

ABSA Corporate & Investment Banking, member of Barclays



Gaining a single view of risk across both trading and banking books

Overview

The need

With the continued growth of its corporate and investment banking services, ABSA Corporate & Investment Banking, member of Barclays, required an integrated platform that could present a single, accurate view of counterparty credit risk, and meet the needs of the business, its clients, and its regulators in South Africa.

The solution

The ABSA CIB team worked with IBM to build a solution that aggregates all limits and exposures to provide a single trusted view of risk for its South African operations across industry segments, banking products and trade products.

The benefit

Time taken to produce a single view of risk has been reduced by 85 percent, significantly improving credit productivity and risk management. Two full-time employees in the operations team have been able to move from manual data capture into more valuable duties. In total, the solution will generate USD2.3 million in net present value at an internal rate of return of 51 percent.

Banks that operate with a lack of credit controls and poor credit risk information will be hampered by conservative lending decisions, higher credit losses, higher costs of capital and slower turnaround times in the market.

For this reason, leading banks are striving to optimize their business strategies and capital allocation by providing decision-makers with relevant risk-based insights.

Gaining such insights requires banks to measure trading book and banking book exposures accurately across all regions and industry segments, and aggregate the results efficiently. And to make these insights actionable, it is necessary to present the results appropriately to users in different roles, with interactive reporting that is capable of delivering insight at multiple levels – enterprise-wide, by portfolio segment, and by individual client.

Driving change

ABSA Corporate & Investment Banking, member of Barclays, is a leading bank that actively identifies opportunities, and implements change.

Dale Vice, Head of Credit Change, explains: “Our front office wants to build more valuable client relationships, which means it needs to fully understand our current exposure to each client in order to make the right offers.

“Last year, when concerns arose about one of our large financial counterparties, it gave us a perfect opportunity to test our new solution,” says Dale Vice, Head of Credit Change at ABSA CIB. “With spreadsheet-based analysis, it took seven days to calculate our total exposure to that particular counterparty. With IBM Algo Credit Manager, we got to the same answer in two minutes.”



Solution components

Software

- IBM® Algo® Credit Manager
 - IBM Algorithmics® Integrated Market & Credit Risk
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“Our clients have clear ambitions, and they require the right combination of products to grow their businesses. Establishing a holistic view of credit risk across the trading book and banking book enables our teams to offer world-class multi-product financing solutions, and perform an advisory role in helping our clients manage their own risks. It also helps us to demonstrate to regulators our deep understanding of the risks involved, and provide full transparency of the credit controls we have put in place.

“Meeting the needs of our clients, our colleagues, and our regulators meant that we needed to initiate a major change programme. Work began in September 2011 and the first objective was to establish a trusted single view of credit risk across our South African operations.”

Designing an ideal system for credit management

The credit change team worked with senior executive stakeholders and experts in risk measurement to gather the requirements for an ideal credit management system, which would be capable of supporting key operational pillars such as credit origination, management information, regulatory reporting, among others.

Following a very detailed request for information (RFI) process, the team produced a shortlist of three leading global vendors, and ultimately selected the solution presented by IBM®.

“We took great pains to ensure that the selection process was absolutely objective, and the final score clearly showed that for our specific requirements, IBM Algo® Credit Manager was the best option. It wasn’t just the technical architecture and functionality – IBM’s risk expertise, delivery record, and global and local resources also gave us confidence that the solution would be properly supported in South Africa, and could also be rolled out across other parts of Africa in the future.”

Tightly focused project with strong executive support

The first phase of the implementation placed a tight focus on the top priority: gaining a single view of risk. A strong steering committee, including the Heads of Credit Risk, Market Risk, Operational Risk and Front Office for corporate and investment banking, helped to drive the project forward, and the project team worked closely with IBM to implement the system and train the user-base of 96 analysts.

The project was completed on schedule and five percent under budget; and although the new system has only been in production for a few months, it is already regarded as a major success within the bank.

“We have built a platform that not only gives us a single view of risk, but also an opportunity to drive real competitive advantage in the months ahead.”

— Dale Vice, Head of Credit Change, ABSA CIB

Transforming day-to-day operations

Dale Vice describes some of the benefits that ABSA CIB is seeing from the solution: “IBM Algo Credit Manager is now at the heart of our limit setting and approval process, and it’s used every day by our analysts.”

The system’s workflows validate limit data at the point of capture, so there is no longer a risk of analysts inputting invalid or incomplete information. When a new limit is loaded into the system, the bank can be 100 percent certain that it has captured all the relevant exposure information associated with the limit.

“Efficient integration across systems is essential to success. In achieving integration, it helps that we also use IBM Algorithmics® software to measure market risk,” adds Dale Vice. “We have successfully integrated Algo Credit Manager with our front-office and product control systems, and set up an automatic daily data feed to the Barclays group-level systems, so there’s no longer any need to re-key data between these systems. As a result, we have already been able to move two people from low-level data entry to much more valuable data quality management roles.”

Rapid, comprehensive insight into credit risk

More important than these operational improvements, however, is the new level of transparency that the solution provides for credit risk analysis across the banking and trading books.

Dale Vice comments: “We’re seeing an 85 percent reduction in the time it takes to generate a single view of risk for our South African operations. Instead of spending seven days aggregating spreadsheets to get a full understanding of how much exposure we have to an individual client, we can generate a report in a few minutes, spend a few hours double-checking it, and be fully confident in the answer by the end of the day.”

The credit team estimates that when its analysts have fully embraced the system, it will eliminate the use of about 3,800 spreadsheets, saving countless hours of low-level manual work, and freeing analysts to focus on their real job: providing valuable insight to support better decision-making and client service throughout the bank.

Building a platform for competitive advantage

Dale Vice concludes: “Effectively, at the click of a button, we can now see all the limits and exposure for any counterparty – or for any group, industry, region, product, or business unit. That’s going to be an extremely powerful tool for our South African business going forward.

“Even looking just at phase one, we estimate the project has generated USD2.3 million in net present value with a 51 percent internal rate of return. And looking to the future, we now have a platform that can support our whole roadmap for ongoing change within the credit department – which will put us in a strong position to overtake and outperform our competitors in the months ahead.”

About ABSA CIB

ABSA Corporate & Investment Banking (CIB) is a member of Barclays. Headquartered in South Africa, the bank has a diverse footprint that extends from Cape Town to Cairo, supporting clients both in developing their businesses in Africa, and in generating operational efficiencies.

To learn more about ABSA CIB, please visit www.cib.barclaysafrica.com

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