



Confronting Regulatory Change While Protecting Value

An Executive Brief



Confronting Regulatory Change While Protecting Value

Coping with Dramatic Change

*The Sarbanes-Oxley Act (SOA) delivered a startling
wake-up call to CEOs across the country.*

*The Act contains powerful incentives to change
internal processes and to improve management of
business risk. Faced with the imperative to develop
near-real-time financial reporting controls,
senior managers have begun re-examining internal
controls and accountability within the organization.
Failure to address this particular regulatory challenge
can irreparably damage corporate reputations
and revenue streams.*

The challenge goes well beyond immediate compliance.

The responsibilities enumerated under the law are ongoing. Responding to the need for a new model of corporate self-discipline that is in tune with compliance and regulatory concerns, Providus presents the Active Risk Management Framework™ for the financial services industry. This structure embraces *openness, visibility, and accountability* in identifying and mitigating business risk. Financial institutions can accomplish these goals because the technology encourages communication and collaboration within the enterprise. Executives striving to forge a compliance-friendly framework also recognize that a truly viable solution must help the institution to prosper within a significantly altered financial universe.

This approach treats regulatory compliance as an opportunity with beneficial dimensions well beyond meeting the legal requirements; the Active Risk Management Framework offers the opportunity to improve risk management culture and processes while gaining the agility to respond to changing market circumstances.

If, as some believe, the SOA represents a trend, a harbinger of even more demanding regulatory requirements, financial institutions intent on ensuring growth must act now to establish an infrastructure to cope with such changes.

Unprecedented Regulatory Challenges

Discussions on risk management are reverberating within many corporate boardrooms. The scope and impact of the SOA affect every level of an organization, while mandating CFO and CEO accountability. Establishing system-wide controls and processes, and implementing the technology infrastructure to support the stringent requirements of the Act represent two essential steps toward compliance. In the past, most institutions relied on risk management processes that were specialized by line-of-business (LOB) risk; they lacked the ability to integrate these disparate risk profiles for executive management. Notable failures to integrate the realities of risk across the organization very probably contributed to some of the recent, well-publicized corporate debacles. As shown in Figure 1, the Sarbanes-Oxley Act affects a wide range of organizational divisions.

