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Solution primer

OneSumX Credit Risk

Counterparty credit risk (the risk that the counterparty in a contract will not fulfill their contractual obligations) and credit risk (including Credit VaR) are driven by several highly sensitive market and behavioral risk parameters. Both, credit and counterparty risk are elements of all financial contracts, from simple bonds to credit derivatives, impacting events arising during the lifetime of financial instruments. The analysis of credit and counterparty risk is applied in risk management, capital adequacy, and pricing, as well as profit and loss, and plays a crucial role in defining the strategies of business evolution.

OneSumX Credit Risk

Institutions must be able to identify and model underlying parameters of credit and counterparty risk, as well as integrate them with other financial risks. Moreover, organizations should be able to estimate and report the current and future potential impacts of credit and counterparty risk with regards to value and liquidity measurement and risks under both, normal and stressed conditions.

Due to their frequent exposure to credit risk a financial institution's failure to manage counterparty risk could result in major losses. This impacts not only the financial industry itself but also any counterparties linked and supported by financial institutions, ultimately affecting the entire market.

Credit and counterparty risk analysis are vital components of business operations across departments in financial institutions, linking and supporting the front office management, back office analytics, treasury office, asset liability managers, regulatory compliance, risk managers, and the board of directors.

A safe and robust financial system is epitomized by firms displaying steady profitability with minimal losses, and strong results increasing confidence of both the market and the regulators. This can only be achieved when firms possess in-depth and thorough insight into their credit and counterparty risk. OneSumX Credit Risk equips organizations with all necessary elements to achieve this comprehensive insight.

Hedging strategies and credit enhancements are applied as needed, not just to absorb credit risk losses but also to increase robustness and condence in volatile times.

Counterparty credit worthiness
To accurately assess the maximum exposure of credit losses, firms need to be able to identify and set the credit worthiness parameters of a counterparty. Additionally organizations also need to minimize against credit losses. OneSumX Credit Risk enables both by identifying credit ratings, probability of default and migrations (transition) matrices (MMs), defining descriptive characteristics, such as seniorities or regions, amongst others. The solution also considers the hierarchy among counterparties and models behavior characteristics, such as recovery rates as well as defining and/or based on the market driven credit spreads.

Credit exposure static and dynamic evolution
Due to their dynamic nature, institutions must measure, manage and adjust credit exposures over time, considering both current and future conditions driven by static, as well as dynamic market, credit and behavior risk factors. Our OneSumX solution calculates current as well as expected gross and net credit exposures, computes the degree of exposures in default (EAD) and non-default cases, and estimates potential future as well as effective credit exposures for multiple future dates. Beyond this, the solution also identifies and considers volatilities and adjustments of credit exposures, while tracking the evolution of credit exposures under static and dynamic credit and market conditions.

Risk management
Credit and counterparty risks appear in all financial instruments placed in on or off balancing accounts and credit portfolios, which can result in both expected and unexpected losses. OneSumX Credit Risk calculates expected and unexpected losses and applies stress testing scenarios in all credit and counterparty risk parameters measuring and managing credit and counterparty risks.

In increasingly volatile markets, it is vital that firms consider credit and counterparty risks as highly sensitive influences on market and behavior risks – OneSumX for Credit Risk takes into account deterministic and/or stochastic scenarios, applying credit VaR risk measurements based on single and multi factor model approaches. It also allows for wrong way risk, as well as specific idiosyncratic and general sensitivities of counterparties to market and credit risk factors.

Additionally organizations need to employ credit enhancements such as collaterals, guarantees and credit derivatives, and applying hedging products, limits, netting policies and strategies to minimize the risk against credit exposures, mitigating credit and counterparty risks. Hedging strategies and credit enhancements are applied as needed – not only to absorb credit risk losses but also to increase robustness and confidence in volatile times.

Credit and counterparty analysis

OneSumX Credit Risk calculates credit valuation adjustment (CVA), debt valuation adjustment (DVA) and funding valuation adjustment (FVA) and enables users to harness the correlation between credit, market and behavioral risk in an integrated approach.

The solution identifies the degree of systemic and concentration based on counterparty risk and credit exposure analysis, fully complying with all relevant regulatory requirements such as Basel III/ IV. The analytical tools within our solution allow for easy stakeholder reporting of the credit and counterparty analyses and management.

OneSumX Credit Risk is part of our overall OneSumX for Risk Management solution, which, next to handling complex credit and counterparty risk analysis elements, also covers financial risks such as market or liquidity risk within the modules of the OneSumX suite.

All our financial risk management solution elements employed in the solution are based on a contract-based approach, linking each financial instrument to a specific counterparty, along with its related market conditions and behavior characteristics.

This contract-centric approach enables institutions to consistently identify the counterparty characteristics and credit worthiness with their respective, market conditions driven behavioral characteristics and credit spreads. This approach also enables firms to estimate the evolution of credit exposures, considering both static analysis and dynamic simulation in counterparty ratings, future market conditions, and behavioral characteristics.

In addition, credit risk exposure, liquidity, pricing, valuation adjustments, systemic and concentration risks analysis are available as key results of the credit and counterparty risk analysis capabilities within our financial risk management solution.

