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Find out the latest news on how Microsoft and its partners are helping to address the unique challenges faced by London Market insurers. **Page 8**

"Newer, proven software technologies make it possible to reliably and cost-effectively backup branch offices at the central data centre."

Ian Masters, UK Sales and Marketing Director, Double-Take Software

KNOW YOUR RISK

RISK ANALYSIS IS FUNDAMENTAL TO EFFECTIVE RISK MANAGEMENT. JACQUI GRIFFITHS ASKS HOW FINANCIAL FIRMS CAN ENSURE THEY GET IT RIGHT FROM THE START

Financial organisations face a paradoxical situation when it comes to risk – they need to minimise it, but they can't grow without it. In today's economic climate, it is more important than ever to identify, measure and minimise risk in order to reap its attendant rewards. Alexander Millington, head of risk management software at Formicary, explains: "Financial organisations thrive on taking risk, but understanding and giving clarity to that risk is more important than ever in a complex trading environment."

However, banks face many challenges in accurately assessing the risks they face, and there is consensus among the experts that risk analysis methods have previously fallen short. "How you value the risk is obviously key to determining the size of the reward," says Michael Bush, head of product management at Business Control Solutions. "But how do you value risk that only has a 'potential' to take place?"

"Margin pressure in core business has driven many organisations to seek greater return in the capital markets, fundamentally carrying a greater risk to their business," says Nigel Lee, chief commercial officer at Financial Architects (FinArch). "A failure to correctly assess risk and risk-adjust business performance has exposed these organisations, their customers and their shareholders."

"Financial organisations are still searching for the appropriate balance," adds Chris Moxon, chief executive officer of Methodware. "The herd mentality prevalent in many large financial organisations, driven by pressure to maximise profits, has produced a bias to 'reward' in spite of the associated risks. Controls applied in recent years have not been effective, and some banks have focused more on controlling small fraud exposures than managing advanced credit instruments or systemic institutional issues. Clearly, this needs to change."

That change is on the horizon, according to Adrian Maconick, director of Finsbury Solutions: "We are in the middle of the biggest banking crisis in my lifetime," he says. "This will trigger a complete re-evaluation of risk management which will cover the regulators, the role of government, the role and status of risk management in the organisation, the measurement of risk and the systems used to provide risk management information."

"For many firms the number one issue right now is basic survival and recovery from their direct participation in or exposure to the credit crisis in all its forms, especially as it relates to the underlying securities risk," comments Todd Stone, chief executive officer of ProcessUnity. "After that, managing and controlling both existing and new financial products and services is critical to all financial firms."

Moxon agrees: "The two most significant issues facing banks in this context are institutionalising a risk management culture and obtaining a true enterprise view of risk," he says. "Most financial managers and executives have never faced a business environment this challenging in their professional lifetimes. They need to increase awareness of proactive risk management practices and the discipline across the organisation. In conjunction with this, financial firms need the ability to take risks out of their individual business unit silos and understand the collective impact on the entire organisation."

"At Formicary, we've found that making consistent information, particularly market information, available across the institution is a top priority now for firms," says Millington. "The ability to provide coherent pricing and risk analysis rapidly, across systems, from audited information sources, is critical in providing a level of confidence that the information on which business decisions are made is accurate, across the board. But accurate information is nothing without the ability to report and analyse it. Providing straightforward, easy access to a flexible reporting framework enables business decisions to be based on timely data in a way that is relevant to the business."

Perhaps it should come as no surprise, then, that even in these straitened times, analysts are predicting that risk management and compliance will be the area where most money is spent. "As we talk to our customers, the area where we consistently see spending is risk management and controls," says Ian Warford, EMEA industry director for capital markets at Microsoft.

"Firms will now begin to increase investment in effective internal control and risk management on one hand, and meeting regulatory requirements on the other," says Stone. "But they should take care not to overreact. Large, complicated, enterprise-wide risk management approaches will cause more harm than good. They delay the benefits of effective internal control, end up increasing risk, and cost a fortune at a time when financial services firms need to spend wisely."

Warford concurs: "Customers know that additional regulation will be coming towards them – it always does after a period of financial turmoil. But they're not looking to replace their systems – they're trying to use what they have to address the processing problem around risk."

PERFECT MATCH

The good news is that the key to solving the risk analysis conundrum may lie in a simple, if well-thought-out, shift of focus that tallies exactly with the ethos of using existing technologies – the technologies that end users are already familiar with.

