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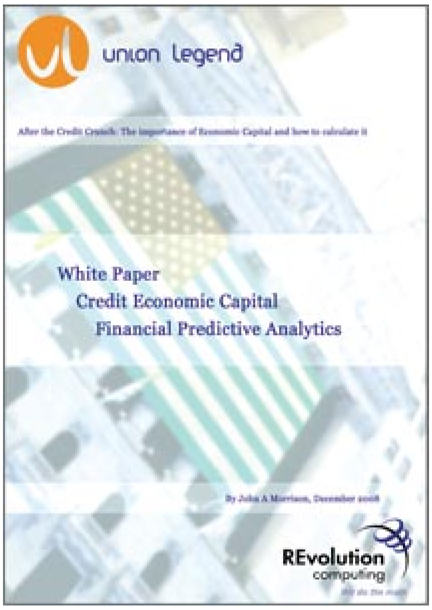
Wednesday, 4 March 2009 | John A Morrison



[1]

This is a White Paper about "Economic Capital", i.e. the amount of capital which a Financial Institution needs in order to survive in a worst case scenario. Events of recent months prove that this is no longer an academic exercise. The Credit Crunch has seen Central Governments pumping fresh capital into the banks which were clearly undercapitalized and ill-prepared to deal with the crisis.

Economic Capital is now the focus of all banks, including the Bank of International Settlements (BIS) and the Central Banks. Computation of risk capital in an holistic and comprehensive manner is the key to recovery from this crisis episode and to ensuring sustained levels of security. REvolution Computing is leading the software response to effectively meet this challenge through the development of high performance components of its product ranges in appropriate configurations.

It has taken a crisis to bring the banks and their supervisors closer together, sharing a common objective and that at the very least is one good thing to evolve from this crisis. Supervisors and senior Bankers are at least on adjacent pages in 2008 and look to remain there as the requirements of what will be by any other name a Basel 3 framework are worked out and agreed upon in the coming months.

This paper:-

- Is an exposition of how crucial both in terms of banking supervision and in terms of the individual bank?s strength, economic capital has become. The paper precisely defines economic capital both at the single institution level and at the systemic level.
- Will demonstrate that best practice and supervisory requirements entail that every financial institution must calculate an appropriate quantum of economic return on an originated exposure, risk based position or portfolio.
- Reveals how such a quantum of economic return is estimated or predicted based upon quantitative techniques or statistical analytics.
- Argues that banks will now need to adopt ?financial predictive analytics? so that they can accurately estimate the amount of risk capital required to cover the true extent of risks to which they are exposed.

To access the White Paper go here! [1]

Links:
[1] http://www.asymptotix.eu/ecap.pdf