

SUNGARD®

Nordic banking: meeting the derivatives complexity challenge

The Nordics have shown a diverse need for solutions. SunGard's Adaptiv ensures that it offers the flexibility and configurability that the market demands.

Nordic banking institutions have had to face up to more than their fair share of challenges over the past few years. Banks throughout Europe have recently had to deal with the arrival of quirky equity market performance, stiff competition, new regulations, accounting standards and the impending arrival of a new capital regime. But, while the much-awaited integration of the European banking sector has yet to occur elsewhere in the region, banks in the Nordic countries have had to endure three consecutive waves of consolidation. The effects of this consolidation have created two handfuls of large financial "supermarkets" with very complex IT infrastructures. And far from being able to pause to take breath to accommodate the necessary changes and to adapt to the new local environment, they have had to remain as vigilant and competitive as ever on both local and European levels.

With a solid history in the Nordics, SunGard services banks, corporate treasuries, hedge funds, energy trading companies and many more financial institutions with their varying trading, risk management and operational needs. SunGard is a global leader in integrated software, processing and risk management solutions.

Peter Lunding, CIO, Nordea Markets, says: "Business is all about relationships. With SunGard we have an established relationship that spans more than a decade and its local presence and understanding of the Nordic market have been key for us. SunGard has played a central role in assisting Nordea in creating a single global infrastructure for its capital markets activities. As an example, Nordea is using Adaptiv to consolidate intra-day market risk and profit and loss across various SunGard and non-SunGard trading systems."

Adaptiv is an enterprise-wide credit and market risk management and operations solution that has been designed specifically for financial services institutions. The by-product of decades worth of work in the sector, it was born out of SunGard's unique history, technology and experience. SunGard helps more than 160 financial services institutions from the banking, hedge fund, asset management, insurance and corporate sectors globally.

One of the most significant challenges that banking groups everywhere are now squaring up to is the continued explosive growth of the derivatives sector. The value of the global over-the-counter derivatives market



Christian Kromann

grew to a record \$248 trillion (€197.5 trillion) in the second half of last year, an increase of 12.8% on the previous six months, according to the Bank for International Settlements. Exchange-traded instruments have also been hitting new records. Such is the influence of these fast-moving markets that the use of these instruments has become imperative for all institutions, both large and small. It is even becoming increasingly unrealistic for banks to continue servicing wholesale clients without derivatives sales capabilities, albeit white-labelled ones. For instance, a recent fund management industry survey revealed that this client sector is increasingly using the instruments, with the proportion of European fund managers surveyed not using derivatives dropping from 53% to 38% in 12 months. Being able to service this growing community – corporate derivatives users, hedge funds and retail clients through structured products – is becoming increasingly important, not only for winning new business, but also for retaining existing business relationships.

Derivatives, of course, reap considerable benefits on both the revenue

and risk management front. They enable firms to tailor and leverage on desired exposures, to manage and contain less desirable risks, and bring in lucrative fee-based work. But the risks entailed in trading and using the instruments are considerable: only the most foolhardy of institutions will engage in derivatives-based activity without the appropriate systems. And now, with the arrival of the new International Accounting Standards (IAS 39), with new local and EU-wide regulatory requirements to comply with, and with the unforgiving spotlight of supervisory scrutiny now focusing on all derivatives-related operations, the task is getting harder. Going forward it will be no easier: with the new Basel II regime, operating will indeed get more unforgiving and complex. Competing in a post-Basel II environment will demand that banks focus on all risk areas, upgrading or updating their systems to ensure they can comply with the most advantageous of regimes, and beat savvy competitors.

Christian Kromann, general manager Nordics, SunGard Adaptiv, says: "Not only that, but these entities will increasingly find it difficult to compete economically in these markets. Though it is still a lucrative business, the margins obtainable in derivatives are well below where they were just a year ago: this compression will continue, and to ensure they remain competitive banks will need to invest in systems to support the business. Smooth-running systems can sustain higher volumes, growing product complexity and help banks meet their targets."

