

CELENT



VP BANK: KONDOR TREASURY MANAGEMENT SYSTEM

Celent Model Risk Manager 2023 Award for Operational Resilience

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EXECUTIVE SUMMARY



FINANCIAL INSTITUTION Vietnam Prosperity Bank (VPBank)

INITIATIVE Kondor Treasury Management System

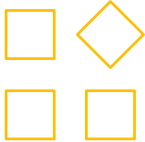
SYNOPSIS VPBank deployed Finastra's Kondor Treasury and Fusion Risk products to digitally transform their treasury management, develop new complex derivatives, while simultaneously managing the new risks these products created.

TIMELINES 13 months from project start to when the system went live.

- KEY BENEFITS**
- Improved operational risk management through automation of manual processes
 - Improved differentiation as VPBank is only bank in market that can mark derivatives to-market on a daily basis and only conform to both Vietnamese Accounting Standards and IFRS
 - 750% increase in sales of Interest Rate Swaps and Currency Swaps
 - 25% increase in total capacity
 - 30% of time saved in business operations

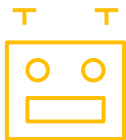
KEY VENDORS Finastra Kondor Treasury Management and Risk Fusion Software; Finastra Services

CELENT PERSPECTIVE



Differentiate Product with Risk Management

Their digitally transformed treasury management capability has given VPBank a more exact view of financial risk they take, improved operational risk through process automation, but most significantly, the system gave VP Bank an edge in its market as it became the only bank that could mark these instruments -to-market on a daily basis and only bank to conform with both Vietnamese Accounting Standards as well as International Financial Recording Standards



Automate to reduce risk not just FTEs

Often when financial institutions talk about their automation efforts, they main thrust of the discussion is how many FTEs were freed up to be redeployed. At VPBank the primary benefit of automation was the reduction in operational risk that comes with removing manual processes and manual intervention.

DETAILED DESCRIPTION



A system that would not only to improve risk management but would improve market capacity and market position.

Dmytro Kolechko, Chief Risk Officer of VPBank

Introduction

Vietnam Prosperity Bank (VPBank) is the winner of the Celent Model Risk Manager 2023 Award in the category Operational Resiliency. Dmytro Kolechko, Chief Risk Officer of VPBank, and his team are being recognized for the digital transformation of VPBank's Treasury Risk management and the use of risk management capabilities to differentiate VPBank products in the market.

Table 1: VPBank Snapshot

| | |
|--|--------------------------------|
| Year Founded | 1993 |
| Revenue (2022) | US\$2 billion (VN44 trillion) |
| Assets (2022) | US\$2 billion (VN44 trillion) |
| Headquarters | Hanoi |
| Employees (2022) | 25,000 |
| Other Key Metrics | 250 branches across Vietnam |
| Relevant Technologies and Vendors | Finastra Software and Services |

Source: VPBank

Established in 1993, VPBank is one of the first joint-stock commercial banks in Vietnam. It offers a range of products and services for retail, corporate, and small and medium sized enterprises. The bank has experienced high growth in recent years. During 2016–22, its assets grew at nearly 19% cumulative annual growth rate (CAGR), owner's equities grew at 36.5% CAGR, and profits before tax grew at over 29% CAGR. In 2022, it had over 19 million customers, nearly 250 branches, and over 25,000 employees.

Opportunity

With rising foreign investment in Vietnam and increasing levels of private borrowings, VP Bank wanted to offer corporate customers currency and interest rate swaps to hedge FX and rate risk. But because the banks' core systems couldn't handle the complexity of these products, 95% of the bank's processes around derivatives- pricing, contracting and marking to market - were all manual. The potential for human error was too great to take on the financial risk

of selling a large number of derivatives. So before it could ramp this business, VP Bank needed a new Treasury system - a system that would allow it to develop new complex derivative projects while simultaneously managing the new risks these products created.