A major obstacle for banks has been their historical reliance on algorithmic techniques for risk analysis. As Lee explains: "The calculation of risk is difficult, and unfortunately not a science. Reliance on statistical models and the algorithmic exploitation of historic data has detached many organisations from sound judgement." People across the enterprise can give valuable context to that data. Indeed, by returning their focus to their people, banks can efficiently nurture a context-rich, enterprise-wide risk culture.

A SOUND VISION

Microsoft's future-state vision of risk analytics and reporting is based on four key principles:

– People are at the centre of risk management with 'do it yourself' tools
– Results are presented in a simple, visual, easy-to-understand interface
– Analytics and risk reports are delivered in real time
– The right information is delivered in the right format, at the right time, to the right people.

"Microsoft Office SharePoint Server is at the heart of our risk processes and workflow control solution," says Ian Warford. "It allows organisations to embed workflows around documents. For Excel spreadsheets, SharePoint enables full control of versioning, so firms can identify who did what, when.

"Microsoft's high-performance computing (HPC) offering – Windows HPC Server 2008 – enables faster computing and modelling so that banks can make faster decisions about risk. In addition, Microsoft PerformancePoint Server can enable visualisation of complex risk data and a single view of structured and unstructured data. It can sit on top of SQL Server, which pulls together various data sources from around the organisation which can then be served up for PerformancePoint to do business analytics."

BANK OF AMERICA

Bank of America needed a robust and scalable way to meet the compliance challenge of the Basel II Accord, which mandates an entirely new approach to measuring, monitoring, reviewing and reporting operational risk.

After considering off-the-shelf solutions, the bank decided to build its own system using tools and an environment that would be familiar to developers and users. Within four months it designed, developed and deployed a portal solution based on Microsoft Office SharePoint Server 2007 with a data-input mechanism based on the Office InfoPath information-gathering program, part of Microsoft Office Enterprise 2007. To help ensure that only fully authorised users could access sensitive data, developers created highly customised views and controls based on the native security features in SharePoint Server 2007.

"Because we based the solution on a development and deployment environment as efficient as Microsoft Office Enterprise 2007 and SharePoint Server 2007, the bank is well positioned to effectively manage operational and compliance risk, now and well into the future," says Jeff Napper, senior vice president of enterprise operational risk management at Bank of America.

> "Most financial managers and executives have never faced a business environment this challenging in their professional lifetimes"
>
> Chris Moxon,
> CEO, Methodware

"Most importantly, people need to be at the centre of risk management," says Warford. "They need to have the tools to manage risk themselves. For example, instead of having a business intelligence group somewhere embedded in the IT department, everybody should be able to use business intelligence tools."

"There's no need to re-invent the wheel here," adds Stone. "Most of the information is readily available. The trick is to establish the right relationships between this information and make it easily and widely accessible. There is more detail of course, but there is often more value in improving basic management visibility and transparency than in abstract risk engines."

"Where formal transaction processing systems exist, it is relatively easy to extract data from these and use them to feed risk management systems," adds Maconick. "The hardest problem is to find and extract data from the myriad of informal systems on spreadsheets and PC databases. Some people have suggested that all spreadsheets should be migrated to formal systems, but this is just wishful thinking – our work shows end user computing applications growing at around ten per cent per annum in most organisations. When a new product area emerges they have to act fast and rely on spreadsheets to process. The best way to deal with the problem is to embrace spreadsheets and other end-user applications, but make them acceptable by providing the right tools to manage and control them."

"Risk analysis has a significant dependency on the underlying data and the analyst's ability to access and aggregate it," says Moxon. "The use of robust database technology and browser-based delivery channels allows easier access, and the flexibility of the risk analysis tool allows the best possible solution fit. Methodware's flagship risk management solution, ERA, leverages Microsoft technology to provide a central, integrated repository that clients can configure according to their specific needs."

Lee expands the point: "For a tool to be effective it has to be easy to use and familiar," he says. "Microsoft provides the most prolific tool in the risk and finance function – Excel – and some of its partners have built

