

There is now a strong awareness at APG Asset Management that collateral management is crucial when it comes to controlling risks. The bankruptcies in the financial world, such as the fall of the American investment bank Lehman Brothers, have served to considerably strengthen that realisation. It is therefore no surprise that APG has recently been examining collateral management very closely. Zanders supported APG Asset Management in streamlining this process in what is a highly turbulent period.

Zanders assists APG Asset Management in limiting credit risk

Collateral Management

Do you know what collateral management is? It doesn't matter if you don't. Michel Hameleers is happy to explain it to you. "We have to explain it to most people who start in our team," he laughs. Hameleers has been responsible for the collateral management process at APG Asset Management for the past four and a half years. Previously, the process was run by three or four people, but now there are eight members in the team. This is a relatively small group – as APG Asset Management employs more than 490 professionals – but it is responsible for a crucial part of the investment field: securities and risk mitigation. "Every day, APG Asset Management

securities were exchanged with the 45 financial business partners. However, APG has recently started running this process every day, and not without good reason. Hameleers continues: "The financial markets have become much more turbulent in the past few months, and this means that claims can fluctuate considerably within the space of a week. A claim of EUR500 million can easily run up to a billion in just a few days. In September and October 2008, when the markets were very volatile, we saw such large fluctuations on a regular basis. You have to cover such risks properly, otherwise you may suffer huge losses."

trades in non-listed derivatives with around 45 different parties," explains Hameleers. "In most cases, this concerns complicated financial instruments – private agreements that may result in future claims or debts. If there is a bankruptcy, claims can no longer be collected. To cover this risk, parties exchange securities in the form of cash or government bonds. Based on all the transactions that are carried out, we determine, obviously in close consultation with the other party, what the claim or debt is, and how we can best cover those mutual risks. We then make sure that in the case of claims we receive enough securities and that in the case of debt that the other party has sufficient securities. That way we mitigate our credit risks on a daily basis, so that if anything goes wrong, the damage is limited."

Complex process

Collateral management is a complex process that involves large quantities of transaction data, complicated valuations and calculations. Until recently, the balance was drawn up once a week. Every Wednesday, the

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Bauke Vriesema is the interim team manager of the collateral team. He was engaged by APG Asset Management to lead the team through these hectic times and to achieve an acceleration of the process. "It is a complex process, in particular because it is so diverse," explains Vriesema. "In order to be able to determine what your position is, every transaction has to be examined. This means dealing with large amounts of information every day. Each derivative has to be valued. You need detailed information from a multitude of sources." APG Asset Management asked Zanders to help turn the weekly process into a daily one. Geert de Pont, a consultant at Zanders, got to grips with the process. "What was needed more than anything," says De Pont, "was increased efficiency. The number of parties with whom APG Asset Management does business has risen considerably in the past few years. As well as that, the products themselves have become more complicated. APG Asset Management was working with a spreadsheet application, but this had reached its limits." De Pont first spent time in the department to provide support and to get to know the processes. He was then given a free rein to improve the efficiency of the process, on the one hand by modifying the tool and on the other by enhancing the quality of the data supplied. De Pont says, "A claim is the result of processing data that has been merged from different sources. Many things can go wrong in this process. If your calculations are not right, then your claim won't be right either, so you will ultimately be running risks after all. This is what I have tried to address." This was not just a question of programming and calculating but also of communicating. "An important part of our work is providing information," states Hameleers. "Ultimately, everyone has to understand that they must provide the right information, even if the information itself is of no use to them."



Bauke Vriesema, Geert de Pont (Zanders) and Michel Hameleers are part of the team that mitigates the credit risks incurred by APG Asset Management.

In the shade

For many years, collateral management was somewhat overlooked and in the shade. Hameleers says, "As a rule, it doesn't yield anything immediately. People regard the process as a cost item. It is only useful if something goes wrong, and that didn't happen for some time. It was only when a number of financial parties were suddenly unable to meet their obligations that the organisation started to realise the importance of the securities that were being managed on the 10th floor of the APG building in Heerlen. Rarely have things been as hectic for the team as they were in recent months. Hameleers continues: "For example, we started making payments after the weekend as it seemed to be exactly on weekends that parties were going out of business. We avoided being damaged as a result." It was particularly the bankruptcy of the American investment bank Lehman Brothers that prompted the decision to review the collateral management process more critically. Bauke Vriesema says: "Ultimately it's about being constantly aware of the risks you are running compared to the maximum risks you are prepared to take."

"From a professional point of view, this is a very interesting time to work here," adds Geert de Pont. "It is the first time in the history of this organisation that events of this kind have taken place." The burden on De Pont's shoulders has therefore been considerable. Simply tinkering around with the application in the background was not an option – there was no time for that. "It's a great responsibility. You have to know very clearly how a claim is created and what the consequences will be if things go wrong, because the amounts involved are enormous. It's therefore fantastic that APG Asset Management gave us the room to develop something so worthwhile."

APG Asset Management was very pleased with the dedication shown by Zanders. Hameleers says: "They quickly familiarised themselves with the APG processes and then provided excellent guidance in changing from a weekly to a daily process. Zanders knows not only about the material, but is also capable of translating this knowledge into the right tools." <



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APG Asset Management

APG Asset Management administers the pension assets of more than 2.7 million pension participants in the Netherlands. With managed capital in excess of EUR173 billion, the organisation is one of the world's largest pension administrators. With investments in 78 products, APG Asset Management is a player on the world market, having offices in Amsterdam and Heerlen and subsidiaries in New York and Hong Kong. The Heerlen office is home to the Investment & Information Services department, among others, and it is here that the investments conducted by the various offices are administered. The I&IS department deals with more than 28,000 financial transactions every month.