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## Getting more from your risk intelligence

By Tom LaStrange, CTO, RDC

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*"Risk intelligence is ripe for universal application across the risk spectrum"*

-Tom LaStrange, Chief Technology Officer, RDC

The Great Financial Crisis forced us all to rethink risk management. What didn't work had to change, while that which worked required urgent exploitation and expansion. Never again could a large financial institution afford to be flagged for failing to capitalize on a proven risk management technique for all relevant disciplines. Strengths specific to one area required transformation into a more universal application. Plus, given prevalent margin compression across the industry, any transformation would need to occur in the most efficient manner.

Risk intelligence vendors are the most logical, if often overlooked, sources to lead this transformation. Largely creatures of the post-9/11 world, these providers have been narrowly confined to the regulatory compliance arena. Application was limited to the client acceptance and suitability space.

Such tunnel vision vastly underutilizes their potential. A handful of financial institutions, appreciating the power of risk intelligence to manage and mitigate a broad spectrum of risk, are transforming their data to fit a comprehensive array of risk management disciplines, and enhancing their technology to assure efficient integration and delivery. Some are even offering their infrastructures to help process information as a prelude to a risk decision.

Risk intelligence is ripe for universal application across the risk spectrum. Consider the following applications:

- **Global Credit Risk Application:** Risk intelligence, by nature, is global. It's a singular source for potential negative performance static information and trends that greatly assist credit assessments, especially from regions without established credit history reporting mechanisms.
- **Credit Risk Monitoring:** Risk intelligence data often appears weeks or even months before it surfaces in credit bureau reporting. Timely access to derogatory or other risk-relevant information germane to an individual's business or personal activity, as well as key performance risk indicators, make risk intelligence an ideal source for highlighting red flags and finding proverbial needles in large haystacks.
- **Fraud Monitoring:** Properly categorized, risk intelligence spotlights a variety of factors that materially enhance risk predictive models, including non-credit solicitation tracking, recent relocations, and a host of recent negative media regarding personal and business performance histories.
- **Material Adverse Change (MAC) Clause Triggering:** Global in reach and capable of categorization that identifies known or suspected relationships, risk intelligence is a reliable "first responder" for those actively monitoring potential MAC clause triggering events.
- **Regulatory Transaction Monitoring:** Risk intelligence is readily adaptable to assess the counterparties, beneficiaries and originators with whom your clients interact. It probably is the most efficient means of detecting and reporting suspicious activities the world over.
- **Social Network Monitoring:** Brand protection is vital. Risk intelligence is ideally suited for assessing the sources of any false or misleading information about a company's products posted on a social networking site.
- **Security Services:** Risk intelligence remains an indispensable tool in any investigation.



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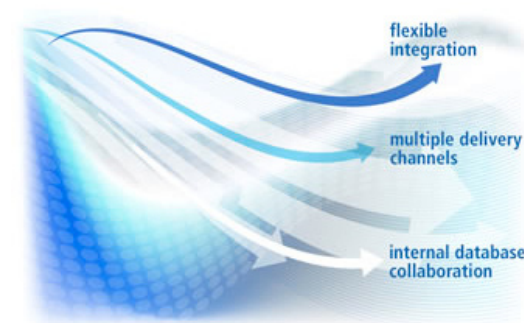
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Potential application, however, does not automatically translate into real value. A vendor must have cutting edge industry and technical know-how. Substantive risk experience in running credit, fraud and regulatory risk units is indispensable in unleashing this value. That trained eye, together with a demonstrated ability to deliver for financial institutions, unlocks any data's value. Libraries of information are worthwhile only after they are materially culled, properly categorized, and built around a configurable, retrieval-friendly system.

Every firm's risk management is idiosyncratic and requires customization for its business and management mix. Data providers must embrace this challenge and build search methodologies that allow each firm to tailor the information to their specific needs.

A provider's technology must be flexible. No two firms' risk management systems are the same; seldom are even two risk management processes the same across one firm's business units. Technology must be designed for flexible integration, multiple delivery channels, and seamless incorporation of different internal databases. Fat client applications have been replaced by "Web 2.0" platforms with XML-based batch capabilities and real time web services. Disparate information security sensitivities will require the full spectrum delivery options -- from bulk transfer behind a firm's firewall to complete outsourcing. Numerous data formats must be supported. Some firms will also need to rely on a provider's ability to incorporate their own internal databases to assure a single, comprehensive delivery and tracking system.



Database incorporation, however, is only the beginning. Risk diligence providers increasingly are called on to lend a direct hand by making their infrastructure available for the risk information processing. Many firms are balking, and it's surprising just how many information services vendors continue to focus only on "information" and not "services." Progressive firms willingly accept the challenge. Occasionally, this is limited to periodic in-house updating of portfolios through analysis and processing of material updates to a client's portfolio. More extensive efforts involve processing of information for

low- and medium-risk clients. In all instances, a financial institution relies on a provider's expertise - to deliver what is needed and transform non-core processes to run them "better, faster, cheaper" - the mantra for any technology firm.

In the wake of the Great Financial Crisis, Universality has displaced Globalization as the risk intelligence touchstone for the 2010s. Vendors must have more than global reach. They must transform their data to cover the full risk spectrum for any large financial services firm. This requires extensive financial services risk and technology knowledge, a proven delivery track record, and comprehensively flexible technology. Increasingly, these providers must also be willing to share their infrastructure to deliver true value to their clients.

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