

Integrating Finance and Risk to Achieve Strategic Benefits in Financial Services



Capgemini and SAP enable CFOs and CROs in the financial services industry to resolve the complexity linked to escalating regulatory demands and need to achieve real time understanding of business profitability and risk control. Particularly in many advanced economics, CFOs and CROs in the financial sector are facing a perfect storm of volatility, in the economy and financial markets, escalating regulatory demands and intensifying pressures on business profitability.

Converging constraints to address these issues are creating momentum to convince senior management of the necessity to sponsor a Finance and Risk Integration program.

Regulatory Constraints

- Financial sector companies simultaneously face a range of new regulatory pressures relating to privacy, anti-money laundering, improper payments, and accounting standards
- New rules under Basel III stipulate additional capital buffers. In OTC derivatives, more effective capital usage is even more pressing. This demands greater focus on returns optimization through risk-weighted measures.
- Basel II and III, IFRS and Solvency II require financial institutions to demonstrate their management of risk and capital. This entails detailed disclosure of risks and other information relevant to stakeholders.

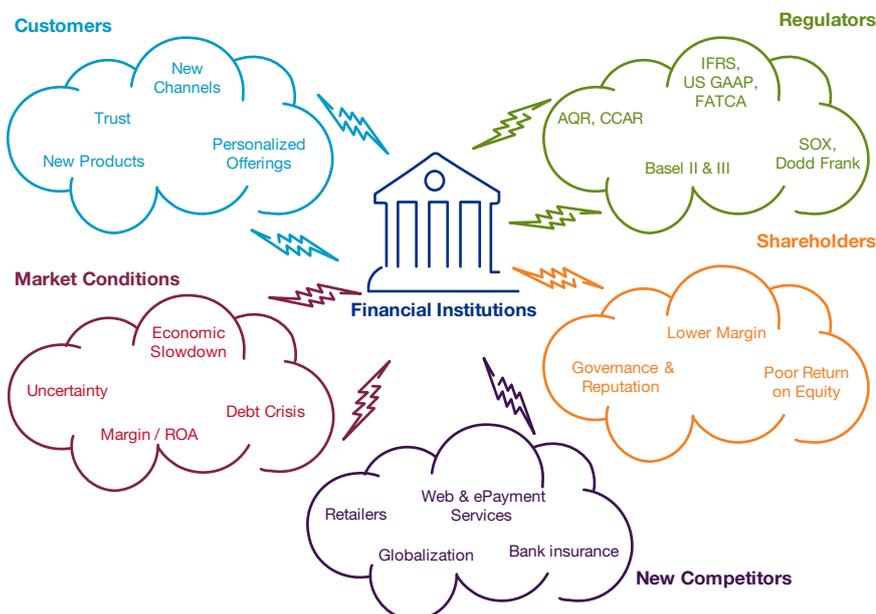
Market Conditions

- Following the global financial crisis, the need and desire for understanding of risk profile and risk behavior have increased substantially.
- Investors, ratings agencies and other stakeholders demand precise reporting. They expect financial institutions to provide a consistent, informed and accurate management view across finance and risk.
- Shareholders are demanding improved performance management to ensure unnecessary levels of risk are not taken.
- To build trust on the outside, overall risk management thinking and approach need to be strengthened on the inside. This is achieved by designing an organization that places risk control firmly at its center.
- Really accurate risk profiling has become a key component in assessing core enterprise value.

Operational Efficiency

- Senior management is demanding a consistent, rounded and more real-time view of the business.
- Margins are under pressure and costs have to be cut. Integrating finance and risk presents substantial cost-saving opportunities, realized from data, reporting processes and supporting systems that are all common rather than siloed and disparate.

The Perfect Storm of Volatility in Financial Services



Challenges and Opportunities in Integrating Finance & Risk

Financial institutions no longer have the luxury of working with misaligned finance and risk processes and data.

