



# Griffin News

*Celebrating 2011*

## Hope! A message of Hope from two Townships

“To be in hope means to find oneself in a state of preparedness. Not to commit oneself to what has passed by and not to tie oneself to wish dreams...” Jürgen Moltmann

Riskflow was recently involved with two Townships, Soweto and Alexandra.

On the 1st of December, Riskflow had the opportunity to collaborate with Productivity SA, Proudly SA and Black Management Forum (BMF) on the issue of New Venture creation. A Learn-breakfast was the focus point at Ubuntu Kraal in Soweto. The Riskflow Learn Breakfast was oversubscribed (50+ people). Everybody wanted to hear the message from Mr. Bongani Coka, the CEO of Productivity SA on how the productivity of SMME’s is the key to job creation.

One thing was clear: there are many interested people wanting to learn more about New Venture Creation.

The following day Riskflow attended a *.mobi-project* launch in Alexandra. Young people flocked together to learn more about the Smart Exchange programme which involves an e-cooperative project; bringing businesses in Alexandra together on an e-platform to experience e-tainment, e-learning and e-biz.

A common thread in all the deliberations was the need for learning programmes to support the new venture creator. There is also a dire need for new venture incubators supporting, guiding and creating conversation platforms together with conversation partners.

To experience all of this excitement and eagerness is indeed a platform for hope, as there is a strong element of preparedness not to commit oneself to what has passed by, not to wish or dream, but to focus on what we can do together to better the society by creating jobs.

This surely gives us hope for a better future!

### *3rd Edition 2011*

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# Group CEO's Note

*A time for reflection  
and introspection*



About a year ago Riskflow Holdings embarked on a strategy to establish the Riskflow Institute as the leading vehicle to seize and maintain intellectual leadership in the field of financial risk management. The Riskflow Institute, created in 1994 as a virtual institute, started to operate in full force with the appointment of Prof Pierre Strydom as chairman and Prof Bernie van Zijl as CEO of the Riskflow Institute. The staff complement was further strengthened with the transfer from Riskflow Technologies of Agnes Guvaza, an experienced risk consultant, as operations manager and Phoebe Chapman as business development co-ordinator.

Prof Strydom, with valued experience as CEO of Business School Netherlands in Utrecht, Holland, ensured that “action learning” was embedded as part of all training at the Institute. Prof Bernie, who gained valuable experience working with various business schools in South Africa, set the basis for the following achievements during the past year:

- Creating an MBA in Financial Risk Management in collaboration with Business School Netherlands, accredited in Europe.
- The Institute became the face of the Group and the Griffin logo received a face lift after 10 years.
- The Institute obtained membership of IRMSA (Institute of Risk Management in South Africa) and COMENSA (Coaches and Mentor of South Africa) and also became a course provider for GARP (Global Association of Risk Professional) in Africa
- The Riskflow Institute created eight accredited courses: three in Risk modelling, three in End to end Treasury two in Business coaching
- The Institute initiated Learn breakfasts held on a monthly basis.
- The Institute also formed a working relationship with Stellenbosch Business School Executive Development Ltd (USB-Ed) with the following focus points:
  - To collaborate on financial risk management development and consulting in the Middle East and Africa (MEA).
  - Co-branding and accreditation of Riskflow courses by the University of Stellenbosch.
  - Cross marketing of faculty and products.
  - USB-Ed will take over administrative responsibility for the delivery of courses

The basis on which the Institute is built will not be possible without the input and contributions of the product development team of Riskflow Technologies under the leadership of Ilse Nell. Major achievements are the following:

- Establishment of a universal TASMAN (Treasury) system v 8.1 where all users use the same version of the system but containing their own unique customizations.
- Expansion of the limit functionality within TASMAN
- The launch of ALMAN (Asset and Liability Management system) v 6, consolidating the previous South African and International version with multiple strategies functionality.
- Creation of an auto-update function for ALMAN over the internet.