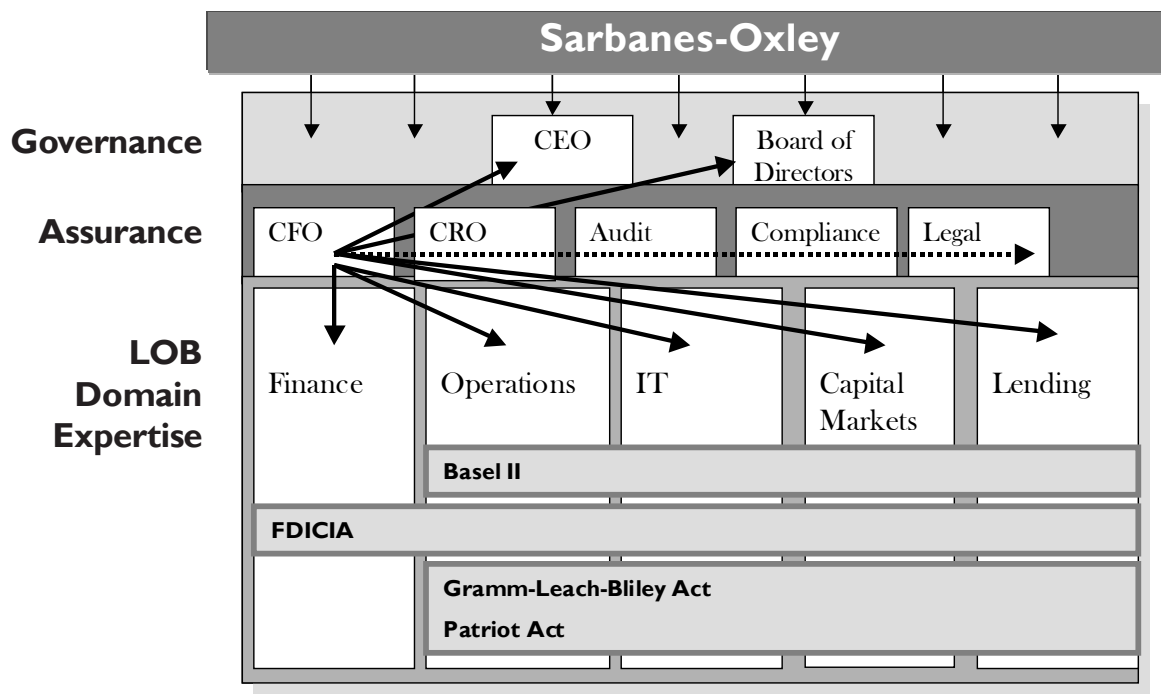


Figure 1. The enterprise-wide scope of the Sarbanes-Oxley Act.

Facing the Challenge

To be immediately useful, risk analysis solutions must present relevant information in a way that executives can quickly understand and apply to their decision-making. Given growing pressure from both regulators and investors, financial institutions must now take a pre-emptive approach to optimizing their risk management practices. Decision-makers who bear personal accountability by regulation need accessible, focused information on actual and potential risks.

compliance tools, and so on. While each may offer insight into the challenge, none of them fully accommodate the unique breadth and scope of full compliance with the SOA. These re-purposed tools fail to satisfy the requirements for a framework within which comprehensive risk management can be implemented. While single-purpose solutions create an illusion that risk management issues are being addressed, the approach typically lacks the substantive framework that is essential to fully address the complexities of the new regulations.

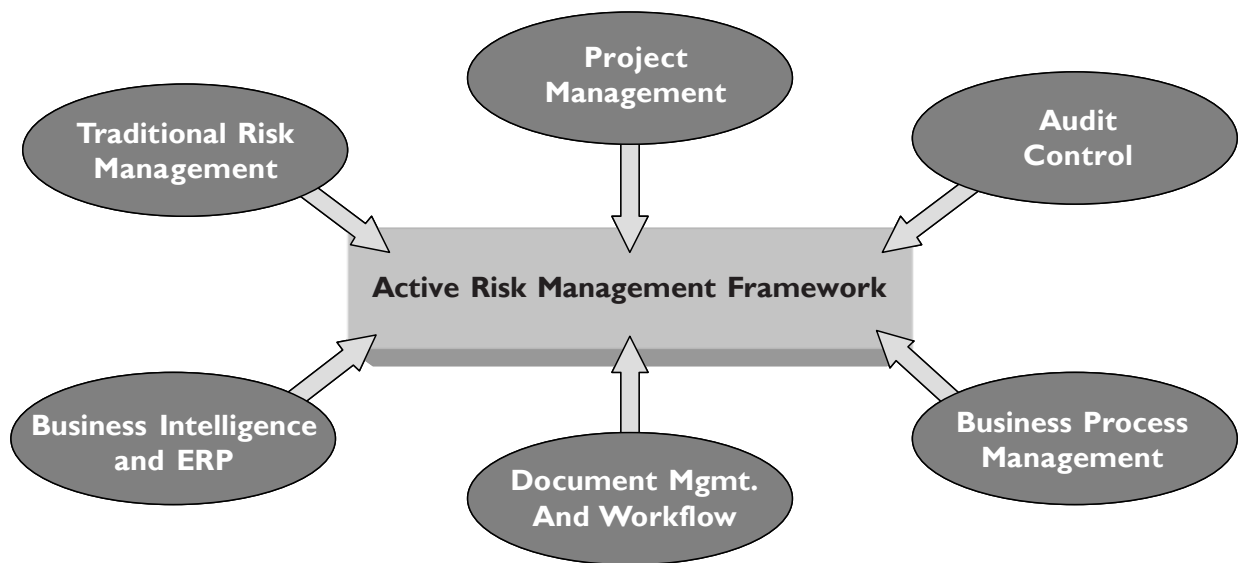


Figure 2. Best practices from technology disciplines contributing to the Active Risk Management Framework.

