

**Sagora...**

Lease & Risk Management

## Risk Management in Leasing

*Leveraging Mandatory Regulatory Requirements  
to Create Value*

Dr. Mathias Schmit

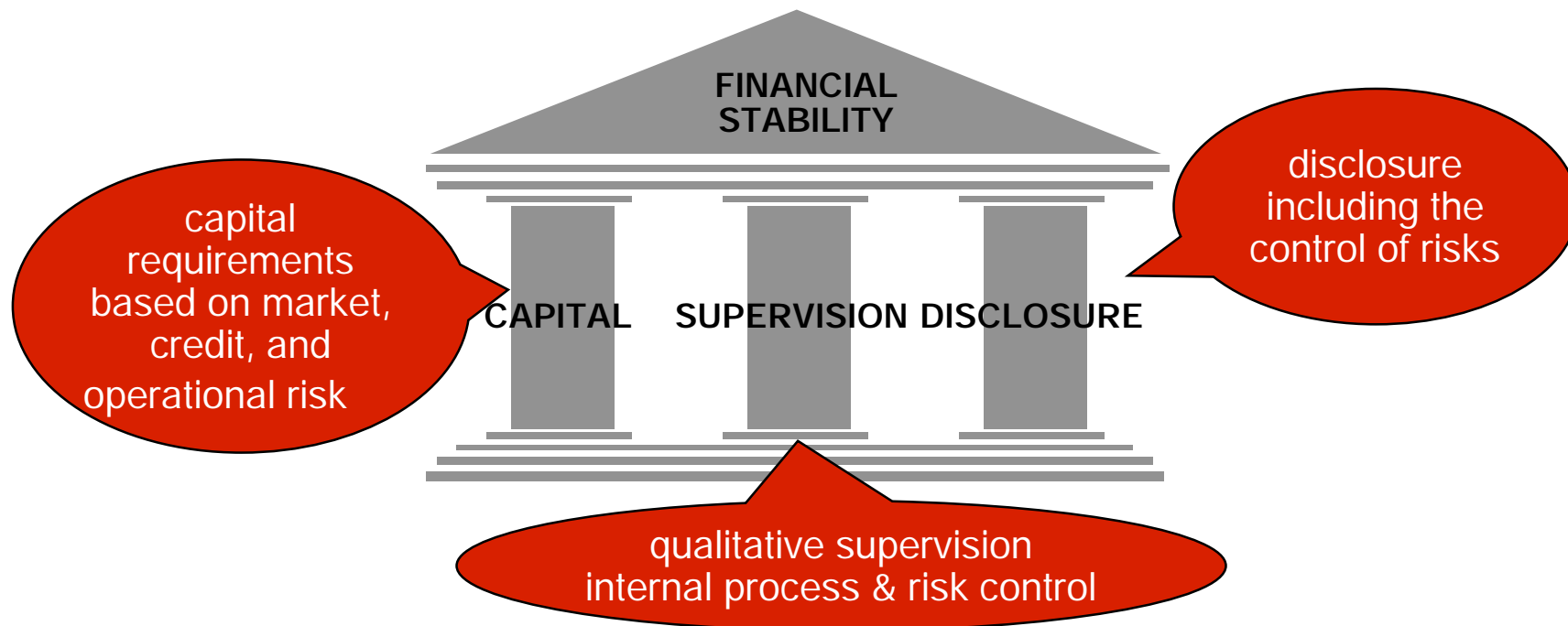
# Leveraging the CRD

- CRD not only a pure regulatory framework
- Difficulty in integrating all the components
  - Not only a matter of computation (even if adequate but not frequent)!!
  - Implication on organisation
  - Implication on the way the business is run
- Need for a clear view on business risk and risk management!
- A new mindset has emerged...

