

Adaptiv 360 Case Study RISK AND COMPLIANCE

Achieve More in Risk Management: KommuneKredit

Overview

Around the world, and most notably in Scandinavia, local government funding agencies provide an important social function. Lending solely within domestic borders, they give municipal councils collective access to cost-effective funding, typically for infrastructure projects. Above all, these cooperatives operate on a not-for-profit basis. But while this exempts them from many new financial regulations, they must continue to manage the risks of the complex global trading environment as effectively as possible.

We wanted to be very certain of our choice of risk management solution and sure it could fulfill our long-term needs. Adaptiv 360 has given us the peace of mind to embrace the future.

CHARLOTTE HARTWIG,
VICE PRESIDENT, TREASURY,
KOMMUNEKREDIT.

Changing times for KommuneKredit

Established at the end of the 19th century, KommuneKredit is the local government funding agency for local and regional authorities in Denmark. As a strictly not-for-profit credit institution, its main purpose is to secure the cheapest possible funding for its membership. Currently all of Denmark's local governments are members of KommuneKredit, thereby representing the country's entire population.

KommuneKredit has an AAA credit rating from Standard & Poor's and an Aaa rating from Moody's, which in turn enable it to raise very cheap funding from financial markets around the world. In the early 2000s, to further improve the deals it could offer its members, the organization began to expand its funding strategy beyond traditional securities to structured investment products. And it decided to look for a risk management system that could facilitate this change of direction.

Future-proof solution

Having viewed demonstrations by a number of software providers, KommuneKredit opted for FIS' Adaptiv 360, a single, integrated platform for trade capture, risk and operations management. Combining a real-time, cross-asset trade store with best-of-breed risk management and operations components, Adaptiv 360 has the capacity to handle structured and over-the-counter derivatives products alongside exchange traded instruments, bringing overall control to the trading process. Along with this core solution, KommuneKredit chose to implement additional components of the Adaptiv solution suite: Adaptiv Collateral, which accurately determines collateral requirements in real time, and Adaptiv Analytics, which accelerates complex risk calculations.

Not only did FIS offer a solid product, a strong reputation and the security of being a long-established company, but also many possibilities to improve KommuneKredit's portfolio management and risk management capabilities in the long term.

More than ten years later, and KommuneKredit's decision to partner with FIS has proved to be full of foresight. With its business changing radically over the past decade, in size and volume, and becoming much more complex, Adaptiv 360 has provided a future-proof solution.

As a fully integrated platform for trading and risk management operations, one of the biggest advantages that the Adaptiv 360 platform gives KommuneKredit is a single, centralized place to store and maintain static data. This has become all the more valuable to the organization as both its own business and the external trading environment have increased in complexity.

As KommuneKredit has found, the more complex the world is, the greater the need for an integrated platform, rather than maintaining data in different systems from different providers. Having one system for all its information provides a holistic view of positions and makes it easier to manage market risk. It also greatly diminishes the operational risk that comes from managing multiple system interfaces and communicating their output.

As a local government funding agency we need to reduce our risks to practically zero. Adaptiv 360 has supported our move from a purely trading basis to a portfolio management approach.

CHARLOTTE HARTWIG,
VICE PRESIDENT, TREASURY,
KOMMUNEKREDIT.

It's important to work with a software provider that covers a wide range of business areas and solutions. The more legislation you have to abide by, the more complex your business areas become, the greater the need for a holistic approach to your architecture, from both an IT and risk perspective.

MADS BILLE,
RISK MANAGER,
KOMMUNEKREDIT.

For KommuneKredit, Adaptiv 360 brings clear benefits to both the front and middle office. In the front office, it gives the agency the opportunity to see trades, and their effect on the portfolio, in real time, and get an online, real-time view of all transactions and real-time calculations. This has proved vital for decision-making, on whether to unwind a trade, for example, or enter a new one.

