

FINsights

Technology Insights for the Financial Services Industry

Governance, Risk and Compliance »



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Contents

From the Editors Desk

Strategic themes in Risk and Compliance	02
<i>Ashok Vemuri</i>	
Red light, green light – playing the risk game	06
<i>Adam D. Honore</i>	
Sub-prime crisis and credit risk measurement: lessons learnt.....	11
<i>Thadi Murali, Srividhya Muralikrishnan and Balaji Yellavalli</i>	
Credit risk management: back to basics	17
<i>Godwin George, Arup Sinha and Thadi Murali</i>	
Risk Measurement: It’s all about data, data and master data.....	24
<i>Anita Stephen, Sabitha Vuppula and Abhijit Ghosh</i>	
Raising the bar: Executive risk reporting using fractal maps.....	29
<i>Raghu Anantharam and Shriram Subramanian</i>	
Navigating through the compliance maze in a post-merger world.....	33
<i>Debashis Pradhan and Naveen Balawat</i>	
Managing the problem within - Employee Surveillance.....	39
<i>Anand Bhushan, Debodeb Datta and Rajesh Menon</i>	
Addressing the partial compliance trap in the wealth management industry.....	45
<i>Bob Skea and Vikesh Gupta</i>	
Demystifying financial compliance through an integrated IT framework	50
<i>Ravishankar N and Ramachandran Sundaresan</i>	
Integrated Controls Management– a cost effective approach to implementing GRC..	55
<i>Uttam Purushottam, Satnam Gill and Ashwin Roongta</i>	
Conversations with Tim Leech – Perspectives from an industry expert.....	61
<i>Q & A session conducted by Satnam Gill</i>	
Leveraging SaaS to manage GRC.....	66
<i>Ravi U. and Vishakha C.</i>	
Case study – Information Risk Management: A mandatory need	71
<i>Amar Bawagi and Viswananath Shenoy</i>	

From the Editors Desk

We are delighted to present the second issue of the Infosys Banking and Capital Markets journal FINsights. The spotlight in this issue is on Governance, Risk and Compliance and the compilation of articles reflect perspectives on risk and its measurement, governance, the compliance conundrum and our take on the priorities in risk and compliance and their technology implications in the coming years.

The increased incidence of failures in the financial services marketplace over the past decade has given visibility to the science (and art) of understanding and measuring risk in running a business, making strategic and tactical decisions and participating in markets and economies that are increasingly linked in a flattening world. A recent such event, covered in one of the articles, has been the sub-prime crisis and the unforeseen ripple effects in markets in distant parts of the world.

As always we have tried to reflect in these articles the unique value that Infosys brings to its clients through a combination of deep domain understanding, technology best practices and global sourcing expertise. The article on sub-prime crisis reflects the current challenges in credit risk measurement and brings a perspective that combines credit risk measurement approaches with a global knowledge process outsourcing (KPO) option.

Risk and compliance is a multi faceted animal and the focus in the past few years has been on giving it a holistic view through a unified Governance, Risk and Compliance (GRC) program. The articles featured on GRC explore integrated controls to implement GRC, use of SaaS in GRC and industry perspectives on GRC and the road ahead. In the area of compliance, the articles look at addressing compliance challenges, an aspect of internal compliance namely employee surveillance and the partial compliance challenge in the wealth management industry. Our articles on risk address credit risk management, the role of master data in risk measurement and risk reporting. Included in this issue is also a case study highlighting the importance of Information Risk Management (IRM).

We would like to thank all the authors from Infosys as well as external contributors - Adam D. Honoré from Aite Group, Tim Leech from Navigant Consulting and Bob Skea of Northstar Systems. As always, we look forward to your queries or comments on Governance, Risk and Compliance or any feedback and suggestions in making FINsights a more relevant and topical journal.

Happy reading and all the best for the new year 2008!

Balaji Yellavalli and Sudhir Singh
Editors

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Case study – Information Risk Management: A mandatory need

The client is a large financial services organization with global presence. The client desired to reduce the cost & efforts involved in maintaining multiple silo-ed projects and efficiently comply with regulations relating to information protection. Infosys worked with the client in designing and developing a robust Information Risk Management (IRM) program aimed at meeting the client needs and increasing the confidence among customers and regulators. Client objectives have been successfully met through this program and it has now been rolled-out globally across the client organization.