Re-engineered General-Purpose Solutions Don't Work

With the urgency of Sarbanes-Oxley compliance driving institutions to comply by the end of 2004, a number of traditional technologies and methodologies have been re-engineered to address the challenge. Rarely do these re-engineered applications demonstrate the necessary enterprise-wide scope to meet the unique and stringent requirements of financial institutions. These general-purpose tools cover a broad range of disciplines: quantitative risk management, business process management, enterprise resource planning, audit and

A Targeted Financial-Industry Solution

Increasingly, financial institutions have begun to recognize that a technology infrastructure geared to fully address Sarbanes-Oxley compliance requires an enterprise-wide effort to control financial reporting and other risks. Throughout the organization, events are occurring that could result in non-compliance; senior managers must rely on the decision-making talents of line-of-business managers across the organization. To be effective, a technology solution must be capable of assessing risk throughout the organization, across business divisions and financial processes and sometimes

by geography. Reporting and monitoring tools must be available to consolidate and to evaluate critical risk factors. Such a unified perspective requires a single access point, or executive lens, capable of focusing on any individual business activity, as well as providing summaries of the total risk of non-compliance. Ideally, this solution would provide these benefits in a cost-effective manner, and require no added staffing resources, systems upgrades, or legacy system integration.

As shown in Figure 2, the Active Risk Management Framework consolidates the best of functionality from several traditional enterprise management tools.

Protecting Value within Financial Institutions

Providus Software Solutions focuses its business exclusively on the banking and financial services industry. The Active Risk Management Framework and RiskResolve™ applications reflect the core values and unique needs of the financial services industry. Through a successful development partnership with Zions Bancorporation, Providus has developed a comprehensive software system to mitigate business risk in the financial services sector. Within Zions Bancorporation alone, over 150 line-of-business managers employ RiskResolve

every day to identify, aggregate, and assess risks on issues related to the complex activities of the bank and their six charter institutions.

The Active Risk Management Framework provides a unified view into financial, operational and risk data that is accessed through an executive *console*, tuned to the information requirements of the CFO, as they relate to individual lines of business and internal auditors. Developed for U.S.-based national and regional financial institutions that must grapple with multiple federal banking regulations, the Active Risk Management Framework scales effectively across lines of business and can be deployed rapidly without disrupting existing systems and processes. This framework readily adapts to changes in regulation, even those with the urgency and severity of the Sarbanes-Oxley requirements, and it can be applied simultaneously to other requirements such as FDICIA and the OCC Risk Assessment Factors through modular applications, as shown in Figure 3.

Designed by Bankers for Bankers

The Active Risk Management Framework enjoys a substantial advantage over general-purpose business tools that have been re-purposed for the most recent regulatory or risk management challenge. The expertise of Providus in the