# SPREADSHEET BASED ASSET & LIABILITY MANAGEMENT - A DANGEROUS MISNOMER

*By Ilse Nell*

“If you don’t actively attack the risks, they will actively attack you” - Tom Gilb

Every organization with assets and liabilities under management is exposed to a variety of risks. In organizations where these assets and liabilities are of financial nature, the exposure to financial risks is ever-present.

Despite (and some experts believe because of) the ever-increasing emphasis placed on risk management by authorities and guidelines provided by directives such as Solvency II, the Basel Banking Accords, Dodd-Frank and others, the majority of financial institutions still have their focus on compliance and risk reporting, as opposed to the active management of the financial risks facing them. In forward-thinking companies, this shortcoming has been recognized and organizational changes have been made in order to clearly separate the functions of risk reporting from those of risk management. For the purposes of risk reporting, it can be argued that a simplistic solution such as Excel spreadsheets, combined with information supplied by the organization’s databases, could suffice. The information - in some form or another - is already available within the organization and reporting therefore only requires re-formatting, summarization and simplistic calculations in order to provide the information in the required format. A typical example of such reporting is the comparison of current vs previous Income or Cashflow statements to determine whether or not the current financial performance meets the Shareholders’ expectations. Another example is the comparison of the year’s budget figures with the actual results achieved. Variations from expected results are analysed

and these findings are reported to the appropriate management committees. In the minds of many, such analyses are seen as risk management. This is a fallacy and at best it can be seen as risk identification.

To actively manage the identified risks, one needs to “look forward”, modeling the future impact of these potential risks. Only when you know what your *future risks* are, can you plan mitigation and put in place measures to manage these risks. This requires sophisticated risk modeling software, capable of analyzing a vast number of future scenarios. But it does not end there: the risk model must also be able to measure the effect of all considered strategies to manage the risks that are identified during the scenario projection. To make this possible, all combinations of future external influences must be modeled together with all combinations of internal strategies for managing these future scenarios, should any of these factors indicate a potential degradation in financial performance.

An over-simplified example from the world of banking should illustrate how even a small number of future scenarios involve a multitude of inter-dependant calculation processes. We will be looking at the risk of future changes in interest rate, and therefore concentrate on Net Interest Income (NII):

ASSETS (Interest bearing):

- PRIME linked loans to public
- Fixed rate loans to corporate clients
- Government bonds
- 3 month Fixed Placement with bank XYZ

LIABILITIES (Interest bearing):

- PRIME linked deposits from public
- 3 month fixed deposits from public

6 month fixed deposits from public  
Fixed rate Inter-company loan  
Scenario forecasted by economists:  
50bps PRIME rate increase in 2 months  
from now

First, we have to calculate the effect on *future* interest income and expenses should this scenario come true and we continue with business as usual (i.e. we do not change our strategy). The direction of change in NII (up or down) will depend on whether liabilities that are linked to the Prime rate (or any rate that is in turn linked to the Prime rate) are more or less than assets linked to Prime.

If Prime-linked assets > Prime-linked liabilities, the raise in Prime will lead to a larger increase in interest income than interest expense. Or will it? Only if we are naïve enough to believe that we will continue to issue the same number of new Prime-linked loans in future. In the short term, interest income will increase, but new business is bound to decrease. Furthermore, our pre-payment (early settlement) risk increases, as clients may pay off their loans before the rate increase takes effect. These changes in future business will therefore have to be included in the model. If we can no longer write the new business required to meet our budgeted targets, we may have excess funds (increase in deposits and decrease in loans) because...

At the same time, rising interest rates might encourage more depositors to move funds into Prime linked accounts, leading to an increase in interest expense. Unless we offer higher rates for future fixed deposits, these products will attract fewer funds, meaning there is less money available for lending, repayments and other financial commitments.

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## SPREADSHEET BASED ASSET & LIABILITY MANAGEMENT – A DANGEROUS MISNOMER

Continued from page 3

This means borrowing from other sources. These required funds will, in all likelihood, be more expensive once there are rate increases. Can we release current funds? We have government bonds, but are they liquid (i.e. is there a willing buyer)? Remember, the increase in Prime means that bonds may no longer be attractive assets, as they provide a fixed income. In fact, when applying mark-to-market (Fair Value) accounting, losses will be reflected due to their revaluation.