Amar Bawagi
Senior Associate
Infosys Technologies Limited

Vishwanath Shenoy
Senior Principal
Infosys Technologies Limited

Client Overview

The client is a Fortune 100 global financial services organization. The client is required to set-up a robust Information Risk Management (IRM) program to manage its information risks. The strategic objectives of the IRM program are:

1. To set-up a comprehensive program to identify, analyze and manage information risks occurring at various stages of the information life cycle
2. To integrate and rationalize silo-ed compliance and information protection projects into a centralized risk management program in order to streamline and reduce the overall cost of compliance
3. To define and develop a risk dashboard enabling a top-down view of all the information related risks and their linkage to various compliance mandates

Business Needs

Assess the level of privacy and protection of customer information

Customer information is a key aspect of day to day transactions for this client. Protecting customer information and privacy is vital to the perception of its brand in the marketplace. The client needed to identify the assets (aka System Categorization) storing, processing, or transmitting customer information and assess the level of privacy and protection supported by them.

Compliance with applicable regulations and standards

Given the global spread of the client, it is required to comply with various domestic and international information protection regulations and standards. The cost of non-compliance is extreme including civil and financial penalties. The following is a sample set of regulations that this client is required to comply with:

- USA: Gramm-Leach-Bliley Act (GLBA)
- SB 1386 (California Privacy Act)
- Canada: Personal Information Protection and Electronic Documents Act (PIPEDA)
- Japan: Personal Information Protection Act (PIPA)
- Spain: Spanish Personal Data Protection Act (LOPD)
- Global: Payment Card Industry Data Security Standards (PCI DSS)

Reduce Cost and effort of Information Risk Management

Large number of regulations and the recent spate of security incidents have forced the client to set-up several silo-ed response projects. Integrating and rationalizing these silo-ed projects has enabled the client to remove duplication and retain only the necessary components. Further streamlining of the integrated process has reduced the overall cost & effort of information risk management.

Risk based investment decisions

A holistic view of information risks across the organization is critical in understanding the volume and nature of risks. A risk dashboard will offer an end-to-end view of all the information risks to this client enabling it to make informed investment decisions.

Objectives

The objectives of IRM program are the following:

- Identify, analyze and manage information risks across the organization
- Demonstrate compliance with applicable regulations and enhance the confidence and trust among customers, investors, regulators and analysts
- Leverage strong IRM practices as a differentiator in the market place
- Centralize all IRM components and reduce the overall cost and effort

Infosys Information Risk Management Solution

Conceptualization and Development

Infosys conceptualized the Information Risk Management solution by leveraging industry standards such as COBIT, ISO17799 and best practices from prior experience. The solution consists of 2 key components:

1. Information Domains and Control Statements
2. Information Risk Management Methodology

1. Information Domains and Control Statements: Based on the type and purpose of the information, it is divided into separate domains for effective assessment and management of risks. This division allows assessment of specific parts of information against relevant regulations and standards as against assessing the entire information base. It also supports the development of relevant control statements which essentially state the requirements for proper risk management. A measure of effectiveness of these controls will expose the prevailing information risks. Infosys divided the in-scope information into five domains as shown below.

