

# A new view on risk

**Laurence Trigwell, Worldwide Financial Services Executive, IBM on using improved insight into risk to make a competitive difference.**

Risk is the currency of the modern financial institution. As a result, systems and processes have arisen to ensure the management of risk is as efficient and accurate as possible. However, despite significant research and investment into risk calculation and modelling methodologies, turning risk data into operational information and automating the process still remains a challenge.

Some of the issues are caused by the growing complexity of the information needing to be managed. From an inability to respond to ad hoc queries, to requests from senior management to run risk reports – and the need for those to be done manually – greater automation would fill that gap. From a legislative point of view, Basel II has had the biggest impact on the ability of organisations to model effectively.

## A changing landscape

Banks and financial institutions are often organisations that have evolved over decades, responding to new technology where there is a clear and measurable benefit. This can often lead to organisational structures that are disparate and arranged in silos, with different teams each operating to their own ends and little formal structure in place for knowledge sharing or cross-departmental processes or reporting.

More recently, the increased rate of mergers and acquisitions has also exacerbated the issue of information sharing, particularly of operational intelligence designed for senior managers. The resulting organisational matrix – across planning teams, financiers, management and regulatory units, and then across the organisation's regions themselves – can mean up-to-date risk information needs to be manually gathered and presented before it can be delivered as data for decision-making.

When combined with multiple emerging risk classes and regulator pressure to

report and manage risk more effectively, the financial institutions are facing a challenge. Imagine this: could a senior risk or finance manager, faced with a critical business decision to make quickly, request the risk exposure of a single business unit in a single region, and immediately have the accurate, up-to-date detail at their fingertips, aggregated from numerous sources and including operational data and other related product or business information?

## Beyond compliance

For many senior risk and finance managers, this need for information is not driven solely by the legal requirement to comply with regulations like Basel II

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or Sarbanes-Oxley. What we're seeing instead is a move beyond compliance to enterprise performance management. This represents far more than just a 'box ticking' compliance exercise, and takes risk management best practice into a far more strategic area altogether.

The ability to monitor integrated risk information from across the enterprise, including timely risk alerting and controls, is the beginning of the journey to risk management as a performance differentiator. Next, understanding the impact of risk and the related profitability and cost issues, and being able to act on them, is vital. Finally, informed and coordinated decision making which –



crucially – can be done quickly in response to sales and marketing or market changes, moves the management of risk into a truly optimised offering that is aligned with business needs.

## Satisfying the appetite for risk

In a dynamic market, risk management is key, and access to valuable risk information from across an organisation can ensure better-informed decision-making and more effective capital and business management.

While improved reporting systems can cut down the complexity in risk management – removing, for example, the need for manual aggregation of information – the true benefit comes from the ability of risk insight to create valuable management information. With all departments of an organisation moving in sync, risk becomes a community issue. All of a sudden, the ability to model future scenarios, take decisions on products, and act, turns what was a compliance issue into a sales tool.

The fact that senior management are more focused than ever on risk might be, in part, thanks to Basel II. But the potential business benefits are there. Linking risk to business growth or customer metrics creates valuable intelligence for senior managers. Tools that help them do that easily are sure to be top of the shopping list. ■

## Further information

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