Maybe we can sell the bonds now, before their market price drops. However, we are required to keep a certain amount of liquid assets, and our placement with bank XYZ only matures in 3 months' time. So if we sell our bonds now, we will have to create new liquid assets to meet regulatory requirements and be able to service our liabilities.

The list of "what-if scenarios" is currently at 10, and we have not even started exploring the possible ways in which we can deliberately change our product mixes to best exploit this anticipated change in future rates.

- We could offer a higher fixed rate for future deposits, with the new rate less than 50bps higher than our current rates.
  - We could offer longer term fixed deposits, at a more attractive rate.
  - We can pre-arrange a fixed-rate facility with another lending institution now, before rate changes take effect.
  - We can actively market Prime-linked loans, with incentives such as a payment holiday before repayments start.
- Of course, we can implement all (or any combination) of these 3 asset & liability management strategies. In this case, we now have 30+ what-if scenarios.

It should be very clear from this simplistic example that a spreadsheet based solution for ALM is impossible. At best, it will take months to build these 30+ what-if scenarios, by which time the strategies considered above might be totally inappropriate, as market conditions might have changed again.

*(Pro)-Active Asset & Liability Management requires software where "what-if" (and "why-not") scenarios can be gener-*

*ated in real time.* The software should allow for any combination of anticipated changes in external market conditions, combined with all reasonable (and executable) internal strategies to minimize the loss of income, should any of the anticipated market conditions become reality. Typically, once modeling results are available, ALCO (Asset & Liability Committee) will want (real time) answers to the following:

- i. What if the actual raise in Prime is higher/lower than the anticipated/modeled change?
- ii. What if the change in rate occurs at an earlier/later time than anticipated?
- iii. What additional sources of investment can be considered if there is a drop in new loans and we have excess funds?
- iv. What alternative liquid assets can be bought if we want to decrease our Government Bond holding?
- v. What will be the cashflow implications if our asset emphasis shifts from loans (providing a monthly cash inflow stream) to other instruments (e.g. Treasury Bills, with no monthly cashflows)?

Even if spreadsheets were built to model scenarios (i) and (ii), the ability to introduce new products, with different underlying financial instruments, is way beyond the capability of any spreadsheet solution, regardless of the competence of the spreadsheet modeler.

An operational risk that is often overlooked is that of spreadsheet maintenance and the key-man dependency of the spreadsheet "modeler". Because spreadsheets were never intended to be substitutes for programming tools, it does not lend itself to documentation and spreadsheet "applications" are more often than not only maintainable by its original creator. Trying to decipher another person's spreadsheets can be a daunting task and is fraught with danger.

This risk is compounded by model risk - risk that occurs when a financial model used to measure an organization's market risks or value transactions does not perform the tasks or capture the risks it was designed to. This risk is so prevalent that the US Board of Governors of the Feder-

al Reserve System published a paper ("SUPERVISORY GUIDANCE ON MODEL RISK MANAGEMENT") in April 2011 to provide comprehensive guidance for banks on effective model risk management. (<http://www.occ.treas.gov/news-issuances/bulletins/2011/bulletin-2011-12a.pdf>).

They highlight that "Rigorous model validation plays a critical role in model risk management; however, sound development, implementation, and use of models are also vital elements."

"The model may have fundamental errors and may produce inaccurate outputs when viewed against the design objective and intended business uses. The mathematical calculation and quantification exercises underlying any model generally involve application of theory, choice of sample design and numerical routines, selection of inputs and estimation, and implementation in information systems. Errors can occur at any point from design through implementation. In addition, shortcuts, simplifications, or approximations used to manage complicated problems could compromise the integrity and reliability of outputs from those calculations."