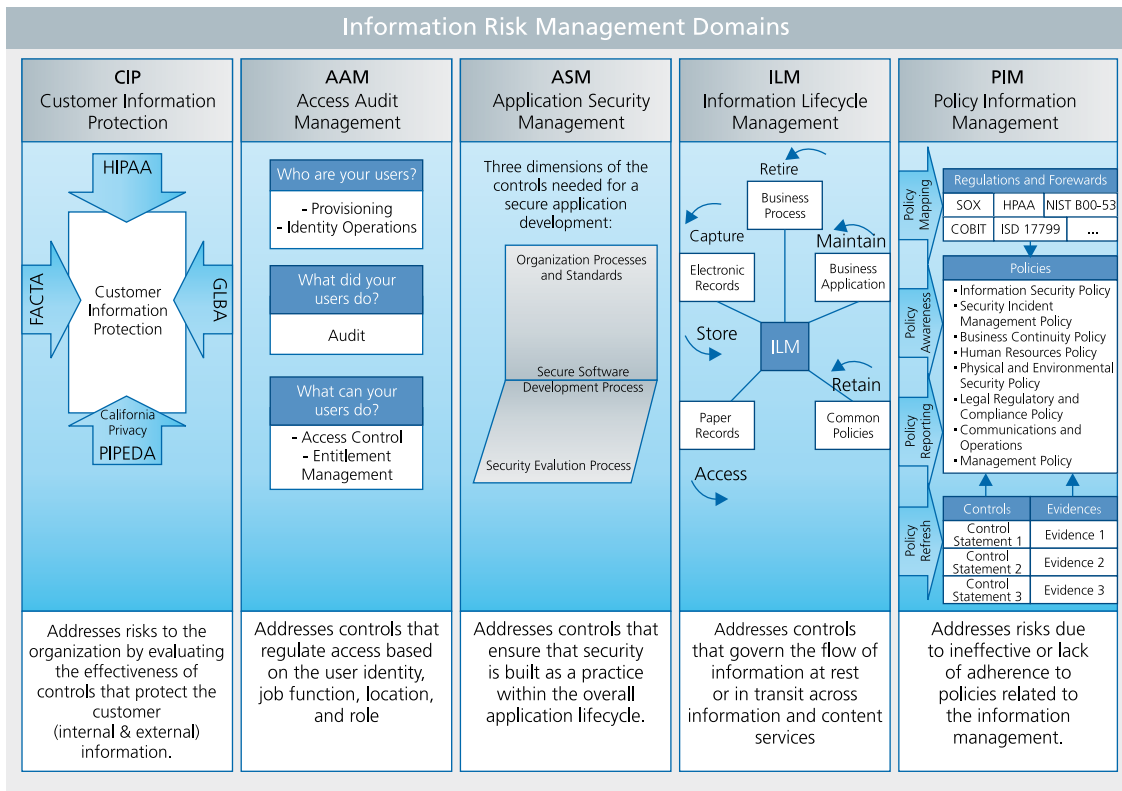


Fig 1: Information Risk Management Domains

2. Information Risk Management Methodology: While the division of information into separate domains is necessary for assessment and management of specific

- Use of common methodology allows sharing of data across domain specific assessments and thus realize the benefits of consolidation and also supports rationalization

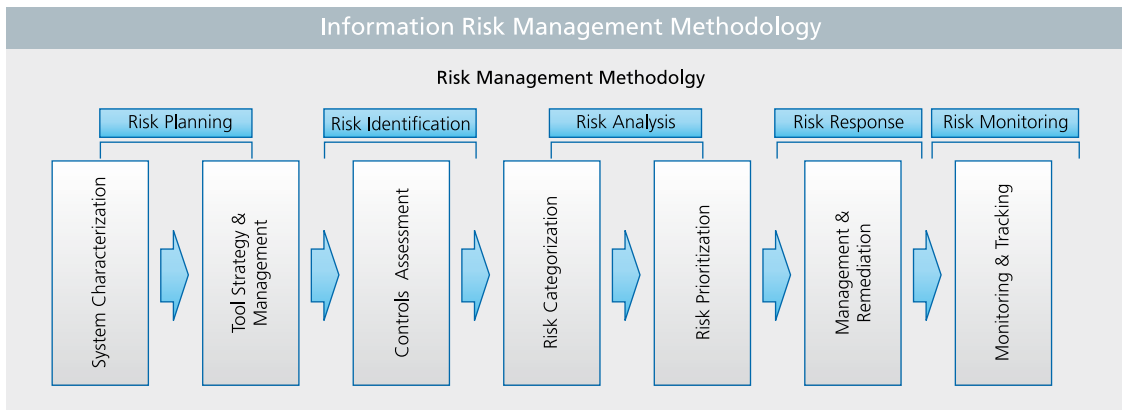


Fig 2: Infosys Information Risk Management Methodology

Implementation and Monitoring

types of risks, it is imperative that the methodology used to assess and manage the risks is consistent. IRM Methodology facilitates this consistent assessment and management of risks across information domains. Use of common methodology makes it easy to share data for overlapping areas across domains and thus avoid duplication of effort. This division and sharing of data across domains meets two objectives:

- Ability to demonstrate compliance with regulations and standards as they apply to specific domain of information without actually repeating the effort

Infosys developed tool kits to assess effectiveness of controls and identify prevailing information risks. Once identified these risks were rated based on their impact to business and likelihood of occurrence. The scoring of risks allowed categorization and prioritization of risk mitigation activities.

