locking in collateral data integrity across the credit lifecycle; delivering automated, verifiable and traceable reporting.

Exposure of all collateral relationships and concentration risk across the enterprise

Enabling a unified view of all credit risk across the organization, supporting comprehensive credit risk management and handling of complex and cross-collateralized loans. Also exposing opportunities to offer additional lending products to clients.

Accurate, continuous valuation and classification of collateral

Marking-to-market collateral values for accurate reporting and near real-time credit risk management.

> "Bank executives no longer see risk data aggregation and reporting as a specialized and technical issue that only the risk department cares about, but as a strategic board-level topic."
> - McKinsey

Full traceability of data through the credit lifecycle

Ensuring end-to-end collateral management through the credit lifecycle, assuring credit risk management and the integrity of regulatory reporting; supporting a fully-verified collateral release process.

Concentration risk exposure

Enabling concentration risk analytics on accurate collateral data at any level for scenario planning.

Standardized collateral management processes

Ensuring consistency and reliable application of underwriting rules.

ECM resolves system complexity

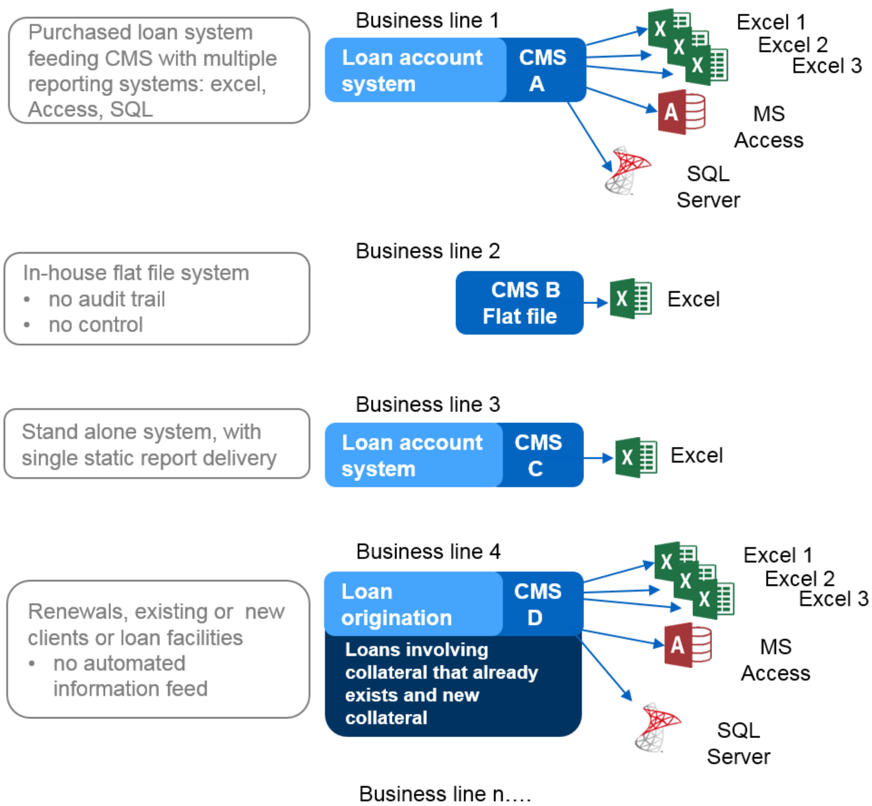
The typical banking collateral management ecosystem is highly complicated - and inefficient.

Multiple business lines that have stand-alone reporting in varying degrees of detail and often in a piece-meal manner. These systems may, or may not, be integrated to each other and may range in sophistication from a simple flat file to integrations with databases and other systems.

Many banks deploy a manual process to augment the data, fill gaps or complete files. Bottom line, achieving a single view of credit risk across the enterprise, or multiple business lines or individual account level is extremely difficult in this environment.

The fragmented reports available from this structure have gaps, require manual input and may not provide the granularity needed for strategic risk management. Lack of traceability of the information back through the lifecycle is increasingly being picked up by regulators as unsatisfactory, exposing banks to sanction or deeper investigation.

