

# Prevention is better than detection

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*Controlling Loss Events Arising From Bank Innovation of Financial Instruments*

*HEADLINE Findings*

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## Synopsis

In the post credit crisis environment, banks have looked to enhance operational risk management capabilities and gain greater transparency into the trade transaction lifecycle; both pre and post trade. This is particularly true in the capital markets and investment banking functions.

However, banks continue to suffer *loss events* resulting from adopting post-settlement, detect based approaches to address the operational risks arising from their trade in financial products.

The constant release of new and innovative financial products to meet customer demand serves only to compound the problem by introducing further loss event risk, when the existing detect based systems are already unable to cope.

Technology based solutions that quickly create transaction checks and audit controls from the outset, for all transaction types and asset classes, will prevent and reduce loss events and allow banks to more rapidly deploy new financial products.

The prevention and reduction of loss events early in the cycle is complimentary to existing detect based systems and controls, not a replacement for them.

### Key findings:

- since the credit crisis, banks are focused on reducing loss events – those operational failures that give rise to monetary losses and reputational issues;
- operational losses in banks can range from thousands of dollars to millions of dollars per event;
- banks continue to innovate financial products to satisfy customer demand, introducing more potential control breaks and the risk of loss;
- in many cases the inventory of potential loss events is growing faster than the bank's ability to remediate them;
- the tools that banks are employing to reduce loss events were primarily designed to detect errors not reduce them; certain tools are just not fit for purpose at all; and
- using inappropriate tools perpetuates operational risk, increases the likelihood of loss events and adversely impacts the bank in many ways.

Gresham's *Clareti Transaction Control* provides the first productised solution to address this important and growing problem area for banks, with a rapid ROI from a substantial reduction in the incidence of loss events.