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Credit and counterparty risk analysis elements

Analysis elements in credit & counterparty risk

Counterparty	Credit exposure	Risk management	Analysis
• Rating & migrations • Probability & default • Descriptive characteristics • Hierarchy • Behavior • Market credit spreads	• Current & expected • At default case • At non-default case • Future & effective • Volatilities & adjustments	• Expected & unexpected losses • Stress testing • Credit VaR • Credit losses & lines • Wrong-way risk • Sensitivities • Credit enhancements	• Static / dynamic • Liquidity • Valuation & pricing • CVA / DVA / FVA • Integration to market & behavior • Systematic & concentration • Regulatory compliance
Credit worthiness	**Static & dynamic evolution**	**Mitigation & hedging**	**Reports**

Contract-centric approach and dynamic simulation

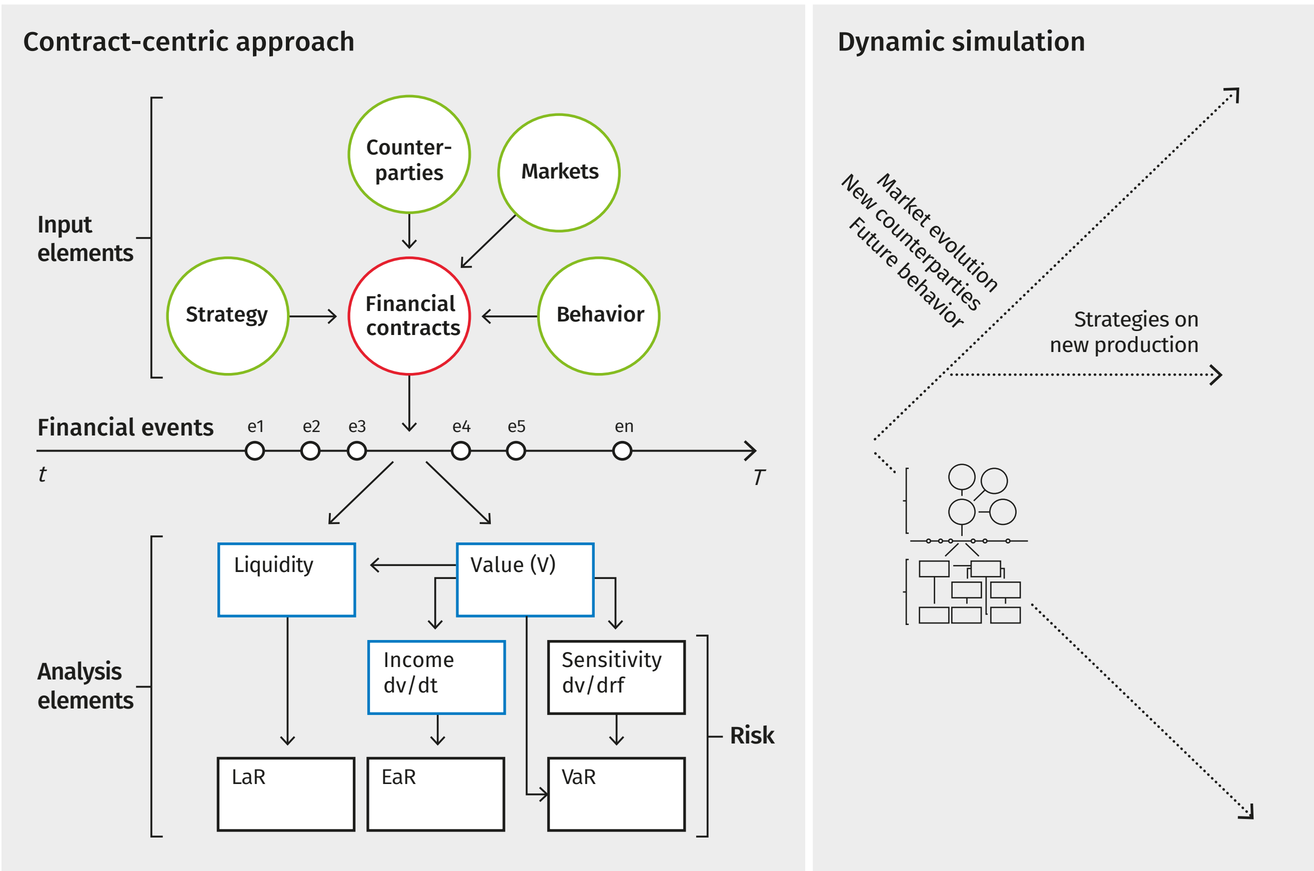
OneSumX Credit Risk can be used to calculate the expected and unexpected credit losses by considering deterministic stress scenarios as well as stochastic process (Credit VaR) approaches. Specific risk cases such as wrong way risk, sensitivity analysis, migration, and credit risk exposure hedging are also key elements within the solution.

The data source produced by our OneSumX Regulatory Reporting module can be fed into the risk management solution to produce reliable and consistent MIS/risk reports that provide clear insight into the businesses' profitability, performance, and risk analysis.

Both standard and customized reports and dashboards, for analytics specifically for the C-level and board of directors levels, are available as part of the solution.

Specific risk cases such as wrong way risk, sensitivity analysis, migration, and credit risk exposure hedging are also key elements within OneSumX Credit Risk.

Contract-centric approach and dynamic simulation



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Wolters Kluwer reported 2023 annual revenues of €5.6 billion. The group serves customers in over 180 countries, maintains operations in over 40 countries, and employs approximately 21,400 people worldwide. The company is headquartered in Alphen aan den Rijn, the Netherlands.

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Learn more about the OneSumX for Finance, Risk and Regulatory Reporting solutions. Click here.

OneSumX®
by Wolters Kluwer