



Landesbank Baden-Württemberg Relies on Informatica to Manage Risk and Stay in Compliance

CHALLENGE

Efficiently dealing with risk plays an increasingly important role for banks. To manage risk effectively, institutions must extract and integrate the necessary risk management data, often from different and even incompatible systems, in order to create current risk analyses. Since 2001, LBBW has used Informatica PowerCenter® to integrate its risk data.

INFORMATICA SOLUTION

Informatica PowerCenter®

BENEFITS

- All relevant financial transactions are incorporated into the market risk calculation.
- All high-risk transactions are under control.
- Mergers and acquisitions are integrated easily.
- LBBW has a single view of its risk portfolio.
- LBBW retains its state compliance rating.

ARCHITECTURE

- Data integration: Informatica PowerCenter
- Databases: Flat files, MS SQL Server
- Platform: Windows NT / Windows 2000 servers
- Sources: Internal applications, trading platforms (such as Kondor+ and Opus), data warehouse
- Target: Simulation solution SIRA

“PowerCenter reliably supplies us with data that we need for risk management. The software is an indispensable prerequisite to the calculation of our risk figures.”

—Bernd Raisch, Risk Information Manager, Landesbank Baden-Württemberg

Landesbank Baden-Württemberg (LBBW) is the largest bank in southwestern Germany. It focuses on the interregional, international, and institutional business of its clients. In addition, it is the central bank of the Sparkassen (savings banks) in Baden-Württemberg and, together with Landesbank Rheinland-Pfalz, also the central bank in Rheinland-Pfalz (Rhineland-Palatinate). It is one of the five largest credit institutions in Germany with a group balance sheet total of €405 billion (12/31/2005), 12,500 employees, and more than 200 offices, primarily in Baden-Württemberg, and over 20 more locations worldwide.

The Challenge

As intermediaries between borrowers and investors, credit institutions bear a great responsibility for the economy. Efficiently dealing with risk plays an increasingly important role in this regard. However, the practical implementation of risk models confronts IT managers with enormous challenges, because they essentially must provide to risk managers a transparent overview of an organization's risk portfolio at the click of a mouse. Large institutions are therefore particularly dependent upon modern data integration solutions.

LBBW came into existence in its current form in 1999 as a result of several mergers and other forms of consolidation. In this kind of challenging environment, managing risk begins with integrating data from disparate sources. Since 2001, LBBW has used Informatica PowerCenter to extract the necessary risk management data from different systems, in order to create the necessary risk analyses on request.

Risk management – Basis of all banking transactions

As a result of the structural transformation in the banking industry and the fact that the risk portfolio of the banking business is increasing, banks today face two critical challenges. First, there are constantly growing demands imposed by regulatory law with respect to managing risk and reasonably securing risk with equity capital. Second they must deal with internal demands resulting from increasingly complex financial transactions. In order to calculate risk,

institutions are allowed to use personally developed risk models, but these models must be cleared by the Bundesanstalt für Finanzdienstleistungsaufsicht [Federal Agency for Financial Services Supervision] (abbreviated as BaFin). With these internal risk models, banks generate reports, from which the equity capital that must be deposited under supervisory law is determined.

An entire department at LBBW is responsible for managing risk. Bernd Raisch, who has been LBBW's Risk Information Manager since the year 2000, is responsible for data integration and the subject-specific data model (information structure). Market price risks are calculated by an application entitled SIRA (Simulation-based Risk measurement and Analysis). For this purpose, the business data are evaluated with different market data scenarios (Scenario-based Monte Carlo Simulation). The complex SIRA calculations place heavy demands on the IT systems and the underlying data. These data are loaded from in house systems, such as trading platforms, into a defined information structure. In order to create a viable data model from different data, however, all of the individual business data must conform to a uniform model. In close collaboration with the content experts in the individual departments, Raisch uses process analysis to identify, analyze, and store the data as the basis for SIRA in a structured uniform form in the information structure (data model).

"We do not want to be like other companies, producing cartons of paper that end up gathering dust in the drawer; instead, we have set the goal for ourselves to understand the individual processes on the basis of the data structure of the businesses," Raisch said. The

adaptation of risk models based on internal data is especially challenging in the case of acquisitions or mergers. It is critical to obtain the data from the heterogeneous systems on the basis of individual transactions. Only through the modeling of individual transaction data in the structured form is it possible to meet statutory and regulatory demands in a timely fashion. In this regard, heavy demands are placed on the employees and the tools they use.

Decision in favor of Informatica PowerCenter

LBBW's Controls Department needed a powerful data integration solution to consolidate and use the heterogeneous data sources. The software that they chose can also be used by the employees with appropriate substantive knowledge, in order to avoid a break between the substantive and technical competence or even implementation by outside personnel. "It was clear to us that we needed a modern tool with a graphical user interface, on which employees can be quickly trained even without programming knowledge," Raisch said. They chose Informatica PowerCenter. With PowerCenter, from the beginning, Raisch's team was able to model all defined processes in the form of mappings and thereby largely automate the impending functions. A high-performance IT environment is available at LBBW for this purpose. For security reasons, PowerCenter runs on three servers with dual-processor technology in the computer center—a production environment, test environment, and application development environment.

Informatica Professional Services teamed with outside service providers for a quick implementation and the necessary system

adaptations. Bernd Raisch's team performed the conversion of the ETL (Extract-Process-Load) processes into the mappings. The source systems include, for example, trading systems such as Kondor+ or Opus, which are distributed by Reuters. LBBW's Controls Department does not have direct access to these systems; it receives the data through interfaces in the form of flat files. Between the source systems and the target applications, LBBW has installed the Financial Database (FDB), a data warehouse, in which the data are kept available cross-departmentally. PowerCenter extracts the data from the FDB and adapts them into the schematic of the data model. In this way the data are transformed into a uniform format.

Data integration gaining in importance

At this time the data from PowerCenter are used primarily for reports in risk management. But Raisch consciously designed the model in such a manner that it can serve other offices within the bank or can be used for the creation of individual reports upon request.

With the introduction of Basel II at the beginning of 2007, the capital requirements imposed on banks are more strongly tied to the economic risks. Data integration and appropriate analytical tools will become more critical. LBBW is extremely well-prepared for these challenges with its IT infrastructure and Informatica PowerCenter. "PowerCenter ensures reliable availability of the data that we need for risk management," Bernd Raisch summarizes. "The software is thus an important building block in our system and an indispensable prerequisite to the calculation of our risk figures."

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