When it comes to Risk and Finance Integration, most financial services organizations face similar challenges as it was illustrated in a market analysis carried out by Chartis Research on a panel of 108 respondents¹:

- **88%** of the financial institutions said that risk and finance integration was a top priority or an important priority for them
- **67%** intend to implement, or have already begun to implement, integrated risk and finance at an enterprise level
- **Only 8%** have not begun risk and finance integration projects
- Over half of the respondents considered **compliance with domestic and international regulations** (such as Basel III, EMIR, and IFRS) and business performance to be the two main shapers of approaches to integration
- **Improved decision-making and capital allocation** were the top two strategic goals to be achieved by integration projects. Stress testing and improved P&L forecasting are seen as key benefits resulting from these strategic goals
- **Diverging priorities** of risk and finance and the disconnect between the front and back office are the most significant organizational barriers to aligning the risk and finance teams
- **Data quality, data volume, and siloed data** are the most significant technology barriers to the success of on-demand risk and finance analysis. Improving data quality and reconciliation is the number one technology goal for banks implementing risk and finance integration
- The technologies seen as having the greatest value are **unified and open data models**

Strengthening enterprise decision making, improving capital allocation and raising agility to integrate changing market conditions and compliance mandates are highlighted in Chartis report as the main strategic goals that can be achieved through Finance and Risk Integration.

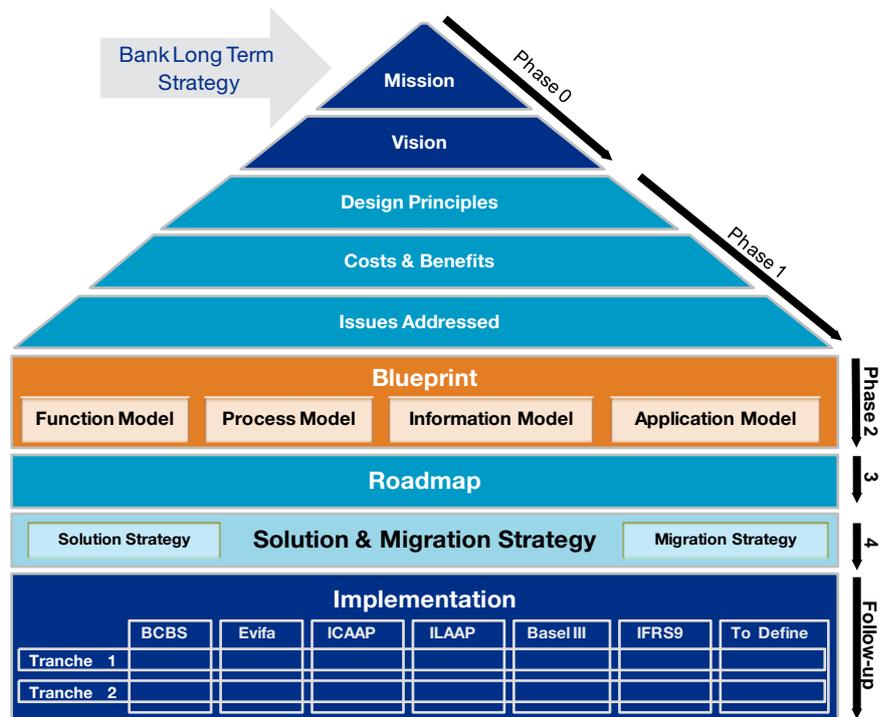
¹ Aligning Risk And Finance In Banks: From Theory to Practice, Chartis Research, June 2013

The Way Forward: Capgemini and the SAP Framework

Capgemini has developed a comprehensive approach to help financial services firms transforming finance and risk systems using the SAP solutions.

- A common **integrated Finance and Risk Vision** (strategic context) is a key element which enables financial services firms to start new projects from this vision and align existing projects to this vision.
- We use a **step-by-step and collaborative approach** where each deliverable builds on – and is in line with – the previous deliverable.
- Success of the initiative requires finding the right balance between main optimization and their level of application to allow a **faster implementation of the regulatory rules** while maintaining the capacity to manage the evolution.
- Adequate governance and **executive sponsorship**, global and integrated view of the process and an **improved maturity regarding data governance and reference data** are some of the main drivers to bring together.
- **Technology should be used as an enabler** for risk and finance functions to work from the same data and produce reconcilable and consistent results, while preserving their independence.