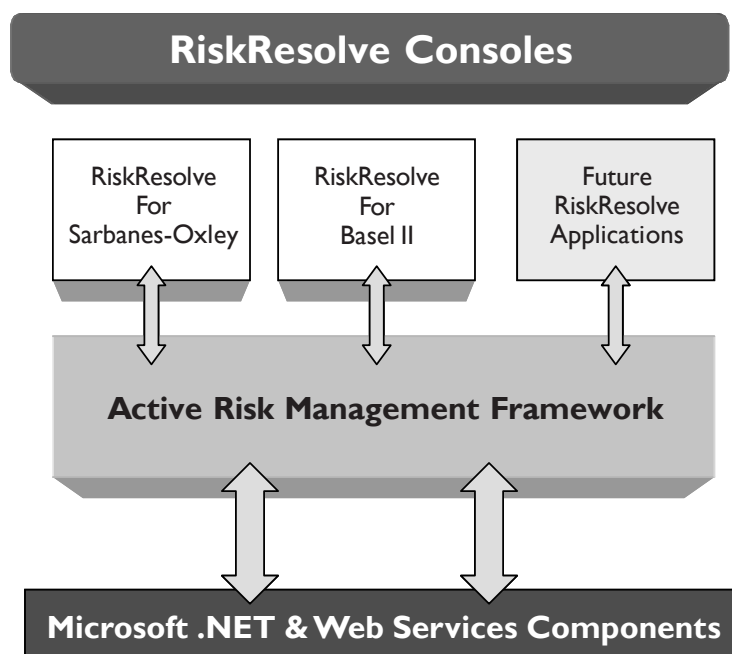


Figure 3. Modular design of the Active Risk Management Framework.

financial services industry ensures that the challenges financial institutions face are well understood and that the solution addresses the primary concerns of executive officers responsible for ensuring enterprise-wide compliance and institutional success. The Active Risk Management Framework fully supports the “extended” or ERM-COSO framework to apply best practices to both compliance and risk management challenges.

A Multi-Dimensional Approach

The Active Risk Management Framework takes a multi-dimensional approach to risk management. Through alerts and early warnings, executives and LOB managers can address risks and potential risks before they become serious events. All levels of risk management authority inside the financial institution have a *console* that presents their line of business with decisions and actions uniquely associated with their operating risks and the processes to manage that risk. Managers can generate reports on the fly to bolster their understanding of risks they are actively managing within their lines of business. At the top of the organization, senior executives can survey and assess risks across all lines of business, based on the detailed information the lines of business provide. Beyond communicating risk management controls and gaps throughout the organization rapidly, the Active Risk Management Framework also fosters collaboration and organizational efficiency.


Designed for Rapid Deployment

Complex enterprise-scale applications can be difficult to deploy and time-consuming to implement. Time and ease of implementation become critical factors when meeting compliance challenges such as the Sarbanes-Oxley Act with its looming 2004 deadline. Such a mandate can present significant organizational hardships and place substantial and largely unnecessary burdens on IT departments. The architecture of the Active Risk Management Framework is tailored for rapid deployment, in the face of unforgiving deadlines and inflexible regulations. Financial institutions can install and configure RiskResolve applications rapidly with minimal disruption to

business operations and network infrastructures, ensuring that institutions can meet all required compliance deadlines.


Visibility into Business Processes

By providing a single comprehensive view across a financial institution’s lines of business, the Active Risk Management Framework and RiskResolve applications provide exceptional accessibility to senior managers at any time and from virtually anywhere. This approach ensures that all necessary accountability and compliance tools are available to mitigate business risk. The framework provides a unique window into internal control processes, providing greater efficiency and increased profitability.



“... perceptive management teams in financial services firms are demanding that their compliance departments move from being just an authorization function to adopting a more strategic outlook, broadening its remit to cover internal codes of conduct, regulatory risk management and areas beyond just financial regulation.” —

PricewaterhouseCoopers,
“Compliance: A Gap at the Heart of Risk Management”



Facilitating Oversight

Through an audit console, a financial institution's internal audit staff can focus on managing and strengthening their oversight functions. The audit console offers an oversight lens into the daily workflows of lines of businesses and their financial controls, an opportunity to monitor and audit these controls, as necessary, and to interact with business line managers to better manage inherent risks. Auditors can view these controls at any time, and can record dialogues between audit staff and business managers over risk issues.

Single-Solution Architecture

By supporting multiple, parallel compliance requirements, RiskResolve applications ensure that organizations can meet the widest range of regulatory requirements, beginning with the substantial demands of Sarbanes-Oxley. No other software vendor offers such a full-featured, enterprise-wide solution for the management of compliance, business, and operational risk in financial institutions. RiskResolve applications provide the most comprehensive approach to regulatory compliance and enterprise risk management in the financial industry.

