Manage Risk for Profit at an Enterprise-wide Level

Embed risk practice in your strategic business management with the Temenos Enterprise Risk Framework and increase your capital and financial efficiency

Risk Measures

The measurement and analysis of risk is an accepted part of the operation of banks. Originating in specialised Risk Management departments, the discipline has now grown into an integral part of the management of a bank.

Different institutions place varying levels of emphasis on the measurement of diverse types of risk and adopt different approaches and methodologies depending on their type of business. Despite this variation, Risk has been moving from a purely reporting and technical role to a key business management discipline.

Changes in the view of risk have been driven partly by this higher profile, but also by changes in quantitative measurement techniques and in the technology which has enabled these new techniques to be practically deployed.

A Holistic Enterprise View

In order to effectively manage risk it is necessary to engage at Enterprise level, not divisional. Banks and other financial institutions frequently have operational and technical architectures which are built around divisional silos. This results in an organisation of data which can make the generation of Enterprise views of risk very hard to achieve.

A Holistic Enterprise view of Risk can only be achieved if appropriate quantitative models are deployed on top of a stable, normalised data model which can cope with current requirements and can flex to accommodate future business and technology topologies as they are introduced – often at fairly short notice.

By itself, Risk is a useful lens through which a business may be seen. However when risk data is combined with other financial and operational data such as income, cost and contribution data, real, strategic planning value is created.

This combination allows internal risk pricing models to be built which can help to ensure that an Enterprise's resource allocations are decided not only on the basis of historic performance, but in the light of the likelihood of future possible outcomes; for instance, Risk adjusted Profitability and Capital Allocation.

The principle challenge

Risk systems have started to become platforms which can support this kind of integrated, Enterprise-wide view of Risk. Many of the older, legacy systems in this area have mature quantitative approaches and can leverage data mapping tools to access a wide range of external data sources. Many of these systems, however, have older, less flexible data models and can therefore be less agile in their deployment than businesses often require.

Additionally, these legacy systems often have a background in either Treasury or Commercial Lending. These sectors are marked by their low volume and high ticket transaction characteristics. As risk systems move away from being operated at divisional level, it is unclear how many of these more traditional systems will possess the necessary technology scalability to support deployment in higher volume business areas.

Without the robust scalability which is derived from modern system design and implementation, it is unlikely that a legacy risk system can be moved into higher volume environments with ease.

The Technology Issues

In order to realise the strategic business benefits that this approach can bring, it is necessary to adopt a plan which involves the roll out of new, agile and scalable technology which can act both as a risk engine and also as the framework for a comprehensive business management and planning tool for the future.

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The technology should have a robust data model, flexibility to incorporate new risk engines as they become available in an open manner both from the framework provider and from elsewhere. A comprehensive ETL tool for data mapping and load needs to be included to allow not only the immediate requirements to be met, but also to allow for future requirements to be quickly implemented.

In the same way that Risk Management is now moving to become a much more integral strategic enterprise management tool, so the technology is also changing to meet this need.

Temenos Enterprise Risk Framework

The Temenos Enterprise Risk Framework is centred around a scalable risk data warehouse. This scalability is important since one of the major effects of risk systems being deployed at Enterprise level is that the volume of data being processed increases substantially when compared to divisional or regional deployments.

The data schema is extensible. This has allowed Temenos to easily add revenue, margin and other financial data to the existing risk schema. This same extensibility can be used by banks to add new data dimensions or new business divisions as required by corporate and management changes.

The Framework has been built using modern technology. This not only enables the scalability previously described, but also ensures that the framework can be integrated into most risk, financial and operational environments.

Comprehensive tooling includes sophisticated ETL functionality and an analytic framework which can use either the Temenos supplied analytic engines for Credit and Market risk or could be interfaced to other, proprietary calculators.

The combination of technology tooling and scalable technology enables the Framework to be deployed for Enterprise-wide risk and financial return and capital allocation purposes.

Solution

It is clear that banks understand the requirement to allocate their financial resources in ways which reflect both profitability and risk.
Although revenue and margin driven allocations are common, the use of embedded enterprise-wide comprehensive risk measure has remained an ambition for many banks. Those banks realise that if they merged financial and risk data, they would be able to make better informed strategic direction decisions, and would be able to drive product pricing and targeting on a much finer basis. The Temenos Enterprise Risk Framework is a product which enables this ambition to be realised extending from a Basel II regulatory type solution to a full economic capital implementation with RAROC functionality.

The Temenos Enterprise Risk Framework offers:

- Basle II compliant credit risk capital engine
- Market risk calculated for own positions and customer positions
- Economic Capital calculation abilities
- Integrated Profitability and Risk data to provide true Strategic Management Information
- Extensible functionality set through the use of documented, open technology.
- Robust and open data model
- Comprehensive data load and transformation tools
- Ability to address multiple silos
- Industry standard reporting interface – can use Temenos or third party tools
- Scalable efficient technology to enable high data volume to be processed.