Roadmap for a Finance & Risk Integration Program



Target Architecture Brings Risk & Finance Systems Closer

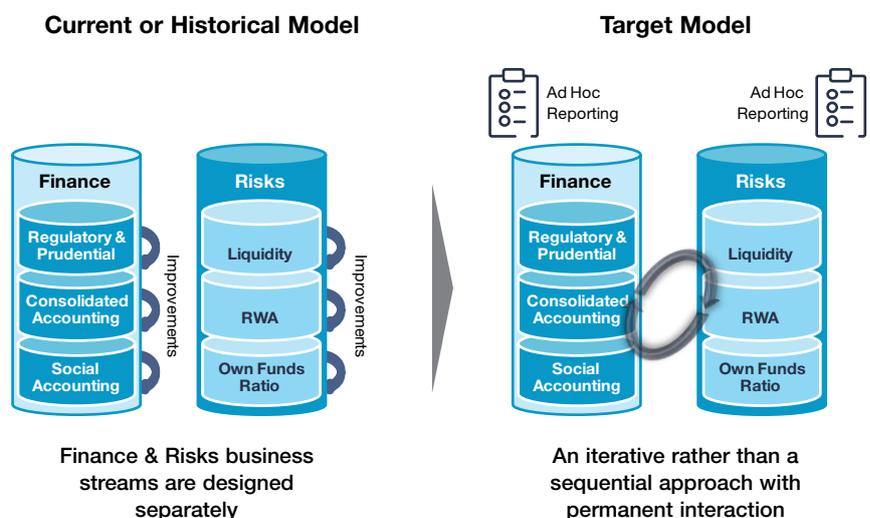
Capgemini's target architecture brings Risk and Finance information systems closer to increase accounting and risk consistency and limit reconciliation tasks by providing a **single point of truth versus consistent points of truth**.

- If a single point of truth can be created and users can drill back down to this level, then the data can be distributed to individual applications to be put into analytics and valuation engines.
- Openness and efficiency are now watchwords in the industry and banks are less keen on the idea of a static, heavily structured data model.
- Instead, multiple, but consistent points of truth within an overall data management structure are seen as more useful.

A unified data management platform:

- To ensure a consistent source of data, banks need a unified data management platform that can draw data from across the enterprise such as transaction data, general ledger data, reference data, market data, or metadata.
- The platform needs to be able to ensure data quality by validating, cleansing, and matching data. The data model should be multi-purpose to allow for multiple, consistent sources of the truth to provide different calculation engines with the data they need in the correct formats.
- The platform should also be able to **avoid duplication and store all data** in a consistent manner to allow for auditability and drill-down to the most granular level.
- To enable risk and finance integration, the data management platform should also be able to **link to multiple systems**, to allow different applications to use the data flexibly

Target Model for Finance & Risk Integration



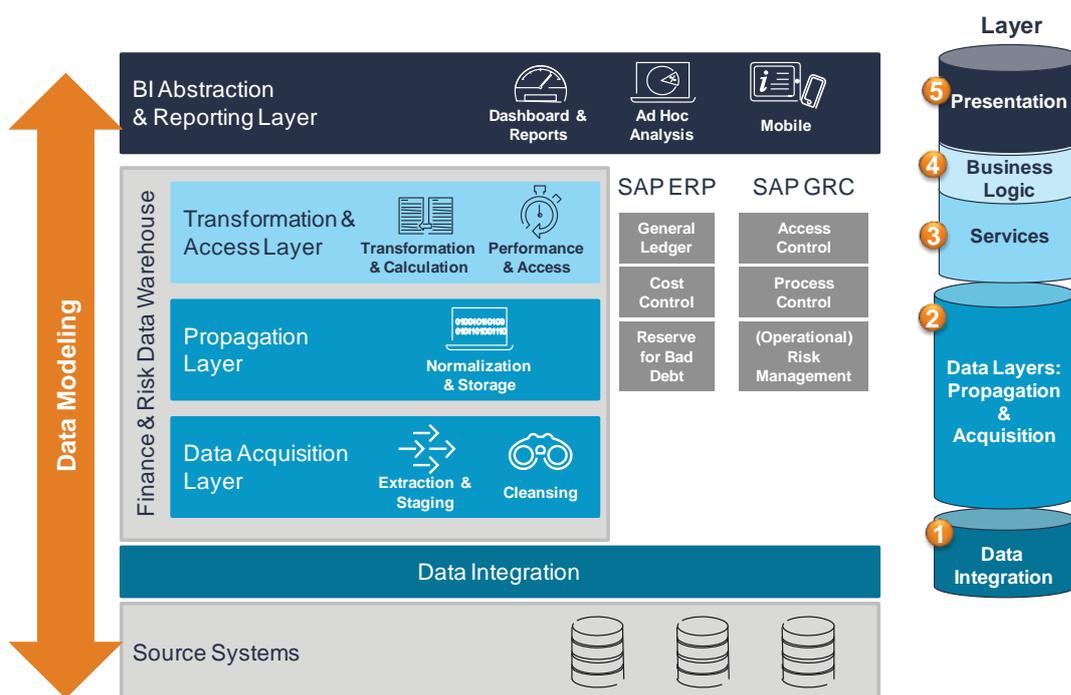
A Modular Approach to SAP's End-to-End Finance and Risk Platform

