

Misys Risk Vision

Zürcher Kantonalbank

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Dr. Luc Seydoux,
Head of Credit Risk at ZKB



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Zürcher Kantonalbank (ZKB) is headquartered in Zurich, Switzerland and with total assets of over CHF 100 billion, it is the largest cantonal bank and the leading financial services provider in the greater Zurich area. It has 4,446 employees working out of 104 sites and offers a comprehensive range of financial services to clients in the consumer, public and corporate sectors.

ZKB is an important financial institution locally, regionally, nationally and internationally. It serves individual consumers and communities with its retail banking division and at a national level, ZKB is one of the leading banks for medium and large companies, banks, institutional investors and public sector organisations. It has approximately 140,000 customers, including 2,000 banking customers and 20,000 corporate customers.

Aiming to enhance risk management

In 2002, the company recognised a need to improve the flexibility of its limit management processes and to import and monitor all types of products within a stronger risk framework.

“It was important for us to enhance risk management,” comments Dr. Luc Seydoux, Head of Credit Risk at ZKB. “We wanted to go from an MPE (maximum potential exposure) to a PE (potential exposure) view and to have complete data on all exposures.”

Flexible risk measurement and risk mitigation was to be achieved through gaining real-time views on most traded products and ZKB also wanted to install pre-deal checking for all traders.

Implementing Risk Vision

After assessing the market for solutions in this area, according to Dr. Seydoux, it was clear that installing Misys Risk Vision for credit risk pre-deal checking and account monitoring would provide the optimum solution.

“It was certainly the best solution,” comments Dr. Seydoux, “and we could easily integrate data with our third party market risk engine which was important.”

Misys Risk Vision is an integrated and functionally advanced risk solution, delivering risk measurement and management at enterprise and departmental level, well suited for banks, investment managers and financial intermediaries.

Introduction

Zürcher Kantonalbank is the third largest Swiss universal bank offering comprehensive financial services for private, commercial and institutional customers. In August 2005, it installed Misys Risk Vision – an integrated and functionally advanced credit risk solution, delivering risk measurement and management at an enterprise level to strengthen its credit risk procedures.

Website

www.zkb.com

Business situation

- + Increasing volume in trading operations
- + Increasing use of derivatives
- + Need to report and manage risk/performance

Project objectives

- + Boost STP and risk management
- + Achieve real-time analysis
- + Enhance risk management
- + Change from an MPE to a PE view
- + Obtain complete data on all exposures and drive real time information in trading

Solutions & Services

Misys Risk Vision

Key benefits

- + Provides strong pre-deal checking and functionality and limits management
- + Assesses all exposures across mortgages, loans, letters of credit, various types of derivative products, issuer risk resulting from equities and bonds.
- + Strong measurement of credit risk and settlement risk around 250,000 trades
- + Enables calculation of exposures in < 5 seconds using a mark-to-market plus add-on approach - calculations consider netting including credit support annex and other types of risk mitigation.

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Dr. Seydoux describes the implementation as an extremely worthwhile project. The implementation project, staffed by a joint team from the bank and Misys, was started in late 2003 and lasted for two years. The bank has also since executed several upgrades to new releases.

"After going live, all the traders, the account or relationship managers, analysts, the whole staff, including top management and the board of directors were involved in risk management through Misys Risk Vision," he says.

"When a trader wants to make a trade, Risk Vision comes into play from the beginning in terms of pre-deal checking which helps the trader settle a contract. During the lifetime of the contract Risk Vision might come up with an overdraft if there is one and you see 'Oh, we have an overdraft' and you have to manage it."

Valuable benefits

Misys Risk Vision is now ZKB's core credit risk management system used to give an overview of the products, maturities, lines, and country limits put in place by the bank's managers to ensure continued and profitable business. It gives ZKB increased flexibility for limits management, risk measurement and improved risk mitigation through increased use of real-time views.

Additionally, ZKB has benefited from stronger pre-deal checking functionality for front office traders and a variety of information is available at any moment in time for individual reporting and data quality monitoring.

The team was also impressed by Misys Risk Vision's integration capabilities. Misys Risk Vision gathers credit risk data on all ZKB's positions, including mortgages, loans, letters of credit, various types of derivative products, issuer risk resulting from equities and bonds - a total of around 250,000 trades covering around 140,000 customers and counterparties. Mortgage and loan deals are entered at the end of the day, but derivatives trades are captured in real-time.