Risk Implications

To achieve these goals VPBank needed modern and advanced risk management that adhered to international practices. Specifically, it needed it to:

- Improve market risk management by providing timely and accurate risk positions according to the bank's mark-to-market valuation.
- Improve operational risk management with reduced manual error due to elimination of multiple manual processes like managing limits and contract generation.
- Improve regulatory compliance with greater transparency and improved reporting.



[The transformation] made the whole process of dealing with derivatives by front office very seamless and at the same time ensured easy compliance with all limits and risk frameworks.

Dmytro Kolechko, Chief Risk Officer of VPBank

Solution

They selected Finastra's Kondor Treasury System and Fusion Risk system. The first step was to separate the management and accounting of a whole group of specialized and complex banking products from the core banking system into an external specialized system (Treasury) and fully integrate all the journal entries for these products directly to SAP General Ledger.

Once that was separated out, they could implement Treasury Kondor 3.4.7 with Fusion Risk 1.7. It is integrated with Finastra's core banking and trading solutions, and it delivers impairment and credit risk modelling.

In order to automate and move away from the manual processes, VPBank also integrated the new system with its core systems and an array of front and back office applications:

1. Front Office connectivity: integration with Reuters Trading Platform, Bloomberg Trading Platform, Reuters Deal Tracker, and an in-house FX Front office for Customer (FXFO), Funding Register
2. Back Office connectivity: integration with VPbank's Core Banking (T24-Temenos); Payment channels such as Swift, Citad , Vietcombank Payment channel, Vietinbank Payment channel, and BIDV payment channel. Automated reconciliation reports with the above payment channels; SAP -GL for console accounting; and VPBank Data Warehouse (IBM Netezza)



If you look at the back office and second line of defense, we see that it is easily integrated with core banking system and also the payment platforms, integrated with data warehouse platforms – it avoids any potential for manual mistakes.

Dmytro Kolechko, Chief Risk Officer of VPBank

There was a notable implementation challenge around the data migration, specifically around the definition of specifications, and a slight underestimation of the complexity of requirements and data migration load. As a result of these challenges, the Project team decided to conduct five rounds of data migration tests; two more rounds than were originally estimated. The additional tests created a solid foundation for good control of deviations before, during, and after the system went live.

Treasury Kondor has enabled VPBank to trade high volumes of treasury while offering the flexibility to support more complex derivatives, options, and structured trades. VPBank's total sales of derivatives including currency swaps (CCS) and interest rate swaps (IRS) has reached 3 billion USD, growth of more than 750% over the same period before the system was implemented.

Innovation Highlights

Moving to International Financial Reporting Standards (IFRS)

VPBank used the system to bridge Vietnam Accounting Standards(VAS) and IFRS. VPBank is the first of six banks using Kondor in Vietnam to have successfully implemented IFRS. The successful implementation of IFRS on Kondor was a first step in automating the conversion between IFRS and VAS across the bank. Previously, VPBank only converted balances from VAS to IFRS manually. VPBank used the accumulated knowledge and experience from the implementation to continue implementing IFRS/VAS conversion in other areas of the bank.

More modular, modern architecture.

VPBank's Treasury project was the first successful project to separate the management and accounting of a whole group of specialized and complex banking products from the core banking system into an external specialized system (Treasury) and fully integrate all the journal entries for these products directly to SAP GL. Therefore, the implementation team faced many challenges in terms of accounting entries, especially in rebuilding the evaluation model of foreign currency business results on SAP/Kondor, in particular, the SAP system required some customization but the project was successful.

The Treasury project at VPBank was the first Finastra project to deploy advanced technical platforms not only in Vietnam market but also in the world. The project has the latest integration platform, helping centralize all connections to a centralized hub, and controlling the data interface quality effectively, smartly and quickly with Fusion Fabric Connect (FFC) provided by Finastra.

