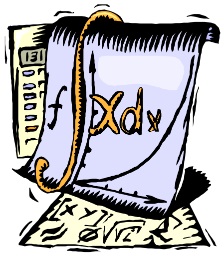
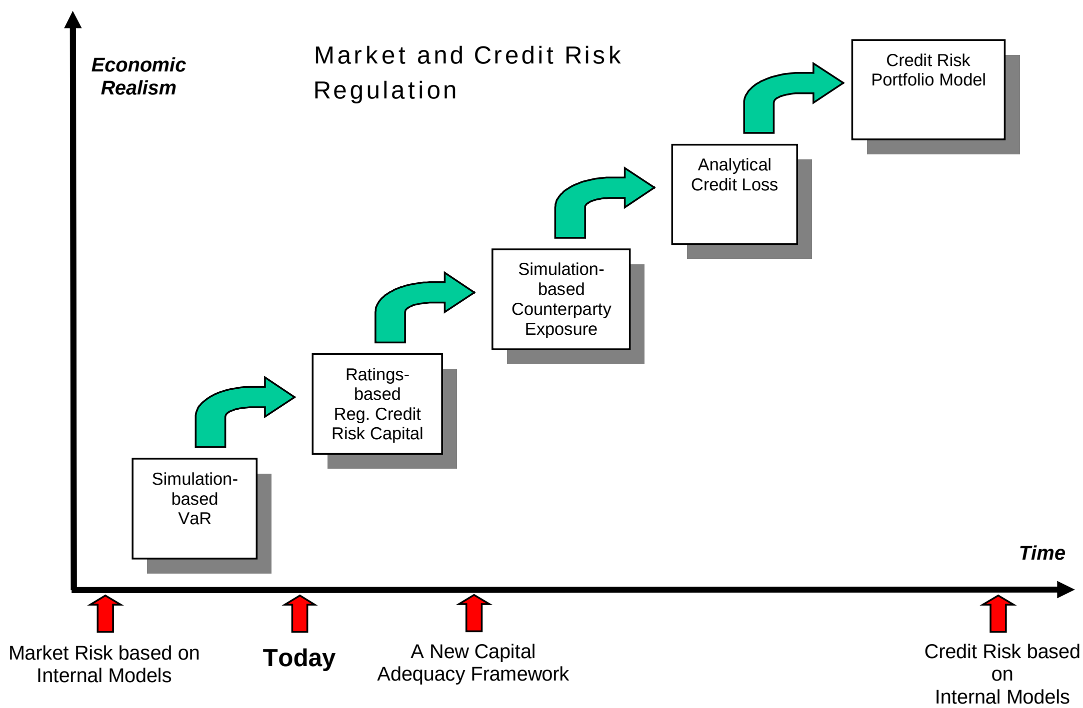


Providing Strategic Consulting and Systems Integration Services in Enterprise Risk Management

MHP Risk Management Business Modeling Expertise

Over the last several years, the concept of "enterprise risk management" (ERM) has moved out of the ivory tower and onto the trading floors of many of the world's leading universal banks, insurance companies and asset managers. Even in the shadow of Basel III and Sarbanes Oxley, firms are now willing to divert millions from their IT budgets in order design and build complex ERM systems to measure and monitor their use of market, credit and operational risk capital. But why now?

First of all, the regulators are finally beginning to catch up with the market. The increasing standardization and commoditization of pricing and risk analytics has emboldened the regulators



to move away from overly conservative formulas toward internal models. The price a firm pays for not keeping with the regulation is the excess capital it holds times it hurdle rate.

But even beyond the evolving regulatory environment, financial firms are also responding to growing competitive pressures exerted by an unforgiving marketplace. Invariably, the Market's concerns about a financial services firm's ability to manage its market, credit, operational and liquidity risk will drive down the its market capitalization relative to other industries; the severe drop in financial firms' equity prices is only the most recent example.

"…every successful implementation of an ERM system begins by identifying the business drivers and defining a Business Model."

From Vision to Reality

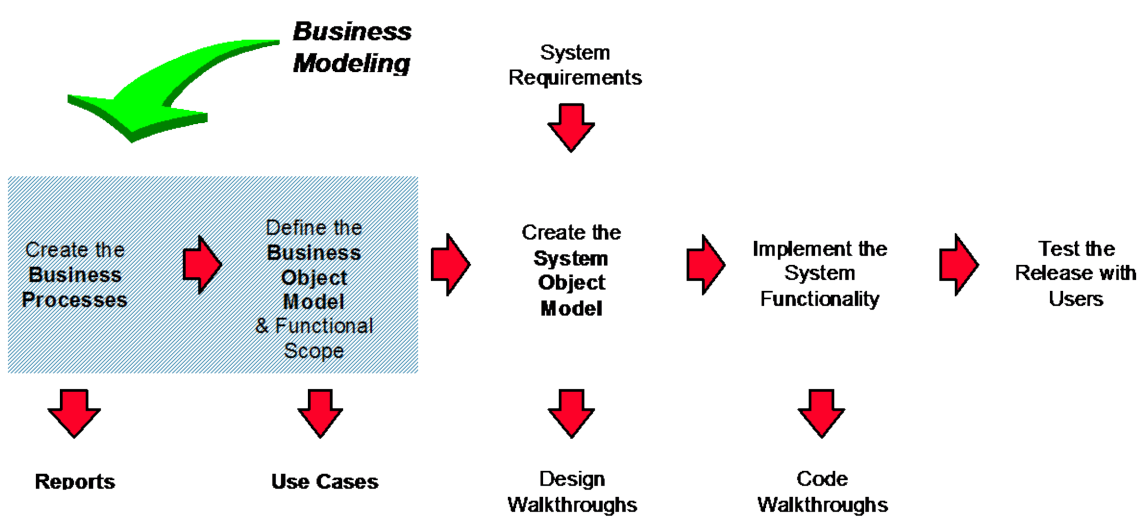
Once an organization decides to implement a risk management system, it must ask and answer a series of important questions:

- What business processes will our new risk management system support?
    - Capital allocation and limits monitoring?
    - Pre-deal limit checking?
    - Risk adjusted performance measurement?
    - Regulatory compliance and reporting?
    - Macro-hedging?