Riskflow's Asset & Liability Management system – ALMAN – has a track record of 22 years. Its mathematical calculations have been put through rigorous tests and results are continuously audited by our users. The software development team, in conjunction with the R&D team – all skilled risk practitioners – strive to keep abreast with industry-leading risk management techniques, leading to a risk solution that is comprehensive, yet easy to use. The training that accompanies the software has been specifically designed to teach modeling techniques, as opposed to just "point and click" training on the use of the product.

If you still are still performing Asset & Liability Management by using spreadsheets, we urge you to reassess your approach. For more information on ALMAN, or a free demonstration of the product, please visit our website: <http://www.riskflow.com>



Back from L to R- Prof Pierre Strydom (Trustee of Riskflow), Mandla Mkhize (CEO of Riskflow Technologies (Pty) Ltd) and Danie de Villiers (Group CFO of Riskflow)  
Front from left to right Daan Maré (Group CEO of Riskflow), Prof Bernie van Zijl (CEO of Riskflow Institute) and Frik Landman (CEO of USB-ED)

## PARTNERSHIP IN EXCELLENCE

Riskflow and USB Executive Development (USB-ED) have signed a collaboration agreement for developing a mechanism to deliver financial risk management interventions in the fields of finance, banking and economics in Africa and the Middle East.

The University of Stellenbosch Business School (USB) is a leading provider of internationally accredited postgraduate management degrees and executive education in South Africa. USB-ED is the public executive development company of the University of Stellenbosch Business School. The programmes offered by USB-Ed are designed to lead change on the African continent by developing leaders who will transform themselves as well as their environments.

The Riskflow Institute and USB-ED joint programmes include :

- End-to-End Treasury Management
- Financial Risk Modelling Certification
- Sustainable New Venture Creation
- Coaching for New Venture Creators

Turn to page 6 for the programme start dates.

For more information, on USB-Ed accredited programs kindly contact [theinstitute@riskflow.com](mailto:theinstitute@riskflow.com)

# Riskflow Institute Events Calendar 2012



## Financial Risk Modelling Certification

Course I  
Course II  
Course III

February 2012  
September 2012  
February 2013

## End-to-End Treasury Management

Course I  
Course II  
Course III

May 2012  
February 2013  
July 2013

## Coaching for New Venture Creators

Set I  
Set II  
Set III  
Set III

2 - 3 March 2012  
18 - 19 June 2012  
16 - 17 August 2012  
18 - 19 October 2012

## Learn-Shops

Fundamentals of Banking and Risk Management  
Integrating Risk Management in Banking  
Market Risk Management  
Credit Risk Management  
Operational Risk Management  
Corporate Credit Analysis and Management

8 - 9 May 2012  
24 - 25 May 2012  
25 - 26 July 2012  
29 - 30 August 2012  
19 - 20 September 2012  
24 - 25 October 2012

## Learn-Breakfasts

Friday 17 February 2012  
Friday 16 March 2012  
Friday 18 May 2012  
Wednesday 27 June 2012  
Friday 17 August 2012  
Friday 14 September 2012  
Friday 12 October 2012  
Friday 9 November 2012

For more information on the Riskflow Institute programmes, please contact us on :

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## Liquidity Management in the Zimbabwean Market: Learn-breakfast presented by Daan Maré

On the 24th of November 2011, Riskflow Group hosted its first Learn-breakfast in Harare at the Crown Plaza hotel. The presentation was targeted at the financial services sector and featured guests from Kingdom Financial Holdings, CBZ, FBC Holdings, MBCA Bank, Tetrad, Royal Bank as well as the Reserve Bank of Zimbabwe.

Discussed at the learn-breakfast was a topical issue that transcends economies and businesses: Liquidity.


**“... Liquidity always comes first; without it, a bank doesn't open its doors;  
with it a bank may have time to solve its basic problems”**

**Donald Howard - CFO - Citicorp**

Liquidity is the ability to generate sufficient funds to meet expected and unforeseen financial commitments in a cost effective and timely manner.

Group CEO of Riskflow Holdings, Daan Maré mentioned that the absence of liquidity in the Zimbabwean market comes at a price, effectively borne by the banks' clients. He expressed his concern about the high lending rates which will inevitably lead to an increase in non-performing loans which again will raise the need for more liquidity. How sustainable it is, remains an unanswered question.

