



Industry

Banking

Business Issue

Turn the Basel II constraints into opportunities, accurately evaluate the risk of potential credit losses and calculate the equity necessary to cover that risk

Solution

SAS® Credit Risk Management

Benefits

Greatly improved risk management, optimized workflow, a better overall knowledge of customers and portfolios



"Our policy is to try to systematically turn constraints into business opportunities. In the case of Basel II, SAS helps us to realize these opportunities."

Philippe Colpin

Manager of Basel II and IAS/IFRS
Credit Retail issues at AXA Bank

The Power to Know.

AXA Bank reduces risk with SAS And improves its portfolio management

Risk is a key parameter associated with granting credit. It is also an issue recently addressed by Basel II regulations. Seen by many as a constraint, AXA Bank understood from the start that these new rules could also generate business opportunities. With the help of the SAS Credit Risk Management solution, AXA Bank has greatly improved its risk management and optimized its workflow. Credit related decisions are now more decentralized. And the bank has a much better overall knowledge of its customers and portfolios.

Credit related decision making has further gained in efficiency at AXA Bank. With the powerful reporting and analysis tools, the number of credit decisions that are made at a decentralized level has increased. In parallel, the administrative workflow linked to credit demands is optimized.

Turning Basel II constraints into opportunities

"The aim of the new Basel II regulations is to define the minimum equity required by financial institutions to protect themselves against potential risks," says Philippe Colpin, Manager of Basel II and IAS/IFRS Credit Retail issues at AXA Bank. "This entails numerous investments. Data has to be collected more precisely, IT systems need to be adapted, and new members of staff need to be hired. We wanted to make these necessary investments as profitable as possible by also generating information more rapidly to benefit the customer and the business. Hence the need for an efficient data analysis tool to help us turn Basel II constraints into opportunities."

Using the SAS Credit Risk Management suite, AXA Bank can accurately evaluate the risk of potential credit losses and calculate the equity necessary to cover that risk. Better still, the application integrates credit scoring and credit portfolio management features. This

means that the potential impact of new credits on the bank's overall position can be simulated. Moreover, with the Web-based SAS reports, management now has a more powerful analysis tool at its disposal. For customers that meet standard conditions, intermediaries can make credit decisions themselves. This reduces administrative costs within the bank and speeds up customer service.

Predicting market evolutions

The SAS software contains numerous standard features to comply with Basel II regulations. The reports it generates contain such essential parameters as the probability of default according to the type of product and customer segment. Based on the Internal Ratings Based approach (IRB), the system measures both the risk weight and the exposure at default of each loan. Standard reports are included to meet with the legal requirements of the European Capital Adequacy Directive.

The SAS software even contains stress testing features that are extremely valuable in assessing credit risk at AXA Bank. "We need to continuously anticipate the impact of certain market events on our risk position," explains Colpin. "AXA Bank develops macro-economic scenarios to simulate such events as a rise in the unemployment rate or a drop in real estate prices. The SAS software then evaluates their impact on the bank's regulatory and economic capital. This puts us in a position to better assess the impact of economic trends."

SAS chosen after careful analysis

To find a partner that would enable it to capitalize fully on the opportunities generated by Basel II, AXA Bank defined a list of key requirements. The tool obviously had to cover all Basel II calculations and adaptations. It also had to cover credit risk modeling functions. From the outset, AXA Bank elected to

seek an integrated, end-to-end application that would carry out all reporting features with the same, single tool.

"The selection procedure clearly pointed to SAS as the preferred supplier," recalls Colpin. "In addition to meeting the stated criteria, the SAS software featured an easy interface build-up. We were also impressed by the performances of the SAS tool in terms of ETL capabilities, modeling, back testing, and stress testing. What really decided it for us was the fact that SAS consultants were the most current on all of the latest topics and emerging concerns in terms of credit and risk management. This knowledge meant we were immediately working along the same lines."

Easily adaptable reports

Making IT systems Basel II compliant involves the development of numerous statistical models. The SAS technology allows credit staff to rapidly define these models and develop new reporting tools. Back testing functions are equally important. They enable AXA Bank to verify whether the chosen models and parameters are still in line with the realities of the market. Consumer profiles, for instance, can change over time following marketing campaigns or sociodemographic shifts. SAS offers a series of standard reports to monitor population shifts and their effect on the expected default.

The Basel II regulations have also enabled AXA Bank to implement new tools for business follow-up. These include updated and better documented workflow processes, improved data reliability, and more innovation in terms of marketing. In addition, the system enables the industrialization of models and scoring grids, which means the bank is totally independent to develop its own data models.

Benefits for both business and users

On the user side, the SAS software delivers more user-friendliness. The system provides product managers with data that is ready for interpretation. This allows them to focus on the intellectual analysis of the information. Because the models are much more reliable, they enable a better follow-up of the bank's overall credit risk position.

With the introduction of the Basel II regulations, risk is now managed during the entire life cycle and not only at the acquisition stage. The expected default is calculated per credit and aggregated in pools. AXA Bank personnel can now continuously monitor risk evolution. SAS drives this improved risk management by supplying monthly statistical reports that highlight these evolutions. In doing so, the SAS system has helped AXA Bank achieve a much greater knowledge of both individual customers and global portfolios. All in all, an entirely creditable performance for every one concerned.

AXA Bank - growing with its customers

AXA Bank is a growing retail bank. Its share of the Belgian mortgage market increased from 4% in 2000 to more than 12% in 2004. It offers a large number of products and services for both private individuals and small businesses, including current accounts, savings, and investment products. Main credit products for consumers include an extensive range of loan arrangements, installment credits, and credit lines. The bank also provides self-employed professionals and small businesses with investment credits of up to one million euros.



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