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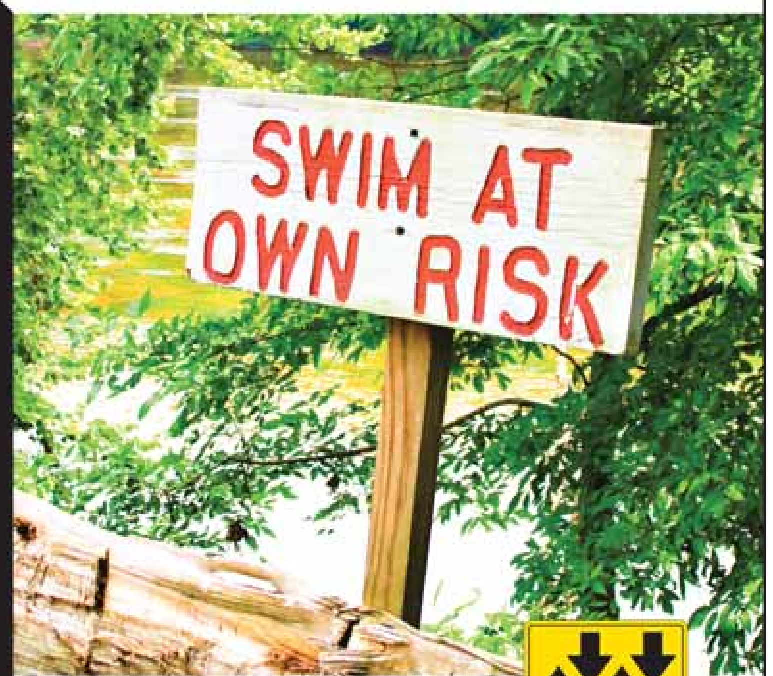

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risk and finance solutions that rely heavily on Microsoft. The Financial Studio product from Financial Architects is exactly this kind of platform. It is based on the finance resource planning concept, and has been developed by bankers for bankers. Financial Studio exploits Excel via Microsoft Reporting Services to provide information for both internal and external use in an environment which is both familiar and easy to use."

"Two main capabilities are particularly relevant here," adds Maconick. "Cataloguing, controlling and incorporating all types of data into the risk management systems is relatively easy in formal systems, as most are based on modern database systems such as Microsoft SQL Server. For end-user systems, an end-user computing control system such as Finsbury's Spreadsheet Workbench is required. Once identified as providing business-critical information, the spreadsheets can be analysed and key cell data extracted for input into risk management systems. The second key capability is computing power – most risk management calculations require large numbers of scenarios to be calculated. This is an inherently parallel process, so technology such as high-performance computing (HPC) is of significant value."

Howard Travers, director of sales at Formicary, stresses the importance of including all methods of communication in risk analysis. "With the introduction of Microsoft Office Communications Server (OCS) R2 2007, firms are recognising the huge benefits derived from VoIP, presence and unified communications," he says. "Firms continue to look for methods to streamline communication and retain knowledge, and recent additions to OCS such as Group Chat are going to make a huge difference. The biggest issue they face is making sure there are mechanisms available to accurately search and identify unauthorised conversations and information. This is why Formicary introduced ChatSeer, which is used by several tier-one investment banks to natively search instant messaging and Group Chat communications and help them ensure they are analysing the right information."

It seems that in order to achieve a more accurate view of the risk/reward balance, banks must also strike a balance between people and technology; between the subjective context and insight that staff can offer, and the objective data that runs through their systems. Using familiar technologies not only helps put people at the centre of the risk culture, but can also create efficiencies in terms of resources, organisation and cost. "When it comes to cost, many people already have licences for SQL Server, PerformancePoint, and even HPC Server," concludes Warford. "If financial firms deploy these technologies they can save a tremendous amount of money as opposed to buying new licences. Many firms are realising that they can save money by deploying the licences they already have. They're trying to use what they have to address the processing problem around risk, and because the toolset is familiar to everybody who uses Microsoft Office, it's a very compelling opportunity for them." **F**

SASFIN BANK

South Africa's Sasfin Bank serves commercial customers, with a focus on entrepreneurs. Siloed information gathering and management made it difficult for employees to access a unified view of the customer, and Sasfin also faced challenges in addressing the reporting requirements of Basel II regulations.

Sasfin executives joined the Microsoft Office 2007 Rapid Deployment Technology Adoption Program to deploy a single, consolidated content management solution and Web portal. Structured information-gathering capabilities now enable employees to capture data in a repeatable and easily validated manner, while XML capabilities mean forms data can be uploaded automatically to customer data systems.

The solution delivers greater process efficiency and more comprehensive information for Sasfin staff, enabling stronger decision-making capabilities. New data analysis capabilities offered through the Microsoft Office Excel 2007 spreadsheet software, as well as the enhanced reporting capabilities of Office SharePoint Server 2007, give users greater insight into customer interactions and sales opportunities.

"We expect help-desk calls relating to the Office products to be considerably lower than after prior deployments," says Dawie Olivier, IT project manager at Sasfin Bank.