> "Large multinational institutions with multiple technology systems still struggle to gain a single view of the financial position and risk faced by the organization."
>
> - Chartis



Legacy complexity across business lines - multiple, fragmented systems

COLLATE – Rockall's ECM solution

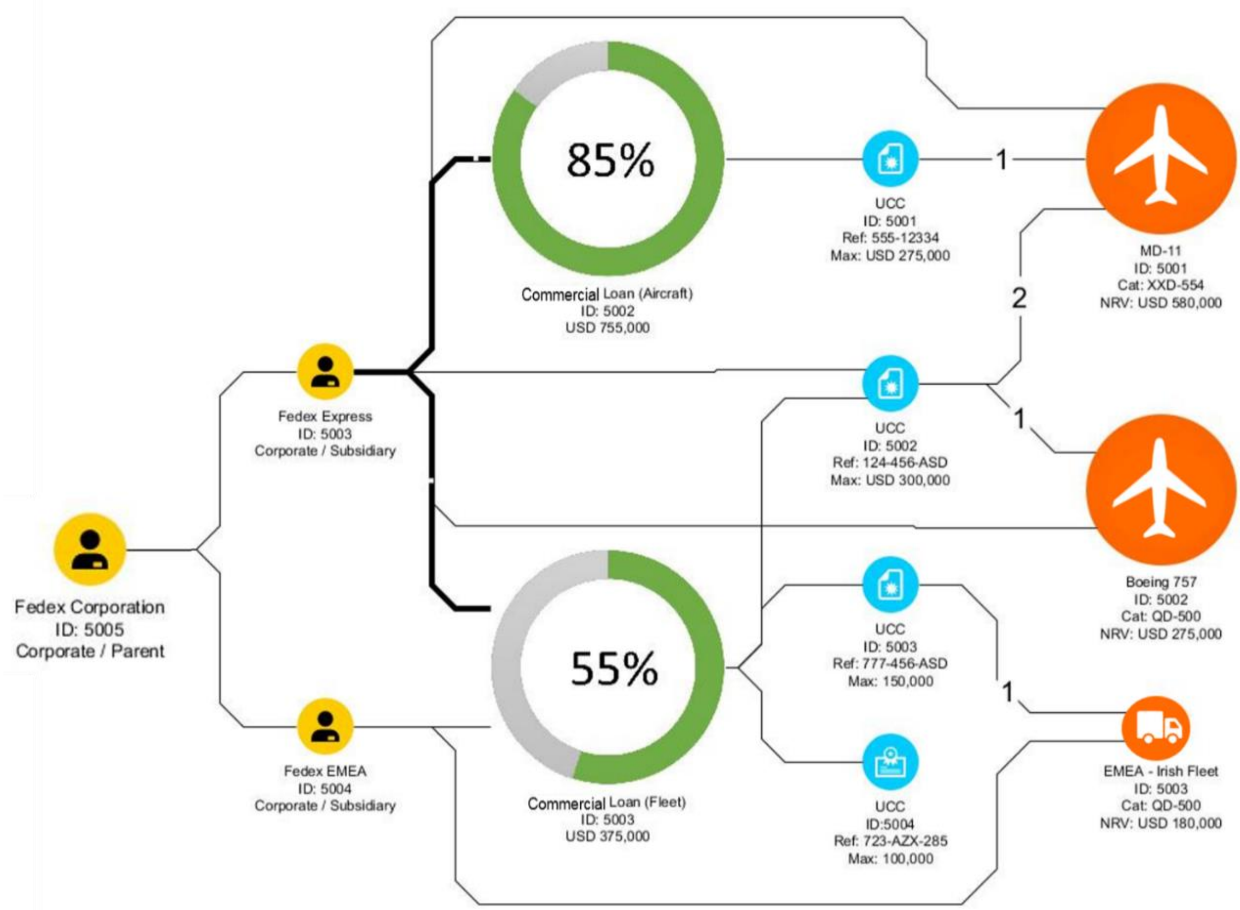
Enterprise collateral management helps banks allocate capital in ways that aggressively grow revenues while optimizing RWA.