In the middle office KommuneKredit tends to base most, if not all, its risk numbers on Adaptiv 360, for interest rate risk, foreign exchange risk and so on, run in a batch process every night. The system can handle calculations for very complex products, anything from vanilla to exotic and structured products. This is critical for KommuneKredit because, with around 60 employees, it doesn't have the manpower to carry out every single calculation itself.

New risk management challenges

In the years since KommuneKredit first implemented Adaptiv 360, the investment world has become not only more complex but also increasingly regulated. Although the funding agency is exempt from regulations such as Basel III, it is intent on adhering to risk management (and therefore regulatory) best practice. And here, FIS has been able to help further.

A single provider gets deeper knowledge of the business and how it works. FIS employs both expert developers and business practitioners, who understand the jobs we're trying to do, the market we work in and the demands of that market. And it never loses touch with its customers. It feels like FIS' people are our colleagues, and that's a huge compliment to the organization.

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VICE PRESIDENT, TREASURY,
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In 2013, to support its best practice ambitions and further sharpen its risk management approach, KommuneKredit decided to extend its usage of FIS' Adaptiv solution suite. As well as renewing its contract with FIS for another five years, it chose to upgrade its versions of Adaptiv Analytics and Adaptiv Collateral, helping it take an even more integrated and holistic approach to risk management. The latter in particular will be vital for meeting the new collateral management requirements of EMIR for derivatives trading.

As KommuneKredit is not in the position to be a "market maker", it depends on external variables such as EMIR, and its ability to meet new market demands with greater agility. Needing also to ensure the accuracy of its collateral valuations, Adaptiv Collateral enables the agency to calculate market values with total confidence.

A close working relationship

More than a decade of working together has seen FIS and KommuneKredit forge a close partnership. Working with a single software provider, KommuneKredit has found it easier to build and maintain a relationship, in a way that benefits both parties. As a result, FIS is better able to help KommuneKredit achieve its evolving objectives, by recommending and developing new solutions.

ABOUT KOMMUNEKREDIT

KommuneKredit is Denmark's local government funding agency, established by a special act in 1899 and legally organized as a membership organization under Danish law. Membership is restricted to Danish municipalities and regions, and is voluntary, with members directly, jointly and severally liable for its obligations. As all local governments in Denmark are currently members, and have an unlimited right to levy taxes on income and property, the security behind KommuneKredit constitutes the entire tax base of Denmark.

KommuneKredit has excellent asset quality and has not suffered any loan losses in more than 110 years of operation. Operating as a non-profit organization, its clients benefit from a 100 percent local government guarantee. Achieving a high market share through competitive prices and low costs, the products it offers range from loans, financial leasing and derivatives to advisory services. The agency diversifies its funding across a range of markets to minimize dependence on specific sources, and maintains strict risk policies to ensure virtually no currency or interest rate exposure.

Challenges/business needs

- Strategic expansion into structured investment products.
- Portfolio and risk management.
- Business growth.
- Complex external trading environment.
- The need for integrated data and a holistic view of positions and risk.
- Regulatory best practice.
- Collateral management and valuation.

Our solution

- A single, integrated platform for trade capture, risk and operations management.
- Capacity to handle structured investment products and complex derivatives.
- One centralized source of data.
- Integrated solutions for risk analytics and collateral management.

The results

- A real-time view of all transactions.
- Real-time, automated risk and performance calculations for vanilla and complex products.
- Accurate collateral valuations.
- Regulatory compliance and increased investor confidence.
- More informed decision-making.

About Adaptiv

FIS' Adaptiv provides enterprise-wide credit and market risk management and operations solutions for financial services institutions. Adaptiv assists institutions of varying size and complexity to deploy technology to meet both internal and regulatory requirements for risk management and operational control. Adaptiv helps financial services institutions from the banking, hedge fund, asset management, insurance and corporate sectors with its deep understanding of risk management and operational processes. For more information, please visit www.fisglobal.com/enterpriserisk

About FIS

FIS is a global leader in financial services technology, with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance, consulting and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 clients in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 55,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of Standard & Poor's 500® Index. For more information about FIS, visit www.fisglobal.com



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