Maré urged banks not to wait for government to solve their liquidity problems as it can only come in a way of a higher prudential ratio to safeguard depositors against banks unable to repay their maturing deposits. He suggested that banks should entice clients to deposit money for longer periods by raising interest rates for longer term deposits. “Liquidity comes at a price. Too much liquidity precipitates into a loss in potential revenue, while too little could force a bank into bankruptcy”, he said.

In lieu of a lender of last resort and no liquid assets being traded he proposed that banks should get together and start trading with each other. He suggested that banks should be prepared to quote bid and offer prices on paper they created and not be preoccupied with incurring trading losses. Liquidity comes at a price. 

# Making Footprints in Malawi



Felix L. Mluse (Managing Director and Chief Executive of NICO Holdings Limited) with Prof Bernie van Zijl (Managing Director, Riskflow Institute)



Daan Mare (Group CEO, Riskflow) and Johan Testa (BankABC) with the treasurers representing the Malawian Banking Community.

In October 2011 NICO Holdings Limited invited Prof Bernie van Zijl to give a key note address on a very interesting topic: "People, people, people then technology". This was one of the topics that was addressed at the 2nd Riskflow learn-breakfast by Lawrence Mlotha.

Insurance is the core business of NICO Holdings Limited. The business has grown over the years and NICO is now offering general insurance in Zambia, Tanzania, Uganda and Zimbabwe.

NICO Holdings subsidiaries include SFG Insurance (Pvt) Ltd and NBS Bank Limited, which also happens to be a client of Riskflow.

The month of October also saw Riskflow present at the Financial Markets Dealers Association Conference. The Conference was held from 28-30 October. Attending the conference were treasurers and dealers from the banking community.

The key note address was given by Daan Maré and Johan Testa on "How to create a bond market within the context of the Malawian market". Also discussed was the importance of market liquidity.

Riskflow has been keen on expanding its reach in Africa and these events show that Riskflow is well on its way to achieving its strategy.



## Seasons Greetings



*As the year draws to a close and a new one begins, we celebrate our relationships with our clients, partners and everyone that we have had the pleasure of working with. Thank you for making 2011 such a wonderful year.*

*We treasure our relationship with you and we look forward to working with you in the years to come.*

*Riskflow Holdings wishes you a happy holiday season and a new year filled with peace and prosperity.*

# Riskflow Enterprise Development's Executive Chairman awarded BMF Manager of the Year



Left to Right: Mr Jimmy Manyi (BMF President), Ms Thembakazi Mnyaka (BMF Deputy President); Mr Eric Mafuna (BMF Founding President), Ms Nomhle Nkumbi-Ndopi (BMF Managing Director), Mr Mandla Mkhize (BMF Manager of the Year) and Ms Nobuzwe Mangcu (Executive Director Mercedes Benz: BMF Anchor Sponsor)

In 2003 Mr. Mkhize was appointed National Operations Manager at ABSA Bank Group Schemes. Three years later he was acting General Manager of Retail Operations. During his time at ABSA Mandla mentored 14 individuals through actively employing candidates from previously disadvantaged backgrounds and actively managing their careers until they became managers or leaders.

In 2006 at the age of 30, Mr. Mkhize was appointed the CEO of Riskflow Pty Ltd. In this role Mandla has actively transformed the demographics of Riskflow to reflect those of South Africa whilst doubling the revenue of the entity. The fruits of his campaign resulted in Riskflow being awarded the BEE status of Level 2.

In 2011 Mr. Mkhize was appointed the Executive Chairman of Riskflow Enterprise Development, which is the SMME development side of the Riskflow Group.

On the 18 November 2011 at BMF's 35<sup>th</sup> Anniversary Gala Dinner, our Executive Chairman: Riskflow Enterprise Development and MD of Riskflow Technologies, Mr Mandla Mkhize, received the Black Management Forum (BMF) National Manager of the Year Award.