# Timetable

- A two-stage implementation in the EU:
  - 2007: Option to use simple and intermediate approaches or wait 2008
  - 2008: Banks planning to use the most advanced would apply the new rules
  - Validation exercise has taken place
    - Yellow cards have already been distributed by supervisors
- US implementation postponed

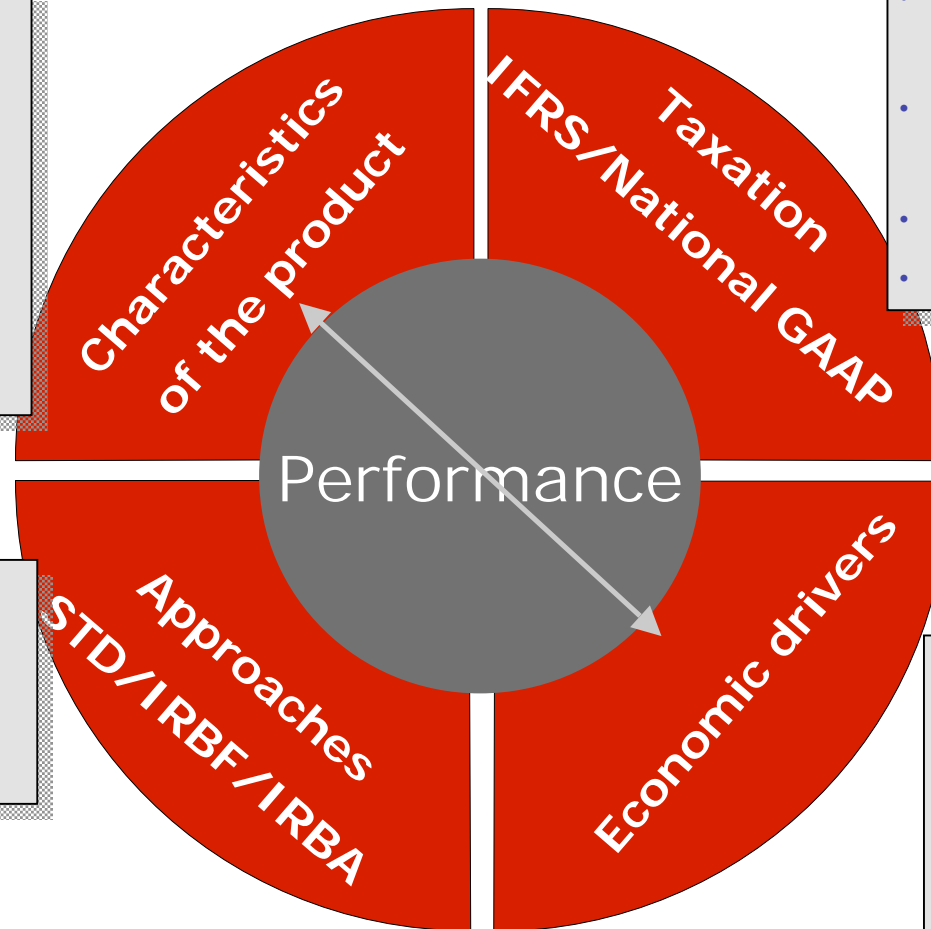
# Basel II: A new framework



# Performance Drivers: Pillar I

- Asset type
- Age
- Size
- Systematic risk
- Region (EU vs. non-EU)
- Distribution channel
- Residual value