- How will we realign our existing organization to support these new business processes?
    - What new roles and responsibilities have been defined?
    - How will these new and existing roles interact with our risk management system?

- If we buy a risk engine from a vendor instead of building one, what are the functional gaps and how will they be filled?

At MHP, our extensive project experience has clearly shown that every successful implementation of an enterprise risk management system begins by identifying the business drivers and defining a **Business Model**.

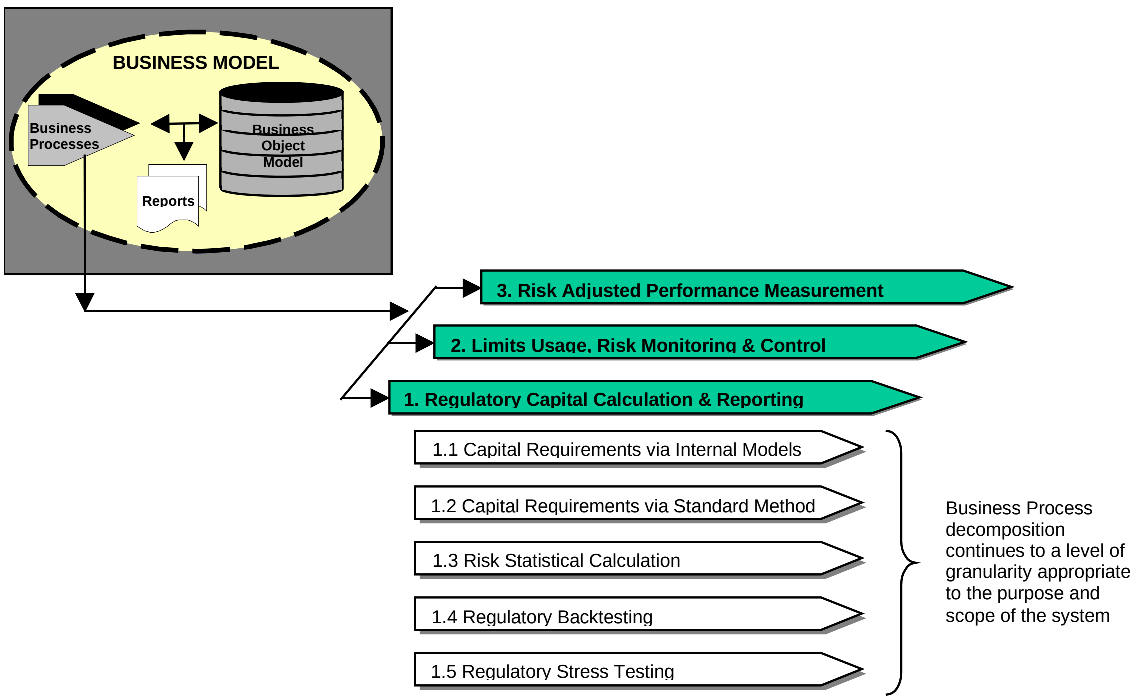


The MHP Approach to Business Modeling

Based on our years of experience in financial services strategic consulting, systems integration and organization design, we have developed and refined a unique but effective methodology for defining a Business Model.

The scope and purpose of the Business Model is to:

- Detail the business processes
- Identify the participating business entities including their roles, responsibilities and inter-relationships
- Specify reports
- Define functional vendor evaluation criteria
- Provide a roadmap for systems design and implementation



Our business modeling methodology does not rely on some arcane technical formalism understood only by systems developers but rather is expressed in the language of *business*. Indeed, the transparency of the Business Model is critical since it must also serve as a common language and framework for gaining the buy-in of all impacted constituencies within the organization.

The Business Model itself composed of three discrete but inter-related sub-components:

- **Business Processes:** define the roles and responsibilities of the actors in the risk organization and specify all the information flows
- **Business Object Model:** identifies the business entities, the functions they perform, and their inter-relationships. In addition, it serves as the basis for defining functional criteria for evaluating vendor risk management systems.
- **Reports:** specify what data needs to reported, who needs to see it and when it needs to be seen.

The Business Model is extremely modular and hierarchical in nature. For instance, you may start with several macro business processes that are each decomposed into several sub-processes and so on. However, the decomposition process is selective and should be occur in accordance with organizational priority. For example, suppose an organization desires to implement a market risk management system to support three primary functions: regulatory reporting, limits management, and risk adjusted performance measurement (RAPM). However, suppose that the highest priority is to produce a capital adequacy report for regulatory compliance. In this case, high level business process would be defined for each of the three functions, but only the regulatory reporting macro processes would be decomposed in order to provide detailed functional specifications for the design of the risk system (see diagram above). Later, the remaining processes can also be decomposed so that the risk system can be enhanced to provide the additional functionality. The key difference is that the system design and technical architecture have already been informed by the definition of high level business processes for *all three* risk management functions; consequently, the firm has avoided investing in a costly “throwaway” solution.

Based on our comprehensive project experience, we can help you craft a Business Model that is tailored to your unique business requirements but also reflects industry best practice. A team of our experienced business analysts, financial engineers, and technical architects will *partner* with your staff to insure that your organization fully understands and owns the solution.