SAP offers a data management platform that allows finance and risk to integrate with the data warehousing infrastructure. SAP also provides calculation engines and information management systems for risk and finance, but the systems do not have to be implemented that way. SAP is able to take a modular approach to reduce the operational risk surrounding the implementation of new systems. The platform can also be integrated with third-party applications to source data from SAP and non-SAP systems.

SAP offers a scalable open architecture based on five different layers:

- **Presentation** layer proposes a large range of standard reports and offers a comprehensive risk reporting as rapid deployment solution
- **Business Logic** integrates processes with the applications and enables business process management and business rules framework
- **Services** layer carries out the main processes of a financial services firms including risk management, liquidity risk management, accounting/finance and profitability and helps them meet internal and external requirements
- Propagation layer is the first of two **data layers**. It propagates data as the single source of truth where data is held at the lowest level of granularity. Data is considered to be immutable & indisputable and is stored in a normalized model
- Acquisition layer is the landing point for all data from the source layer. It stores the complete set of data elements and reflects the source layer structures one-to-one. This layer also provides data cleansing where required
- **Data Integration** layer is open for non-SAP applications and environments. This layer handles unstructured data and any text file type and is natively integrated with SAP Hana

SAP Offers a Scalable Open Architecture



Qualitative and Quantitative Benefits

Capgemini's clients have achieved significant cost savings and efficiencies through SAP-enabled finance transformation. In many cases, **finance costs have decreased by over 25%** through the elimination of manual, redundant or non-value activities. Other quantitative benefits:

- Address compliance regulatory requirements
- Shift resources from transaction processing to forward looking business support activities
- Provide real-time financial and operational information to support management decisions

The qualitative aspects of an SAP-enabled finance transformation program allow financial institutions to implement an integrated financial and risk architecture that helps meet regulatory reporting requirements. It also allows finance to focus more on management insight and business analytics which transforms the finance organization into a "partner to the business". Other qualitative benefits:

- Provide a single source for both financial and risk management
- Build flexible, adaptable finance organization and technology
- Support focused and relevant business analysis
- Create a partnering model between finance and business units

Capgemini: A Global SAP Leader Since 1993

Capgemini is one of the world's largest and most experienced SAP systems integrators, with 15,900 practitioners and over 40 years of experience. We are the first, and often only, implementation partner for many of SAP's strategic and innovation initiatives. We are honored to hold the following awards and certifications.

- SAP Pinnacle Award 2014 Winner for SAP HANA Adoption Partner of the Year
- 2014 SAP Award of Excellence Capgemini Brazil
- 2014 SAP Award for Best Partner Platform in NL
- 2013 SAP® Pinnacle award winner as the Mobile Co-Innovation Partner of the Year and finalist for Outsourcing and Cloud Services Partner of the Year and Quality Partner of the Year
- Globally Certified RUN SAP Implementation Partner
- Certified Globally for Application Lifecycle Management
- Certified for Support Center of Expertise
- Global Certified in Run SAP Methodology - a phased methodology aimed to help customers optimize their total cost of ownership, obtain better value and support business innovation.
- Global SAP - Certified Provider of Cloud Services
- Global SAP - Certified Provider of Hosting Services
- Global SAP - Certified Provider of Mobile Operations Services

For more information, contact us at: riskmgmt@capgemini.com or visit: www.capgemini.com/sap



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Together with its clients, Capgemini creates and delivers business and technology solutions that fit their needs and drive the results they want.

A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

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