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Spotlight: Technology Businesses Dependent on Proactive Operational Risk Management **MBA (7/2/2008) Palaparty, Vijay**

Managing obstacles of doing business—**operational risk**—plays a critical role for companies. They face a risky business environment, forcing them to consider issues such as **business continuity, resilience, disaster response** and **enterprise risk management** in a “proactively reactive” method.

“Operational risk is our biggest worry,” said **Keven Smith**, president of **Mortgage Builder Software Inc.**, Southfield, Mich. “It’s about something unknown happening. We plan for as much as we can, but the concern is more over what we haven’t thought of—factors that would stop us from supporting clients since the whole business is built on service.”

Mortgage Builder’s two business models include one that is sold outright to clients and one that is hosted. In the hosted application service provider model, the company also hosts clients’ data. To protect this information, the company has traditional onsite data backup as well as an offsite disaster recovery facility.

“We want to make sure that if something catastrophic were to happen to the headquarters, clients’ data would continue to run from an offsite facility,” Smith said. “In the case of our clients who handle their own data, we can also help them in the event of a major disaster. They still rely on us for support, changes or developing strategy. We have the ability to continue to operate, which is a strategic advantage.”

A whitepaper from **iJET Intelligent Risk Systems**, Annapolis, Md., said that by harnessing disaster response and business continuity practices, many companies have shifted their approach to proactively protect themselves and increase revenues because of business disruptions. The paper also said that in light of business growth in **emerging markets**, multinational companies are increasingly adopting business resiliency practices to maintain continuity of business operations and promote growth.

“Risks are no longer solely limited to emerging markets,” said **Steve Hoffman**, CEO of iJET. “Now, more than ever, business leaders are challenged to not just grow value but to protect it. The combination of risk and opportunity is prompting organizations to rethink business continuity, corporate security, supply chain and enterprise risk management. As a result, an increasing number of organizations realize that business resiliency is a requirement for continued global operations, growth and success.”

For **Tim Anderson**, president of **SigniaDocs**, Jacksonville, Fla., the emergence of **eMortgages** reduces operational risk. He said the existence of **data** and the paper **document** must come together and merge. “Data is the legal, electronic representation of the information in the document—source data contained in the document that is the legal collateral,” he said. “The data and the document need to come together.”

Anderson said that while the document is an asset, having a complete electronic document will be a radical yet necessary change in the mortgage industry. “You can control data in a safe and secure environment,” he said.

However, Anderson believes that while different vaults exist for storing data, the **processes** that link the data do not always match, increasing operational risk. “With eMortgages, it isn’t the images, data or paper—it’s the processes that take place between these components. But more often than not, there is a disconnect,” he said.

Anderson also said that there is a higher chance for loss of **data integrity** in paper-based processes, but that in eMortgages, the data and document cannot be treated as two different systems.

SigniaDocs, like Mortgage Builder, has triple-level data redundancy, having one "warm" site that is located at the corporate headquarters and two "hot" sites that are situated in different parts of the U.S.

“In eMortgages, it’s about trusting the source of the document that is seen, signed and received—that is the whole change of the business process,” Anderson said. He also said that in natural disasters, such as Hurricane **Katrina**, moving away from paper would keep records intact.

Smith said Mortgage Builder continually reviews and updates its systems as a result of **SAS 70** mandates—a standard for auditing service organizations, enabling an independent auditor to review a service provider's controls for safeguarding its customer's data. “It involves a third party coming in to review the internal structure to find weaknesses and to find areas to improve,” he said. “We constantly try to fix the weakest link.”