Misys Risk Vision calculates exposures using a mark-to-market plus add-on approach, with the Algorithmics system providing the add-on factors weekly. The Misys Risk Vision calculations consider netting including credit support annex and other types of risk mitigation, and take less than five seconds. The system then feeds its results monthly into the in-house Monte Carlo simulation-based credit portfolio management system.

"We have a very good understanding of our counterparty credit risk because we have these systems linked together," says Dr. Seydoux. Consistency and quality of data is also of critical importance. "We have more or less a single point of entry in that we collect all the data in Risk Vision and monitor the quality of the data we get, with one person dedicated to this job."

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**Jürg Reichen, Head of International Banking,
Zürcher Kantonalbank**

Safety in the financial crisis

ZKB was an early mover in the area of limits management and this proactive approach placed the business in a strong position to tackle the challenges of the global financial crisis during 2008.

ZKB's Head of International Banking, Jürg Reichen, says, “When hell was breaking loose in fourth quarter of 2008, for me as a risk manager, Misys Risk Vision was of paramount importance. Having the information at any moment in time available was crucial – we have frequently needed to be able to answer the question: ‘what is our exposure vis-à-vis our counterparties?’ We have very large trading operations and put simply this solution helped us to monitor our risk.”

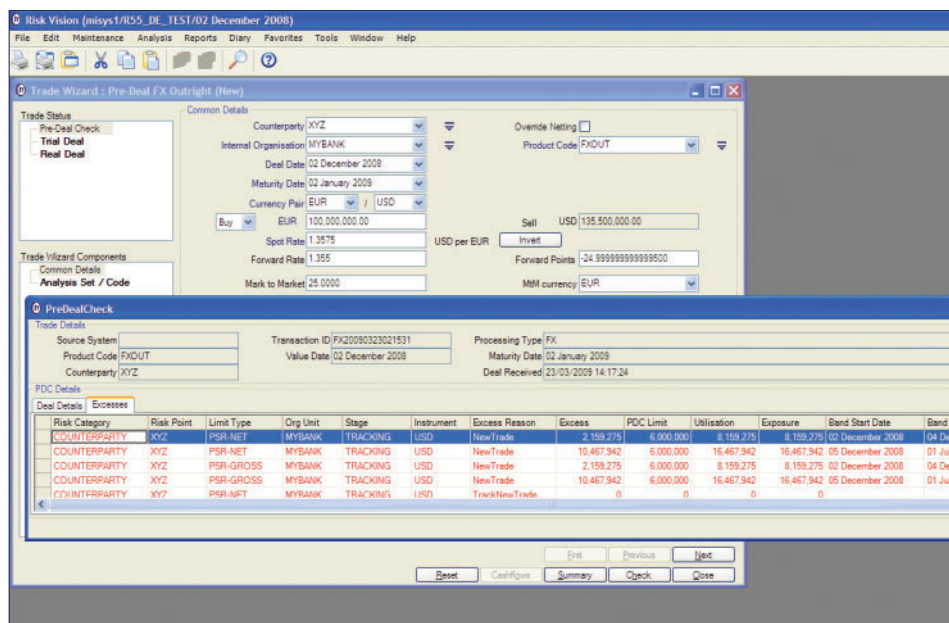
“Thanks to Misys Risk Vision we were able to run our trading business during the crisis almost like ‘business as usual’ and in numerous risk committee meetings, with the reporting that was available, I was always in the position to give information about our accurate positions vis-à-vis our counterparties which was highly appreciated by our senior management.

Dr. Seydoux adds, “It’s obvious that during the financial crisis, we ‘live risk management’ and specifically counterparty risk is crucial. This is a core system in counterparty and credit risk management and we have other systems that are in line with RV such as ratings systems and an in-house developed system for portfolio management.”

Mitigating risks today and tomorrow

Today, more than ever, ZKB is leveraging Misys Risk Vision’s limits management capabilities to manage exposures across a wide range of financial products such as mortgages, loans, letters of credit, derivatives, equities, bonds, swaps and other instruments with credit risk and settlement risk associated.

“It’s the central system,” Reichen concludes. “Without a risk system, we cannot do our business – before we do a single trade, we need to have the system in place.”



For more information on Misys Risk Vision, please email: tcm.marketing@misys.com or visit www.misys.com

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