There is now a pressing requirement to focus on the operational functionalities needed to support a bank's activity in these key markets. The proliferation of instruments and their growing complexity now demand solid and adaptable systems. Close regulatory scrutiny on the processes supporting derivatives-related activity, on market and credit risk, have raised the parameters for all protagonists in these markets. What is more, the dangers inherent in the mis-measurement of counterparty exposures, the mismanagement of collateral movements, and the high cost of operational lapses now make the deployment of enterprise-wide risk management systems a first-step requirement. Back office, risk management and accounting issues may not be driving front office activity today – nor, indeed should they – but success in derivatives is becoming increasingly dependent on them.

There has been a great deal of focus on the measurement of operational risk, and one of the main outcomes of highlighting this is the need to reduce risk through operations. SunGard addresses this issue through the availability of Adaptiv Operations, a back-office module offering an organisation an unprecedented level of proactive operations management and process control. Adaptiv Operations helps provide consistency in trade processing, data management, control and compliance issues to user-defined standards.

Without smooth functioning, and the kind of integrated systems that can support a constant interface between all these components, banks will find it increasingly difficult to comply with regulations.

Kromann adds: "System integration is essential; providing systems that can link and communicate remains one of the key challenges within trading companies and is something that we as the vendor focus on as of key importance when providing our clients with solutions. Vendors and IT departments alike have to create a platform that can help deliver transparency throughout an organisation, leading to greater operational efficiency and utilisation of capital."

Investing in a solid systems infrastructure is no longer a matter of choice for banks. SunGard's answer? Adaptiv, which assists institutions of varying size and complexity to deploy technology to meet both internal and regulatory requirements for risk management and operational control. Fully configured to provide credit and market risk management for the front and middle office, as well as trade administration and back-office functionalities, Adaptiv offers a modular approach to solving business requirements. Modules (off-the-shelf or custom) can be easily and incrementally combined to meet current and future needs in a responsive fashion.

The Nordic market has complex requirements on a smaller scale. Some institutions will have the same requirements as a top tier global bank, but without the IT support and funding. Therefore, they need a single technology platform on which they can build to the future, adding functionality as the business areas grow. An example of this trend can be seen in KommuneKredit. Adaptiv has proven to be that platform as it can combine with other SunGard and third party products, such as Reech REAL, to meet all of a bank's technology requirements.

Morten Soetofte, project manager at KommuneKredit, says: "We want to move from back-to-back trading to a portfolio approach and SunGard's infrastructure will help us to do this. The integrated Adaptiv and Reech REAL solutions will help us have a better understanding of our portfolios. We will also implement fewer trades, which in turn will lead to lower transaction fees."

Understanding that the requirements of every user are different, SunGard has provided Adaptiv as a fully modular solution that can be tailored to meet particular needs. The Nordics have shown a diverse need for solutions; by providing Adaptiv, SunGard ensures that it offers the flexibility and configurability that the market demands. Adaptiv can be provided as an application service provision (ASP) service hosted by SunGard Availability Services, which offers banks and other financial institutions reliable operations at a low cost.

Another unique characteristic of Adaptiv is its ease of integration. Through the core use of extensible markup language (XML) for data definition, the overheads associated with legacy systems are vastly reduced. What is more, the underlying technology is based on industry standards, ensuring total flexibility and scalability in development and implementation. Based on Intel architecture, Adaptiv offers exceptional performance, scalability and high availability, and by utilising one platform across all services, avoids cross-platform interoperability headaches.

SunGard Adaptiv is supported by a dedicated local team of experts, ensuring customer satisfaction through ongoing support. ■

CONTACTS

christian.kromann@risk.sungard.com
adaptiv.marketing@risk.sungard.com
www.sungard.com/adaptiv

SunGard, Toldbodgade 18, DK- 1253, Copenhagen, Denmark

T: +45 33 93 90 90

F: +45 33 93 36 11