## Background

Mandla Mkhize is a member of the Soweto Branch of BMF. He has played an active role in the establishment of processes and recruitment of new BMF members. In his portfolio as Manager for Fundraising in BMF Soweto, Mandla was responsible for the procurement of BMF Soweto's first sponsor. Since then Soweto has successfully held three Forums:-

- On 04 July 2011, Ms Maria Ramos, Group CE of ABSA, addressed the forum on the *The Role of Commercial Banks in Socio-Economic Transformation*
- On 04 August, Mr. Sim Tshabalala, Group Deputy CEO of Standard Bank, addressed the forum on *The Role of Banks in Job Creation and Entrepreneurship*
- On 20 September, Mr. Geoffrey Qhena, Group CE of IDC, addressed the forum on *IDC will make available R102 billion to invest over the next 5 years. Opportunities for Job Creation and Entrepreneurship*

Mandla started his career in 1993 with Standard Bank. The highlight of his career was when Mr. Mkhize was appointed the youngest Team Leader in his division at the age of 22. In his tenure at Standard Bank Mr. Mkhize mentored over 10 individuals who have since become junior and middle managers. Of the 10 mentored 5 were black and two were women. Due to his commitment to transformation he was appointed to the Standard Bank Home Loans Transformation committee.



Left to Right: Ms Zazi Makapela (BMF Soweto Manager: Education and Training), Mr Mandla Mkhize (BMF Manager of the Year) and Mr Solly Moripe (Chairperson BMF Soweto Branch)

## Ethics and value system

Mandla believes that "umuntu ngumuntu ngabantu" which means "I am because you are". In his interactions with people this quality is demonstrated in the solid relationships he has maintained with colleagues of different walks of life. Mr. Mkhize embraces diversity wholeheartedly. In his three years with ABSA Mr. Mkhize received the Prestige Award for Excellence demonstrating the appreciation people have of him.

Mr. Mkhize embraces the following core values:-

- Integrity:** If you are honest continue being honest.
- Significance:** Focusing on things that are of material value both qualitatively and quantitatively.
- Discipline:** Finish what you start.
- Focus:** Don't take your eye off the ball.

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# Team Griffin: Cape Argus Cycle Tour 2012



The Cape Argus Pick 'n Pay Cycle Tour is the largest timed cycling event in the world. Attracting in excess of 35 000 cyclists from around the globe each year, this prestigious event is definitely a unique experience for participants and spectators alike.

Based in Cape Town, the Cycle Tour represents 109 km of some of the most scenic spots in the world. Starting in the City Centre the route makes its way down the Blue Route leading into Simonstown then turning at Smitswinkel and heading back along the coastline before the steady climb up Chapman's Peak and finally the short, steep hill of Suikerbossie. The downhill to the finish in Green Point is a welcome respite for the weary cyclist.

A carnival incorporating hospitality tents, entertainment and guaranteed fun awaits the cyclists, their families and friends at Greenpoint Stadium.

As this is a non-profit event, all proceeds go to two charities. Pedal Power Association uses their share to develop cycling in the community by sponsoring development cyclists and hosting fun rides in the Western Cape area. The second charity, the Rotary Club of Claremont invests their share into a variety of fundraising projects.

It is both an honour and a privilege for Riskflow to have a team participate and support this cause.

Go Team Griffin !!!!!

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## **Riskflow Enterprise Development's Executive Chairman awarded Manager of the Year**

### **Outlook on Global Issues and Africa.**

In his area of expertise Mr. Mkhize believes that his activities can help realize the Renaissance of Africa's Small & Medium Enterprises (SME's). Mr. Mkhize is currently engaging Development Agencies on how the New Growth Path can be achieved through SME development. He believes that his contribution towards the attainment of the NEW GROWTH PATH can be exported to the rest of Africa and thus create sustainable employment. This will lead to poverty eradication. Poverty eradication will reduce inequalities within South Africa and beyond.

Another area that is of interest to Mr. Mkhize is the stabilization of African Financial Administration Units which will contribute towards immunizing the African Markets from the seismic events of recent times as experienced in Greece and the rest of the Eurozone.