Strengthening Internal Controls

The Active Risk Management Framework supports the extended COSO framework and provides a methodical, verifiable audit trail. The corporate oversight offered by this independent system provides early identification of potential risk issues and helps ensure prompt resolution of compliance-related issues. This Active Risk Management Framework supports dynamic interaction between audit control operations and the corporate control environment. Through testing and sign-off of internal controls, executives and LOB managers can access and manage business processes integral to regulatory compliance and risk management.

"...internal control should be self-monitoring and self-correcting. This means a company should establish mechanisms to continually monitor and maintain the system of internal control and take corrective action in a timely manner, when necessary." —

Ernst & Young,
"Preparing for Internal
Control Reporting"

The extended COSO framework addresses the key concerns of any organization determined to go beyond simple compliance to a comprehensive accountability model aligned with corporate objectives. COSO best practices recommend presenting a comprehensive view of internal control requirements, monitoring ongoing business processes assiduously, and providing the ability to clearly identify and rectify any cross-enterprise control gaps. The Active Risk Management Framework integrates these mechanisms, based on COSO guidelines, into every RiskResolve application. This ensures that financial institutions can enjoy the highest degree of corporate oversight and a principled, disciplined approach to audit and control functions.

Capitalizing on a Web-Services Framework

The Active Risk Management Framework consists of a classic, three-tier architecture, relying on Microsoft .NET components and Web Services technology. The Data Tier, based on Oracle 8i/9i databases or Microsoft SQL server, stores all relevant financial data and business process data used for risk detection and compliance tracking.

An Application Tier, consisting of one or more applications servers based on the Microsoft .NET framework, exposes data in XML format to the User Tier. Through a browser-based interface, users can log in, monitor business processes and controls at their console, according to their corporate role and access privileges, and receive reports and alerts, as appropriate. The Web-services approach provides rapid deployment, simplified maintenance, high availability, and exceptional accessibility to users through a variety of devices (including desktop machines, wireless handheld devices, and laptop computers). Security measures include 128-bit SSL encryption for transaction processing, secure HTTPS transfers of critical data, and stored-procedure protections at the database level. This framework supports applications that can accommodate a range of regulatory requirements, including SOA, Basel II, and FDICIA, all based on COSO best practices.

The modular structure can accommodate new regulatory mandates as they emerge without changing the underlying framework. Changes and updates can be implemented at the server level, through a streamlined deployment process, without sacrificing the unified view of financial and operational data across regulations.

A Forward-Looking Solution

No one can predict the course of financial regulations in future years; financial services companies need solutions that are adaptable to shifting requirements of the industry. The open standards framework embraced by Providus provides the business agility and flexibility necessary to adjust to evolving regulatory initiatives in the financial industry. This approach costs less than expensive proprietary systems, and the framework can be integrated seamlessly into the IT infrastructure, exposing business decisions and their associated risks for analysis that would otherwise be locked away in application silos or disparate data storage systems.

The temptation to adopt a narrower solution can be seductive when facing the pending 2004 deadlines for compliance with Sarbanes-Oxley. Executives looking for a long-term solution, however, are better served by an approach that strengthens their capabilities to manage risk throughout their financial institution, now and in the future, rather than a stopgap solution designed to ensure short-term compliance.

The Active Risk Management Framework offers an enterprise-caliber infrastructure designed to accommodate present as well as future compliance requirements. RiskResolve applications enhance an organization's communication, collaboration, and decision-making across an extensive range of risk management requirements. Effective risk control must take into account all relevant factors, using tools that are optimized for the financial industry and an approach that adapts to dynamic change. This full 360-degree view of risk management gives executives exceptional oversight into their organizations, as they clear a path through the regulatory thicket into the open air of full accountability. Providus empowers companies to move beyond compliance, providing an industrial-strength framework that protects value while detecting risk.



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