Timely Data Warehouse integration

The Treasury project at VPBank is the first project to successfully integrate its systems with the bank's new data warehouse standards. The bank is moving to a new data warehouse that will enable significant cost savings. The project was delivered on a timetable that allowed them to meet the Data Warehouse's schedule of data migration to the new platform. If it had not been implemented immediately under the new model, the report and data structure would have then had to be recoded to comply with the new DWH model.

Results

Improved Data Risk Managements

The new system improves financial risk management by providing timely and accurate risk positions according to the bank's mark-to-market valuation, and it reduces operational risk because it has reduced manual error due to elimination of multiple manual processes like managing limits and contract generation. 100% of contracts are automatically generated by the system.

Improved Differentiation

The new system gave VPBank an edge in its market as it became the only bank that could mark these derivatives to-market on a daily basis and only bank to conform with both Vietnamese Accounting Standards as well as International Financial Reporting Standards. This has allowed VPBank to have the top market share of derivatives deals in the market.



Our automation was not about minimizing FTEs – it was to minimize operational risks, make the sales process more confident for the bank, and ensure customer satisfaction.

Dmytro Kolechko, CRO, VPBank

Automation and efficiency

VPBank no longer executes treasury transactions manually. The new system automated the entire transaction flow - from business unit development and sales to risk management, accounting and operations. Kondor has delivered efficiency gains by improving time spent in business operations by 30% and increasing total capacity by 25%. Internal customers are also very happy because they no longer have manual limit controls, entry posting and contract generation.

Future Plans

With evolving business requirements, VPBank plans to improve the overall performance of the system in line with its mission of becoming the most consumer- friendly technology- driven bank and among Vietnam's top 3 most valuable banks

The achievements in the digital transformation have validated VPBank's strategy, with positive changes in the bank's image, service quality, and customer satisfaction. VPBank continues to grow by increasing the number of new customers and the amount of mobilized capital. VPBank implements innovative programs to serve new or underserved customer segments utilizing new products delivered through new or re-engineered channels.

LEVERAGING CELENT'S EXPERTISE

If you found this report valuable, you might consider engaging with Celent for custom analysis and research. Our collective experience and the knowledge we gained while working on this report can help you streamline the creation, refinement, or execution of your strategies.

Support for Financial Institutions

Typical projects we support include:

Vendor short listing and selection. We perform discovery specific to you and your business to better understand your unique needs. We then create and administer a custom RFI to selected vendors to assist you in making rapid and accurate vendor choices.

Business practice evaluations. We spend time evaluating your business processes and requirements. Based on our knowledge of the market, we identify potential process or technology constraints and provide clear insights that will help you implement industry best practices.

IT and business strategy creation. We collect perspectives from your executive team, your front line business and IT staff, and your customers. We then analyze your current position, institutional capabilities, and technology against your goals. If necessary, we help you reformulate your technology and business plans to address short-term and long-term needs.

Support for Vendors

We provide services that help you refine your product and service offerings. Examples include:

Product and service strategy evaluation. We help you assess your market position in terms of functionality, technology, and services. Our strategy workshops will help you target the right customers and map your offerings to their needs.

Market messaging and collateral review. Based on our extensive experience with your potential clients, we assess your marketing and sales materials—including your website and any collateral.

MODEL RISK MANAGER CASE STUDIES

[Bank of America: Virtual On-Watch](#)

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[CIBC: Centralized AI and ML Cloud Platform](#)

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[Enfuce: Card Fraud Prevention as a Service](#)

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[Fifth Third: Excelling at Climate Risk Management](#)

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[HSBC: Cloud-Based Financial Crime Detection at Scale](#)

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[Societe Generale: Automating Communications Surveillance in Capital Markets](#)

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[Truist: Locking Out Fraud With Biometrics](#)

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[VP Bank: Reducing Op Risk Through Automation](#)

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[DBS Bank: Reimagining the Corporate Credit Risk Management Process](#)

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[ABN AMRO: KYC Investigations](#)

March 2022

[BNP Paribas S.A.: One KYC](#)

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[Fincare Small Finance Bank: Centralize, Digitize, and Automate the Audit Process](#)

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