Risk Monitoring is a critical phase in the methodology. It monitors the progress of remediation activities to ensure timely closure of identified risks. It also ensures

continuous compliance through periodic assessments and mitigation of any risks identified thereafter.

Risk Reporting

Risk reporting and its linkage to compliance mandates is an integral part of the IRM solution. A centralized risk dashboard gave the senior management at this client a snapshot of the information risks across the organization. Fig 3 is an illustrative report indicating the maturity level post control assessments of in-scope. This allowed the management to both understand the overall risk appetite of the organization and also make important investment decisions based on how the investment will affect the prevailing risks. The risk dashboard was also useful in demonstrating the compliance to the regulators and highlighting the progress of risk mitigation activities.

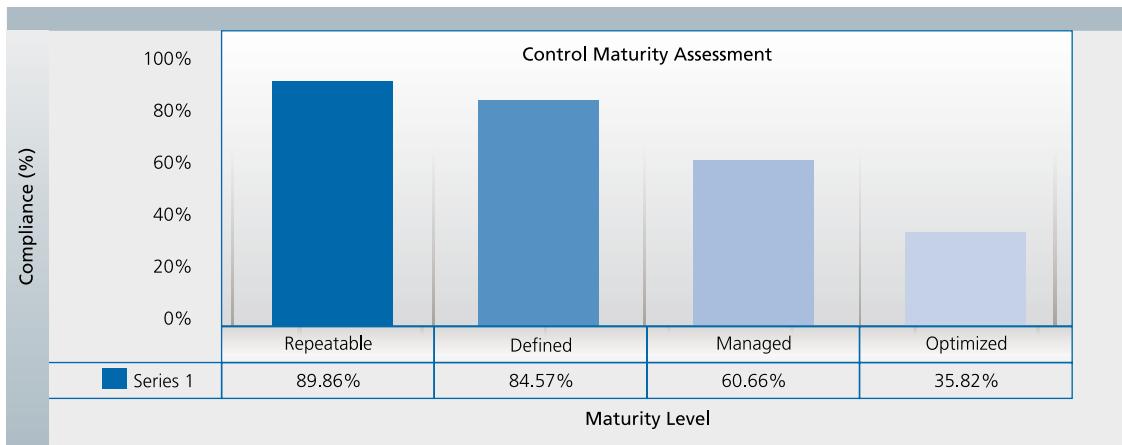


Fig 3: Control Maturity Level

Benefits

Infosys IRM framework has led to the following benefits to the client:

- Client has a robust IRM Program in place and is compliant with all applicable regulations and standards. This has led to increased confidence and trust among customers and regulators.
- Integration, rationalization and regular streamlining of IRM processes have reduced the overall cost and time involved in performing these assessments by 50%.
- The top-down approach has ensured adequate coverage of assets with customer information for assessment and facilitated the centralized risk dashboard view for senior management.
- The centralization and streamlining of various IRM initiatives has enabled leveraging of existing data and avoided the duplication of effort. It has also resulted in effective monitoring of risk remediation activities.

Conclusion

Infosys helped the client determine compliance needs and incorporated them while designing and implementing the IRM Program. Infosys also helped the client define information lifecycle stages and in mapping its processes to each of these stages. Infosys further designed and developed the tool kits for assessing, monitoring and reporting information risks.

Infosys successfully leveraged its global delivery model and best practices to improve the efficiency of the IRM program and reduce the overall cost to the client on a continuous basis.

Infosys has played an important role in implementing the IRM program by performing assessments in domestic (USA) and international regions (Canada, Japan and Spain).

Infosys continues to be a key partner as the IRM framework rolls out to the other regions, thereby improving the efficiency and effectiveness of the IRM program.



Amar Bawagi
Senior Associate,
Infosys Technologies Limited


Amar is a Senior Associate with Banking and Capital Markets practice of Infosys Consulting. He has over 6 years of experience. His areas of specialization include Data Protection, Risk Management and Compliance.



Vishwanath Shenoy
Senior Principal
Infosys Technologies Limited

Vishwanath is a Senior Principal with Banking and Capital Markets practice of Infosys Consulting. He has over 9 years of consulting experience in IT Strategy and effectiveness, business process management and IT portfolio management.

For information on obtaining additional copies, reprinting or translating articles, and all other correspondence, please e-mail: bcm@infosys.com.

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