

Economic Capital: How It Works, and What Every Manager Needs to Know

By Pieter Klaassen, Idzard van Eeghen

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Managers can deploy and manage economic capital more effectively when they understand how their decisions add value to their organizations. *Economic Capital: How It Works and What Every Manager Needs to Know* presents new ways to define, measure, and implement management strategies by using recent examples, many from the sub-prime crisis. The authors also discuss the role of economic capital within the broader context of management responsibilities and activities as well as its relation to other risk management tools that are available to the modern risk manager.

- Explains ways to use economic capital in balancing risk and return
- Evaluates solutions to problems encountered in establishing an economic capital framework
- Emphasizes intuition
- Draws special attention to embedding risk modelling approaches within economic capital frameworks

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Editorial Review

Review

"Finally, a book that goes beyond an academic explanation of economic capital, but one that actually explains how to use it. And the timing couldn’t be better. Whether you are planning to upgrade your existing EC program or implementing a new one, Pieter Klaassen and Idzard van Eeghen have provided a wealth of ideas to guide practitioners through the many complex dilemmas that need to be navigated."

--Terry Bulger, EVP, Risk Analytics & Portfolio Management, Bank of Montreal

Klaassen and van Eeghen provide the first comprehensive treatment of the challenging subject of economic capital attribution and performance measurement. This book will undoubtedly become the ultimate reference for board of directors, senior management and risk professionals who are concerned about the survival of their firm from a solvability, performance and funding liquidity point of view, in the light of the recent events.

--Michel Crouhy, Head of Research & Development, NATIXIS

"This book is an extremely useful guide. It is written from a practitioner's viewpoint, which makes it especially practical; there is a refreshing absence of mathematical formulae, and academic discussions are quickly summarized, but there are plenty of references and footnotes for those who want to delve into these points deeper. The authors have sensibly avoided producing an orthodox "this is the right way to do it" rulebook, and clearly set out the different design choices that have to be made. I recommend this book to anyone interested in implementing or just studying economic capital."

--Chris Matten, Partner, PricewaterhouseCoopers LLP

"As the authors state rightly: "risks are not managed by models, but by people". With the increased importance of economic capital models for the management of financial institutions, senior managers need to understand clearly the concepts, assumptions, and limitations of these models. This book contributes greatly to this understanding by the intuitive, non-mathematical way in which it approaches the subject." --Nout Wellink, Chairman of the Basel Committee on Banking Supervision / President of De Nederlandsche Bank

"Economic Capital provides a solid foundation for understanding the role and measurement of economic capital within financial institutions. Throughout my career, I have relied on the concepts and methods outlined in this book to support shareholder value creation. While there is growing criticism of internal models due to the turbulent times, Pieter Klaassen and Idzard van Eeghen help to bring a fair and balanced perspective to the debate, putting economic capital models in the proper context."

--Thomas Wilson, Chief Risk Officer, Allianz SE, Germany

From the Back Cover

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Economic capital has been widely adopted by financial institutions and by their regulators as comprehensive measure of risk. In many institutions, it fulfills a central role in capital adequacy assessment, risk management, and performance management. Economic Capital: How It Works and What Every Manager Needs to Know clarifies how economic capital can be defined, measured, and implemented in a manner that adds value to an organization. It does so in a way that is accessible to a broad audience, including senior managers of financial institutions, supervisors, analysts, and risk modelers. The book illustrates main concepts and choices with many examples and actual events in financial markets, including those in the recent sub-prime crisis. The authors also discuss the role of economic capital within the broader context of management responsibilities and activities, and its relation to other risk management tools that are available to the modern risk manager.

Pieter Klaassen is Managing Director of Firmwide Risk Aggregation at UBS A.G.. He holds a PhD in operations research from the MIT Sloan School of Management.

Idzard van Eeghen is Group Senior Vice President of Integrated Risk Management at ABNAMRO Bank N.V. He holds two degrees: masters in economics and masters in financial economics.

About the Author
By Pieter Klaassen, Managing Director of Firmwide Risk Aggregation at UBS A.G. He holds a PhD in operations research from the MIT Sloan School of Management. He has global responsibility for development and refinement of economic capital models for credit, country, market, operational, interest-rate and business risk. In this position he has close interaction with business, finance, ALM and other risk management departments concerning the application of these models for performance, risk, portfolio and capital management. He is also responsible for quantification of EC for additional risks, and establishment of internal capital adequacy assessment and global responsibility for development and refinement of the bank’s counterparty exposure methodologies for derivatives.

Idzard van Eeghen is Group Senior Vice President of Integrated Risk Management at ABNAMRO Bank N.V. Mr. Eeghen holds two degrees: masters in economics and masters in financial economics. In his current position he is responsible for managing the Group’s country risk exposure; policies and use of economic capital including stress testing and loan pricing tools; risk disclosure; development and introduction of Enterprise Risk Management (ERM).

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Bryan Perry:

Why? Because this Economic Capital: How It Works, and What Every Manager Needs to Know is an unordinary book that the inside of the book waiting for you to snap this but latter it will zap you with the secret it inside. Reading this book next to it was fantastic author who have write the book in such wonderful way makes the content inside easier to understand, entertaining technique but still convey the meaning entirely. So , it is good for you because of not hesitating having this nowadays or you going to regret it. This excellent book will give you a lot of positive aspects than the other book get such as help improving your ability and your critical thinking way. So , still want to postpone having that book? If I had been you I will go to the reserve store hurriedly.

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