

MANAGING OPERATIONAL RISK WITH NEXUM IT

Aizkraukles Banka was established in 1993 in the city of Aizkraukle. Its headquarters are in the Latvian capital of Riga with representative offices in Azerbaijan, Belarus, Kazakhstan, Russia, Ukraine and Uzbekistan. The bank has the largest team of private bankers in Latvia and combines the best practices of the European banking system with an individual approach to each customer. Its mission is to become the leading independent private bank in Eastern Europe, combining all banking services, including asset management and advisory services, in a single customer-tailored offer.

To achieve this the bank needed to enhance the efficiency of operational risk management with an automated solution and it chose Nexum Operational Risk Management (Nexum ORM) solution. The solution delivered several key requirements including a centralised operational risk database, automated reporting and notification functions and a more efficient risk identification system.



"All interruptions to the banking processes need immediate attention and require the right employees to get involved to resolve the issues. These activities are tracked and analysed by risk management to estimate the financial impact and eliminate the most critical sources of risk to our operations."

Oksana Gladiya
Head of risk analysis
Aizkraukles Banka

BUSINESS NEEDS

Risk management has always been a very important part of Aizkraukles Banka's management activities. The bank started its operational risk management reorganisation early in 2008 in order to centralise all the bank's operational risk issues, become more responsive to customer claims and mitigate potential losses.

The bank previously used Microsoft Excel to register, classify and collect its operational risk data. Any risk incidents were reported to one designated email address monitored by the operational risk manager. As the operational risk manager was the only one who could update the database (an Excel spreadsheet), they looked after the incident from start to finish. The outcome of the incident then had to be manually entered into the database. However, collecting all the operational risk data in an Excel spreadsheet proved to be useful later on when implementing the new system. It helped understand the needs of the operational risk department and define the actual requirements for the solution.

Producing data reports was also proving to be difficult as it was an extremely time consuming process and the same data had to be presented to different managers or departments in many different ways. Furthermore, the bank was using Excel pivot tables to sort and filter the data but the amount of data was too big for this to work well and every time the data was updated, the reports had to be rebuilt. Before implementing the new solution, Aizkraukles Banka had to prepare each set of reports manually to be presented to the management board. This prompted the bank to look for an automated way to process the operational risk data.

The introduction of new Basel II compliance regulations in January 2008 meant that all banks were required to start managing operational risk as a separate part of their risk management programme. Banks were thus required to set aside a certain amount of capital, calculated using a standard formula, to cover their operational risk. Having identified a genuine need to adjust this standard capital figure to one which more closely tracked the bank's actual level of operational risk, Aizkraukles Banka set about the task of creating its own model – one that could define a far more accurate picture of risk levels whilst continuing to fulfil the legal requirements of Basel II. By working closely with the industry regulator and demonstrating a clear and consistent methodology throughout the process, the bank has now successfully developed its own Advanced Measured Approach (AMA), which maintains Basel II compliance whilst offering a higher level of business agility. Aizkraukles Banka is currently collecting report data as part of the qualifying criteria of AMA and once this period has concluded to the satisfaction of the industry regulator the bespoke calculation model will be fully deployed.



NEXUM ORM

Nexum ORM is an operational risk management solution that can be easily integrated with existing applications or external systems. The system is powered by a leading business process management platform to define, automate and execute the ORM process.

The solution offers a structured and automated process, an operational risk database for reporting, a simple and easy-to-use system and accurate and complete loss data. The web-based nature of the system ensures it can be used in any user environment. Through using the Nexum ORM solution, Aizkraukles Banka has benefited from a solution that offers:

- Increased efficiency of risk department
- Simplified and automated reporting
- Improved analytics functions
- Fast resolution of problems
- More responsive customer service

“Nexum ORM is a convenient software solution from the end user perspective but, at the same time, powerful enough for our risk management requirements, so we can develop our excellence in this area.”

Oksana Gladiya
Head of risk analysis
Aizkraukles Banka

THE SOLUTION – NEXUM ORM

Aizkraukles Banka was looking for an efficient and responsible way to develop its risk management and therefore decided to implement an automated operational risk management system, but one that that requires user input for key decisions. In October 2008, the head of Aizkraukles Banka's risk analysis department, Oksana Gladiya, attended an industry specific seminar on operational risk management. The seminar was organised by Nexum and it was there that the company presented its solution for operational risk data collection. Negotiations between the two companies regarding the implementation of Nexum systems began shortly after this.