- Data & Models
- Retail / Corporate
- Counterparty / portfolio management



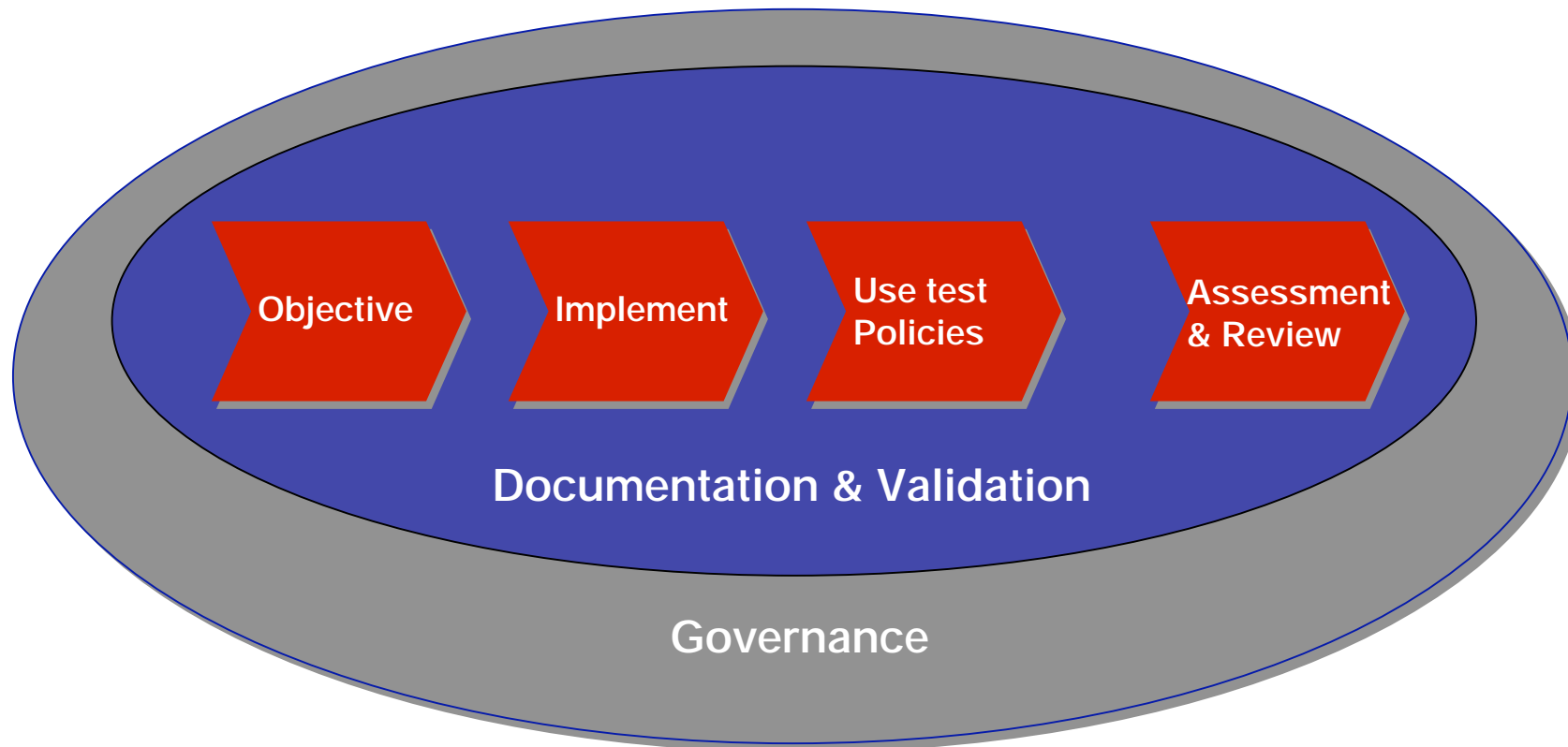
- Operating / Finance lease classification
- Tangible assets / receivables
- Transaction focused
- Depreciation

