





RISKQUEST

## • About Us

RiskQuest is an Amsterdam based consultancy firm specialised in risk models for the financial sector. We have years of risk management experience within Europe's leading financial firms. RiskQuest started business in 2008 and has seen steady growth since.

We consider effective risk management an art rather than a science, so we seek to combine business experience with deep technical knowledge. Only this combination of skills ensures a proper use of techniques and a correct interpretation of model results.

As we believe models will be a key success factor in a competitive financial industry, we focus on the development of models and their implementation. Risk models are to be used, not believed.



## • Our Vision

We believe that in a financial world which becomes more complex every day, mathematical models can form fundamental tools to gain better understanding. They can particularly contribute to identify risk sensitivities and therefore directly affect the quality of risk measurement.

While models form the core of our services, we perceive them as means to manage risks rather than targets: statistics are no substitute for judgment. It is of crucial importance to understand what a risk model can and what it cannot do.

Misspecification or misuse may lead to invalid outcomes and subsequently invalid decisions.

RiskQuest helps its customers to increase the effectiveness and efficiency of its risk models.

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**Models are to be used, not believed.**

**Henry Theil (1924 - 2000)**

**Quality is never an accident, it is always the result of intelligent effort.**

**John Ruskin (1819 - 1900)**

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## • Our Services

Advanced risk models form the basis of our service offer. These models may be employed in a front office environment (acceptance, valuation & pricing) or in a mid-office context (risk management and measurement).

The business areas that we cover are lending, financial markets and insurance. In relation to the models, we also provide advice on strategic issues and model governance including model development, validation and use.

Our consultants have acquired experience in the following fields: credit risk models, market risk models, RaRoC, ALM studies, option valuation, economic capital models, model validation.

We are experienced in regulatory frameworks including Basel II and III as well as Solvency II and UCITS.

To analyse large sets of data, we actively support the following dedicated software packages: SAS, the R-project, Matlab, Chordiant and SPSS.



## • Our value proposition

### Business knowledge

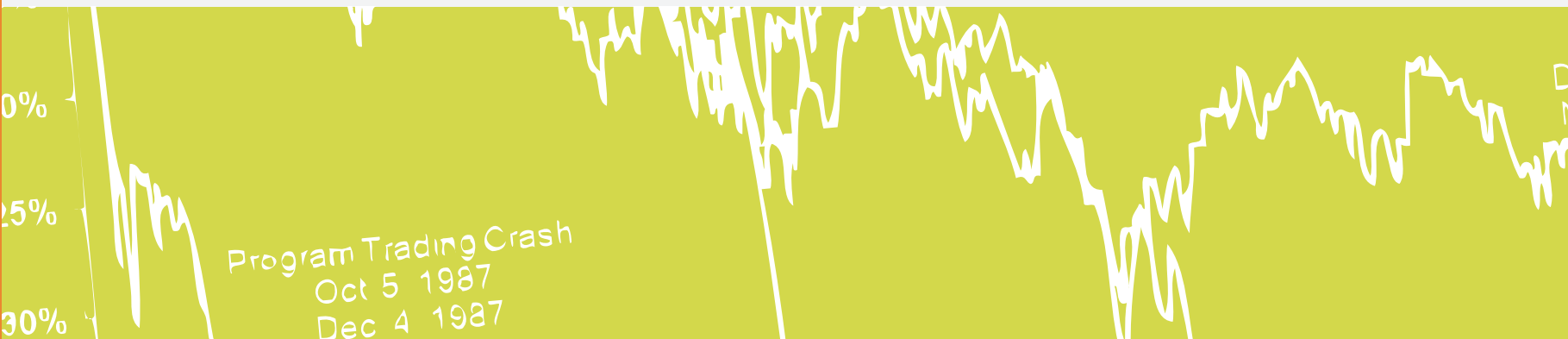
We have both front- and mid-office experience in major European financial institutions

### Model experience

Over the years, our partners have developed and validated numerous risk models. In doing so all aspects were taken into account, ranging from data collection and cleansing, modelling, expert judgment to documentation and approval..

### Familiar with regulatory frameworks

We enjoy strong hands-on knowledge of Basel II/III and Solvency II regulation. We know how to interpret the regulatory text.



### Quantitative background

A solid quantitative background forms the basis of our services. RiskQuest employees therefore have as a minimum a masters degree in econometrics, mathematics, physics or similar as a minimum.

### Communication skills

We respect the importance of communications. Therefore we communicate open and effectively. Furthermore, we put emphasis on clearly documenting our work.

### Other

Our partners are actively involved in all our projects. While leveraging on our experience, we intend to deliver tailor made solutions, and not a "and do not apply a one-size-fits all" approach.

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**I believe that modern financing offers a means to increase prosperity. Financial innovation allows costs to drop and offers the chance to share risk. Robert C. Merton (1944)**

## • Industry Trends

The financial industry has strongly evolved over the past decades. These trends increase the need for advanced models.

### Increasing risk awareness

Stakeholders such as senior management, shareholders, counterparties and the community have an increasing need for adequate and timely management information about exposures run by an institution. Stress testing is a clear example of this. Intelligent management information involves models.

### Stricter regulatory requirements

To ensure business continuity financial institutions are forced by regulators to sustain a sufficient level of capital. As capital is scarce and expensive, finding the balance between level and costs of capital is a key success factor. Complex models are required to identify the optimal balance. These models are subject to model governance to ensure that they are at the heart of the organisation.



### Commoditization of products

It is extremely difficult to develop new financial products. Financial innovation is costly and new products are easily copied. As a consequence it is very important to be cost efficient. Models help to be cost efficient. For example, selecting low risk customers is vital to maintain a certain profitability level.

### Portfolio approach

While financial institutions once focused on individual contracts, today they realise that a portfolio approach is equally important. For example, business continuity depends on groups of contracts, not on individual transactions. Analysing groups involves complex mathematics and assumptions about joint behavior.

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**Data is not information, Information is not knowledge, Knowledge is not understanding, Understanding is not wisdom.**

Clifford Stoll (1951)

## **IT developments**

The sophistication level of models depends on IT constraints in terms of calculation capacity and data processing. As IT developments are expected to continue at a high speed, the need for further model improvements remains. High frequency trading is a clear example of the relation between IT and modelling.

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### **• Case study 1**

#### **Post Merger Integration for two large Dutch Banks**

Following the merger of the two banks, alignment of risk models and corresponding policies was required. As independent advisor, RiskQuest proposed risk models for the end state. In addition, various policies were aligned such as the one for country risk, rating assignment process, application of conservatism and model development governance.

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### **• Case study 2**

#### **Corporate rating model for a local Bank**

Based on thorough statistical analysis and using expert judgment, RiskQuest helped to prepare a new corporate rating model. This model covers more segments with less risk drivers, making it very efficient. Following regulatory approval, the model replaces existing models.

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### **• Case study 3**

#### **Solvency II internal models for a large Insurance Company**

RiskQuest has developed statistical internal models for property risk, interest rate risk (including volatility) and equity risk. The models and resulting stress parameters were extensively documented to make them Solvency compliant.

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**It is better to be vaguely right than exactly wrong.**

**Carveth Read (1848 – 1931)**



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