IMPLEMENTATION

In January 2009, the bank started replacing the manual operational risk management process across the whole bank with Nexum Operational Risk Management (Nexum ORM) solution. It took less than five months to implement the whole system. It took one month to define the exact business requirements for the new solution, two months for configuration, integration and migration and two months for testing, pilot testing, key user training and deployment of the solution. Aizkraukles Bank went live with Nexum ORM on 29 May 2009.

THE SOLUTION

The bank selected Nexum ORM to empower its operational risk management functions. The Nexum solution has a business process management engine at its core and ensures a high degree of process automation, deadline control and workload distribution. The solution has been built to support the evolving needs of the operational risk department and to be adjustable to the new needs of the bank.

“In our bank we emphasise the importance of operational risk control and management,” says Gladiya. “Nexum ORM is a convenient software solution from the end user perspective but, at the same time, powerful enough for our risk management requirements, so we can develop our excellence in this area.”

PROVIDING NEW FEATURES

The Nexum ORM solution gives Aizkraukles Banka automated incident registration functionality that can be integrated into existing intranet portals, help desk and Internet bank systems. It also provides straightforward web forms to report incidents and these forms can be accessed from almost any department within a company. The solution features a centralised database structure optimised to store operational risk data and also sophisticated tools and interfaces to collect incident and loss information while classifying, routing, controlling and closing incidents.

SOLVING PROBLEMS

The solution is designed to solve the most important and specific problems of operational risk data collection and speed up the process of incident resolution. It functions in the way people work (visual workflow of operational risk event resolution and tasks) and automates many manual functions like task control and reminders. It also contains the detailed operational risk incident information required by the operational risk team and drives resolution of the incident step-by-step by managing tasks, sending reminders and visualising the history and the status of incident resolution.

FULLFILLING BUSINESS NEEDS

Aizkraukles Banka had several key requirements for an operational risk solution which Nexum was able to provide. These included the ability to collect and make available a structured and consistent operational risk database for automated reporting, automatically informing management about major events and providing employees with an automatic notification when a new task is assigned to them.

“Working with Nexum was a very satisfactory process. The Nexum staff were very professional and customer-orientated with a good knowledge of the product and experience in business process modelling.”

Mihails Mohovs
Head of Information Systems
Development Department
Aizkraukles Banka

HOW AIZKRAUKLES BANKA HAS BENEFITED

The Nexum ORM solution has provided Aizkraukles Banka with a structured and efficient approach to risk minimisation, whilst offering a solid foundation for a more responsive customer service. Nexum ORM has been easily integrated with the existing applications and external systems because of the service orientated architecture in its core. The Internet-based nature of the solution ensures that it can be used in any user environment within the bank. It has helped the bank to register, resolve and control operational risk events, using structures defined by international compliance requirements and has delivered the necessary requirements for an operational risk management solution.

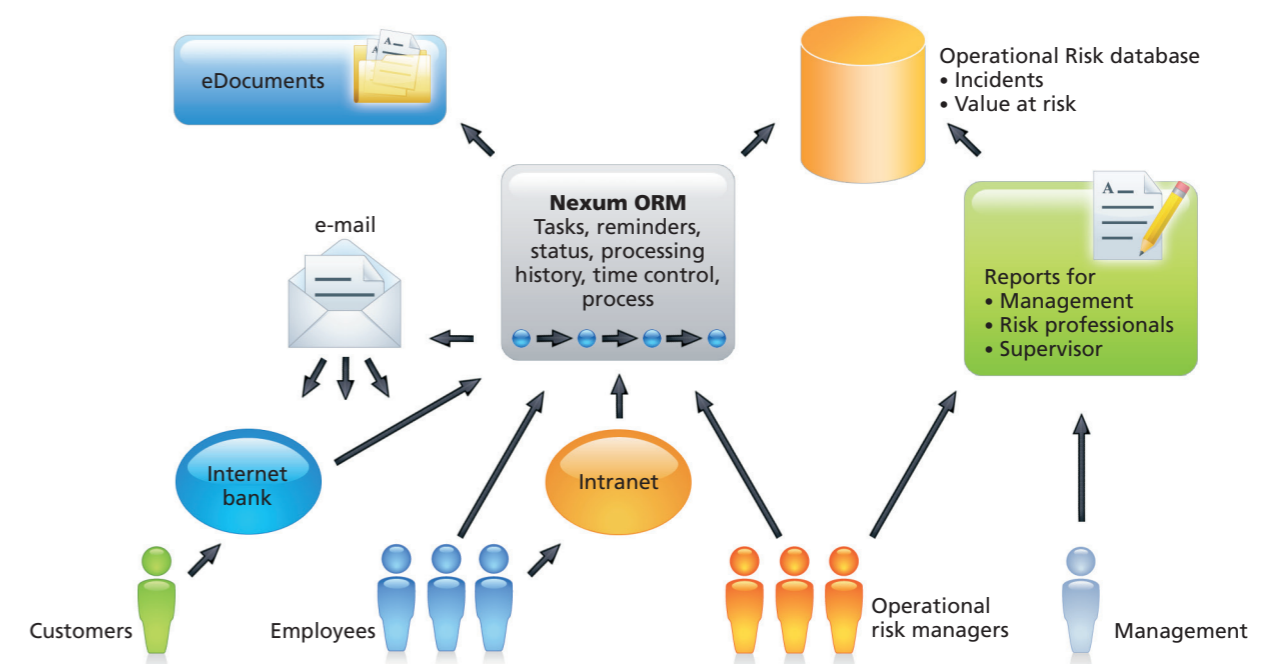
INCREASED EFFICIENCY AND REDUCED EXPOSURE

