

**SAP Solution Brief
SAP for Banking**



SAP® COLLATERAL MANAGEMENT

Meeting New Challenges in Managing Collateral

The SAP® Collateral Management application gives banks the front- and back-end support they need for efficient collateral handling and risk mitigation. It supports a broad range of collateral agreements and meets today's regulatory requirements. It can help you make the most of industry best practices, reduce costs, and manage collateral more efficiently.

As financial institutions face stricter regulations and mounting competition, effective collateral management has become increasingly important. Higher losses due to credit failures over the last few years have further strengthened banks' focus on the collaterals provided by customers. Frequently, however, banks' collateral-management practices are too cumbersome to meet new demands. Process flows are often not very efficient, and front-office processes are not coordinated with back-office activities. Typically, there is little or no system support, and distributed data makes reporting both time-consuming and costly.

For efficient collateral management, banks need software that minimizes manual processing tasks and provides flexible capabilities for mapping simple as well as complex relationships between receivables, collateral assets, collateral providers, and collateral assignees. The software must also accommodate international back-office requirements for collateral management, such as provisions in the New Basel Capital Accord (Basel II). And it should easily integrate with other systems, for instance: operative transaction systems, such as loan systems; reporting systems; and risk-management systems.

SAP® Collateral Management can help banks meet these needs.

Unified System Design

From a centralized position, you can manage a broad range of collateral agreements and provide front- and back-office support. The software provides integrated object-management features that can store and value data for various collateral objects, such as real estate or securities. It also connects easily with external collateral-object systems. In addition, the software lets you retrieve and use receivables data, such as loan information, which is managed either in other SAP software or third-party systems.

SAP Collateral Management gives you flexible functions for administering the following items:

- Collateral agreements such as real estate liens, registered liens, pledges, assignments, and guarantees
- Collateral amounts
- Encumbrances by your institution or a third party
- The declaration of purpose (specific or global)
- Relationships between assets, transactions, and collateral agreements – including collateral pools

The software predefines many different collateral agreements, such as pledges and mortgages, while adapting easily to your bank's specific needs via parameterization. In addition, you can handle collateral processes – such as assignment and deletion – in a comprehensive way. This includes related calculations like collateral cover, collateral distribution, loan-to-value ratios, calculation of free collateral, and collateral shortfalls.

You can map the parties involved according to their respective functions, as maintained in the SAP Financial Customer Information Management application or any third-party customer information solution. And you can link SAP Collateral Management to the following systems and solutions:

- Document-management systems
- Communication systems for generating correspondence
- Solutions for internal reporting
- Systems for statutory reporting or risk management

