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## Overview

### The need

KLP knew that accurate modeling could help its portfolio managers and risk analysts make better decisions – but without an easy way to access the results, users were not seeing the benefits.

### The solution

By adopting a single, cloud-based solution to model risk across all asset classes, KLP can now provide each user with instant web access to key risk measures and timely, personalized reports.

### The benefit

200 percent rise in active users, as front- and middle-office decision-makers gain confidence in using risk analytics to manage portfolios and risk. Cloud-based solution simplifies IT support.

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# KLP empowers the front and middle office with advanced risk analytics

*Deploying a flexible, user-friendly framework for cloud-based risk modeling across multiple asset classes*

When the future financial security of more than 700,000 people depends on the astute fund management decisions of 58 asset managers, it's vital to put all the relevant risk-related data at their fingertips.

For KLP's asset management division, the challenge was to embed sophisticated risk modeling technologies into its day-to-day decision-making process by making it easier for portfolio managers and risk analysts to perform analyses and access the results.

Working with IBM® Algo Risk® Service on Cloud, KLP can model complex risks for all asset classes across its entire portfolio of managed and indexed funds – and, crucially, deliver instant insight and personalized reports to each manager.

The result? A 200-percent increase in user adoption provides real evidence that a more informed and risk-focused culture of portfolio management has taken root across the organization.

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*Modeling projects often run the risk of delivering a solution that some groups like, but others refuse to adopt. Harald Harlem, Head of Investment Management Services, comments: “Our strategy was to co-opt the most demanding users, meet their needs and turn them into advocates. We still have a long way to go, but today we have users in every front- and middle-office team.”*

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## Solution components

### Software

- IBM® Algo Risk® Service on Cloud
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## Setting the scene

KLP is Norway's largest mutual life insurance company. It is dominant in the public-sector pensions space, with more than 700,000 members from municipal and county authorities, health trusts and other publicly owned companies.

Its subsidiary KLP Kapitalforvaltning is responsible for managing NOK 278 billion of the group's total assets, which in 2013 totaled NOK 375 billion. The company's 58 employees manage 33 mutual funds in various asset classes. The majority are index funds; the remainder are either passively or actively managed fixed-income funds.

Harald Harlem, Head of Investment Management Services for KLP Kapitalforvaltning, explains: "Like all asset management companies, we are deeply interested in risk – not only operationally and for compliance purposes, but also because our portfolio managers need to understand current and potential risks in order to make sound investment decisions.

"However, with our two existing risk modeling solutions, it was very difficult for these users to get hold of the data they needed. The models themselves were good – but there was no flexibility to present the results in a way that users could easily access or understand.

"Having two different systems was a further barrier to usability, and there were technical complications too. We had our databases running in-house while the modeling tools were hosted externally, which meant that the whole landscape was difficult to maintain and support."

## Looking into the cloud

In keeping with KLP Kapitalforvaltning's lean and efficient approach to management and operations, the company's senior managers decided to investigate cloud-based solutions.

"The cloud would allow us to outsource most of the operational concerns and reduce the need for our own IT and analytics teams to work together on resolving technical problems," says Harald Harlem. "This was the first truly customized system we decided to move into the cloud, but once we had reviewed the options, we were confident it was the right move."

## Flexibility is the key

After evaluating a number of cloud-based risk modeling solutions, the KLP team selected IBM Algo® Risk Service on Cloud.

"The Algo product is more flexible and sophisticated than the alternatives we reviewed," notes Harald Harlem. "In many cases, cloud solutions don't support the level of customization we wanted, but we were able to work with IBM to calibrate the models, risk measures and

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*“Easier risk modeling makes insight more accessible and useful for our portfolio managers and operations team.”*

— Harald Harlem, Head of Investment Management Services, KLP Kapitalforvaltning

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reports to the exact specifications of our portfolio managers and risk analytics team. This means we have been able to create a highly specific and accurate modeling solution that helps us optimize the way we manage risk across our business.”

### **One solution for multiple asset classes**

Owing to IBM Algo’s extensive legacy of research and development and best-in-class risk analysis, the solution supports multiple models for different asset classes. KLP now has a single solution for all its risk modeling needs – a significant advantage for users, who can now find all the analytics tools they need in a single place. It also allows the company to monitor “pure alpha” and “pure beta” exposure across its portfolio, and easily track the risk for each group.

Furthermore, IBM Algo Risk Service on Cloud environments are not limited by a one-size-fits-all approach where changes and customizations need to be approved by committee. Instead, clients have maximum control over their unique instance of the service, and the ability to fast-track or slow down changes appropriately.

Harald Harlem adds: “The ability to model multiple asset classes is vital for KLP Kapitalforvaltning, not only because of our own needs, but also because we are so tightly integrated with our parent company and provide services for them too. In the near future we plan to model the balance sheet of the entire group with the IBM Algo solution, which will enable us to measure active risk and risk utilization across different asset classes.”

### **Engaging users and winning acceptance**

“The best models in the world are worthless if nobody uses them,” comments Harald Harlem. “We knew the key to the success of this solution would be user adoption, and that meant we had to be sure that we designed it to meet the needs of all our front- and middle-office teams, not just a few groups.”

The project team made a point of working closely with the most demanding users, to make sure the IBM Algo solution could deliver what they wanted. “Once we saw that the managers of active fixed income funds were impressed with Algo’s capabilities, we knew it could handle the less complex passive and indexed funds too,” comments Harald Harlem. “As soon as we made a key front-office stakeholder happy, we encouraged them to become an advocates and ambassador to the rest of the company.

“Our close relationship with the IBM team was important too,” he adds. “The responsive and professional dialog we had with the IBM Algo experts enabled us to fit the solution to the needs of our business users very precisely, which is critical for driving adoption.”

## Embedding risk analytics in KLP's culture

Within a few months of the implementation, the solution has already started to become part of KLP's culture.

"We still have a long way to go with user adoption, but we have already seen a 200 percent increase in the number of active users, compared to our previous solutions," says Harald Harlem. "Approximately half of our portfolio managers now use the IBM Algo solution on a daily basis, and we have users in every team, which means risk modeling data is playing a much more active part in day-to-day decision-making across the organization."

He concludes: "The sophistication of Algo's risk modeling approach and our ongoing conversations about risk with IBM give us great confidence in the future of this solution. The cloud service is also much easier to use and simpler to run and maintain than our previous solutions.

"The ability to give our users the risk data they need, when they need it, in an easily accessible format, is helping to create a culture of more risk-informed portfolio management at KLP Kapitalforvaltning."

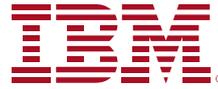
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IBM Business Analytics software delivers data-driven insights that help organizations work smarter and outperform their peers. This comprehensive portfolio includes solutions for business intelligence, predictive analytics and decision management, performance management, and risk management.

Business Analytics solutions enable companies to identify and visualize trends and patterns in areas, such as customer analytics, that can have a profound effect on business performance. They can compare scenarios, anticipate potential threats and opportunities, better plan, budget and forecast resources, balance risks against expected returns and work to meet regulatory requirements. By making analytics widely available, organizations can align tactical and strategic decision-making to achieve business goals.

### For more information

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