Nexum ORM has made the process of identifying problems more efficient and qualitative meaning the overall risk exposure of the company has been reduced and the bank has now moved from reactive to proactive risk management. A lot of incidents and losses can now be avoided. International operational risk management best practices have been considered when creating the Nexum ORM solution. This means that Aizkraukles Banka now has the ability to exchange operational risk information with other global market players and achieve more accurate risk estimations.

“Working with Nexum was a very satisfactory process,” says Mihails Mohovs, head of Aizkraukles Banka's information systems development department. “The Nexum staff were very professional and customer-orientated with a good knowledge of the product and experience in business process modelling.”

FASTER INCIDENT RESOLUTION

The new solution automates control of task completion time and automatically sends reminders to the person responsible. This has improved user control and enabled the bank to resolve incidents quickly. There is now no need for the operational risk manager to participate in every step of incident resolution. They can therefore dedicate more time to investigating the core reason of each incident, finding any links between the incidents and identifying the root cause of similar incidents. This has improved the quality of operational risk management. Now, with the elimination of long administrative delays, the internal procedure can be adjusted very quickly in order to eliminate future losses.



ABOUT NEXUM INSURANCE TECHNOLOGIES

Nexum Insurance Technologies specialises in software and business solutions for financial institutions, particularly in the field of business process discovery, analysis and management (operations management). Based on experience in the banking and insurance sector and process consulting for financial institutions, Nexum Insurance Technologies delivers a comprehensive approach to ORM implementation in a few weeks.

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SOLVING EXISTING PROBLEMS

Nexum ORM helped the bank resolve existing problems that could not previously be identified. For example, the bank was having some difficulties with an Internet banking customer form for money transfer with currency exchange and a solution could not be identified without a centralised database. With the new solution in place, the operational risk manager was able to identify the scale of the problem by analysing all similar operational risk incidents and finding their root cause. As a result, the problem was resolved much quicker and with much less effort.

SIMPLIFIED REPORTING AND USAGE

Operational risk reporting has been greatly simplified since the introduction of Nexum ORM. It is now a matter of a few clicks and only takes a couple of minutes. The automated report generation tool creates all the necessary reports. The relevant departments can now generate reports on their own without requesting the operational risk department to do this. The quality of the automated reports produced has been notable.

BETTER ANALYTICS FUNCTIONS

The bank also found the analysis function of Nexum ORM to be very useful. The Excel-based data collected under the old system contained less detailed information than the data collected by the new solution. It collects data from many participants simultaneously and records it automatically. Previously, the operational risk manager was the only one who could enter the data on the Excel database and it required much more time and effort to collect and record the same amount of information. Therefore the system significantly increased the amount and the level of detail of operational risk information being collected. Other departments now use operational risk data and tables in their work.

THE END RESULT

Nexum has helped Aizkraukles Banka improve the efficiency of operational risk management with its automated solution. It has provided the bank with a high-level view of the operational risk issues which otherwise would have been very difficult to understand. Nexum provided training to the IT administrators and analysts and continues to make available second and third level support but due to the simple, user-friendly incident reporting form, staff didn't require any dedicated training. Because of optimised task routing paths and electronic workflow the customer service provided by the bank has also significantly improved. Due to the high level of user involvement, the total risk awareness within the company has become much higher. Employees understand and care about the risks the company is exposed to.

The solution has enabled the bank to achieve its goals of reducing the level of operational risk, meeting compliance regulations, automating reporting and notification functions and centralising the operational risk database. It has also provided an efficient and responsible way for the bank to take its risk management capabilities to the next level.

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