- Risk appetite
- Income
- Costs / overhead
- Expected losses
- Hurdle rate

# Pillar II: Commitment



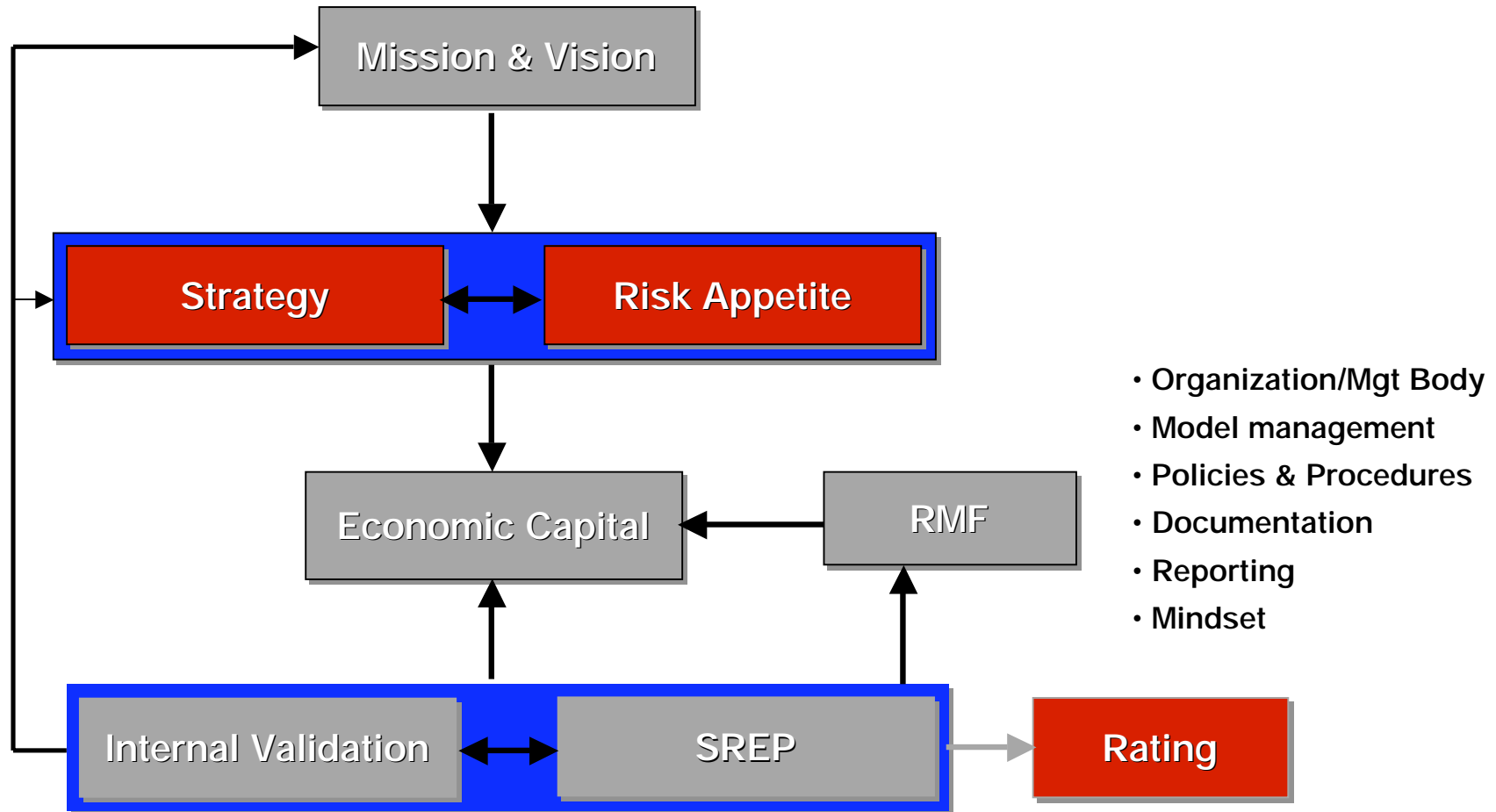
# Risk Management Framework



# Don't forget the Use Test

- High level **business case must be fulfilled** in order to ensure that the model purpose and expected benefits are clearly understood
- **Information used or produced by the risk management framework to determine regulatory capital is also used** in the course of conducting **regular business**
  - particularly in risk management
  - decision-making process, and in its credit approval,
  - internal capital allocation, and
  - corporate governance functions.

# ICAAP – SREP Framework



# Some Experience from the Market

- **Proper vision** is required up front prior to any implementation
  - Risk management framework must be elaborated taking into account the organization **strengths, internal constraints and environment.**
  - Necessary condition: **buy-in** from the business
- RMF cannot be implemented day one
  - a **roadmap to migrate** from today's environment to tomorrow's is needed and well **accepted by regulators but should integrate Pillars I & II**
- **Performance measurement not always understood**
  - Confusion between hurdle rate and RAROC
  - RAROC: on which horizon?
  - RAROC vs. Economic value

# Some Experience from the Market

- The objective is about delivering **quality** throughout the organization
  - This leads to **value creation** that comes on top of a pure regulatory compliance
  - The leaders will attract most of the **competitive advantages**
- The **European leasing industry** has many strengths
  - Ownership & good recovery rates
  - Specific rules
- **Capital allocation: still a lot of questions**

# Wrap-up

- Better **knowledge** of risk will allow:
  - **Better allocation of capital** and thus a better performance
    - At the group level but also at the **entity level**
  - Competitive advantage
  - Product structuring
- But **adequate framework** is necessary and **includes**
  - Strategy
  - Implementation
  - Usage and policies
  - Governance

# For More Information

**Dr. Mathias Schmit**

**Partner**

**SAGORA, Lease and Risk Management**

**Avenue de Haveskercke, 28**

**B-1190 Brussels**

**Mobile: (32)-496.93.22.70**

**Email: [sagora@skynet.be](mailto:sagora@skynet.be)**

*Thank you for your attention !*

# *Sagora...*

Lease & Risk Management

[www.sagora.eu](http://www.sagora.eu)