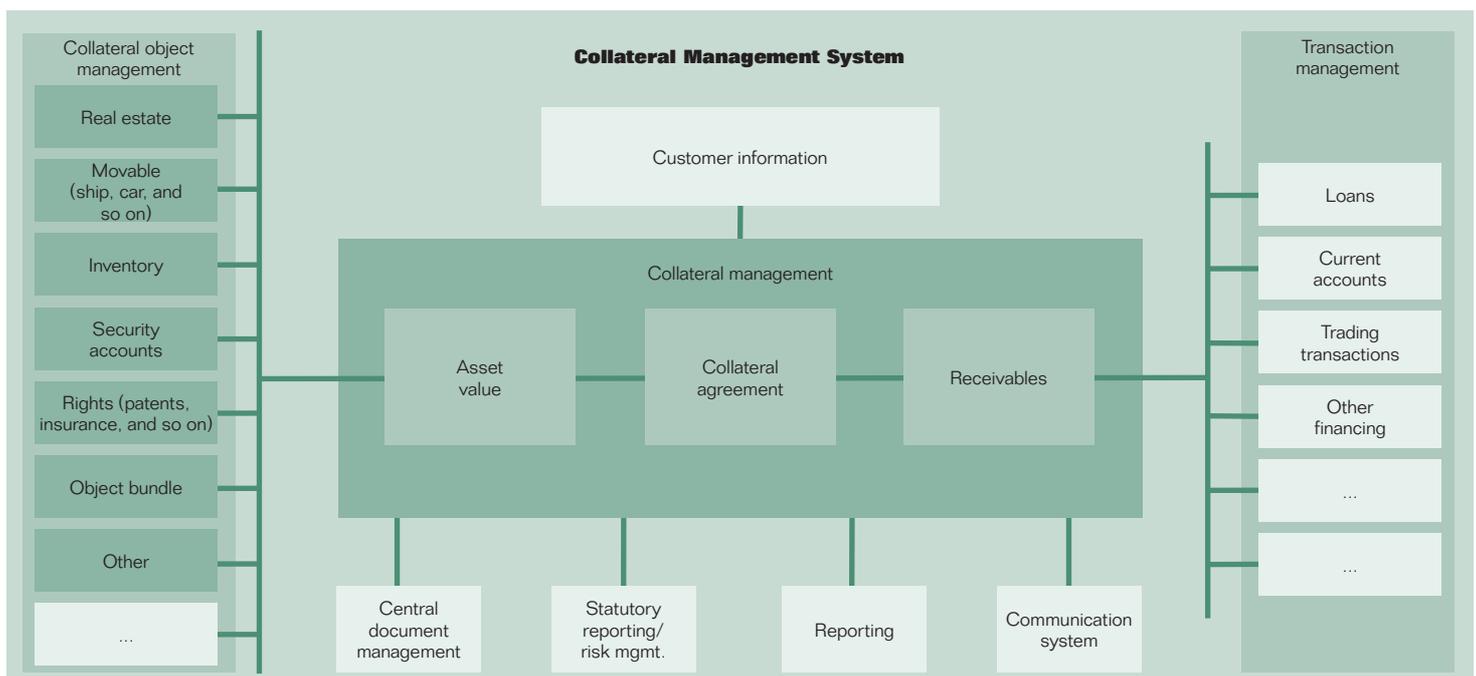


Figure: SAP Business Model for Collateral Management

You get the benefits of a stand-alone application as well as software that integrates completely with SAP solutions handling, for instance, deposits, customer information, loans, and the requirements of Basel II. The software also integrates with SAP NetWeaver™ Business Intelligence and other components of the SAP NetWeaver platform.

Improved Efficiency

You can significantly improve process efficiency by providing greater process control via workflow features that are powered by SAP NetWeaver.

Collateral information is comprehensive, comes from a single source, and can be easily updated. The software provides several standard reports, such as:

- The collateral status of one customer or a customer group, including collaterals provided, transactions secured, collateral shortfall, or free collateral
- A report of agreements with a collateral shortfall

Plausibility checks in the software help prevent mistakes in data maintenance. Links to document archiving help avoid bottlenecks in document procurement. You can adapt the flexible screen configuration to your institution's specific needs. Various data help you to mitigate credit risk.

Many Business Benefits

With SAP Collateral Management, you get a broad range of business benefits. Through collaboration with several leading financial institutions – both wholesale and retail – SAP has created practical features that can meet the needs of different banks. Wholesale institutions will find support for complex collateralization projects. Retail firms will get support for mass processing.

Process support tools facilitate implementation of industry best practices in collateral management and help you conduct many tasks more efficiently. This process support includes a variety of workflow features, correspondence tools, and links to an optical archive.

These features make process management faster and more unified and play a key role in reducing costs, optimizing current activities. You can set up process flows, generate letters at the push of a button, access documents immediately, and clear processes along with greater information consistency. Such capabilities can help you cut costs while minimizing risk.

With centralized, immediate access to the collateral data you need in areas such as credit decision making and asset analysis, you can respond more promptly and effectively to customer demands. Easily accessible information on current customers can help you optimize existing business. An up-to-date collateral overview and online calculations of collateral coverage or loan-to-value ratios can provide comprehensive information for developing new business or acting in order to avoid losses.

The flexible representation of organizational structures in the software makes it easy to accommodate future changes due to mergers or acquisitions, for example. The parameterization features support continuous incorporation of new requirements to help you respond quickly to either business or legal changes.

The software will incorporate requirements for collateral management that result from future market trends or regulations. For example, it will help banks meet the requirements of Basel II by providing data for different types of credit risk calculations: standard, foundation Internal Ratings Based (IRB), or advanced IRB results.

Manage Your Collateral More Efficiently

With its many features, SAP Collateral Management can help you manage your collateral more efficiently. Also useful as a stand-alone application, the software provides you with these key features:

- A central source system for front- and back-end applications
- Mature process support for centralized collateral management
- Support for Basel II

With such support, your collateral-management program can play a key role in reducing costs, optimizing current activities, mitigating risk, and helping your business grow. For more information on how SAP Collateral Management can make collateral management more efficient in your business, visit the SAP Web site at www.sap.com/industries/banking.

Powered by SAP NetWeaver

SAP for Banking is powered by the SAP NetWeaver platform, the open integration and application platform that enables change. SAP NetWeaver helps companies align IT with their business. It allows companies to obtain more business value from existing IT investments and to deploy a service-oriented architecture. SAP NetWeaver reduces total cost of ownership (TCO) and complexity across the entire IT landscape.

SAP NetWeaver powers mySAP™ Business Suite, SAP xApps™ packaged composite applications, and partner solutions. It provides the best way to integrate all systems running SAP or non-SAP software. SAP NetWeaver unifies integration technologies into a single platform and is preintegrated with business applications, reducing the need for custom integration.