COLLATE, Rockall Technologies' Enterprise Collateral Management solution is the optimal information layer to secure and hold Golden Source data and resolve the complexity of the typical collateral ecosystem. It enables a single repository for all collateral data, managing the often-complex relationships between customers, exposures, liens and collateral.

COLLATE provides a unified view of credit risk: every collateral relationship is tracked, confirmed and available at a click, at any level.

COLLATE is a state-of-the-art solution for banks seeking to:

- Satisfy regulatory demands and improve risk management
- Improve profitability through cost savings and lending optimization
- Exploit rich collateral data to shape processes and future products
- Expose the maximum value of collateral so that lending opportunities are maximized, both at balance sheet and individual account level
- Serve strategic corporate accounts better armed with collateral management expertise and knowledge



COLLATE – provides a unified view of credit risk at any level in the lending business

COLLATE – empowering banks

COLLATE drives credit transformation by delivering:

- A single system of record, standardizing simple & complex collateral and eliminating multiple legacy collateral solutions
- An authorized data source, eliminating manual data augmentation for accurate and scalable CCAR and other regulatory reporting
- Certainty of collateralization leading to better-rated securitized bonds and reduced capital cost
- Better underwriting standards through collateral quality & concentration analytics
- Better risk management and control of potential errors and losses, e.g. premature Uniform Commercial Code (UCC) termination or inadvertent release of collateral
- Flood insurance management, including for multi-parcel land
- Perfection of collateral earlier in the credit lifecycle, drastically reducing subsequent exceptions
- Overall standardization of workflow processing

How COLLATE has enabled users

Efficiency and simplification

- Resolving data from myriad different internal systems, interfaces and jurisdictions into a single system of record – e.g. more than 20 systems, through 90-plus interfaces, across four jurisdictions.
- Scalable for handling high volumes of collateral records and concurrent users

Profitability and cost savings

- Dramatic capital cost savings through RWA optimization - e.g. estimated $100m plus savings over 4 years
- Reductions in manual processes and headcount by delivering streamlined, automated enterprise collateral management

Risk management within a heavily-regulated environment

- Standardized collection management processes
- A golden source of collateral and relationship data
- Better margin management and loan optimization through marking-to-market of enterprise exposures
- Granular data integrity and overhauled documentation verification for reporting at any level: from collateral artefact to a unified view of all collateral

Vigorous and sustainable business expansion

- Impressive loan book growth - e.g. more than doubling to $40bn
- Scalable business growth with complete enterprise collateral management
- Growth of specialized lending products, e.g. roll-out of lending products based on liquid collateral such as securities-based lending
- System simplification resulting in reduced maintenance and better data quality

Reduced cost to introduce new features

- Satisfy regulatory demands and improve risk management
- Improve profitability through cost savings and lending optimization
- Exploit rich collateral data to shape processes and future products
- Expose the maximum value of collateral so that lending opportunities are maximized, both at balance sheet and individual account level
- Serve strategic corporate accounts better armed with collateral management expertise and knowledge

> "Risk management is becoming more balanced and mature in its outlook. While the emphasis on regulatory compliance remains, there is also need for a perspective that brings profitability to the forefront."
> - McKinsey

About Rockall

Rockall Technologies is the expert at unlocking asset value to both release and safeguard credit. Focused on lending, we enable banks to handle the complexity required to drive high volume and high value loan books while safeguarding against risk. By providing a single repository for all collateral data, our clients can reduce RWA, satisfy regulatory demands and improve credit risk management.

We have two flagship products: COLLATE, for enterprise-wide collateral management and FASTNET, a next-generation, cloud-hosted securities-based lending solution. Both highly-configurable, they deliver real-time analytics and integrate with bank systems to automate and standardize processes in order to accelerate time-to-loan and enhance credit risk management.

Rockall Technologies has 17 years of experience dedicated to banking book collateral management; we are included as one of the top risk technology companies in the world in the RiskTech100®, globally acknowledged as the most comprehensive study of the world's most significant risk and compliance technology companies. Collateral management is all that we do.

If you would like to learn more, please visit us at www.rockalltech.com