



Industry

Banking, IT

Business Issue

Risk

Solution

Risk management reporting, SAS Competency Center

Benefits

Regulatory reporting, less investment in equity, higher profit margins



Dr. Martin Hirni

Head of Application Engineering for ZKB

Christoph Wysling

Head of ZKB's SAS Team

The Returns of Risk Management

SAS® underpins a leading-edge risk management system at Swiss bank ZKB

Zürcher Kantonalbank (ZKB) – the third-largest bank in Switzerland – finished 2004 with a balance sheet total of more than 80 billion CHF (US\$66 billion). The bank continues to live up to its reputation as a risk management specialist, with profits growing at double-digit rates.

“We focus on three areas of risk management,” says Dr. Martin Hirni, Head of Application Engineering for ZKB, “credit risk, market risk, and reporting and analysis.” In dealing with risk, Hirni knows that client representatives, line managers and other bank staff each require different types of tools. “SAS helps [them] to achieve [their] business targets and to meet regulatory requirements in terms of risk management.”

Part of ZKB's work in risk management has to do with the shifting paradigm of how banks operate. “We realize there are a lot of changes in the banking market and in the banking IT market. We are expecting major changes in insourcing and outsourcing,” Hirni explains. “We are preparing to dramatically increase our work in insourcing. We already do stock accounting for smaller companies; we expect some bigger cases soon and will be leveraging our expertise much more heavily.”

The bank has a second upcoming issue in establishing core software platforms to work from – there are currently many different platforms within the bank, and the goal is to establish a set number of them for the future. A third issue is changing technologies, especially in the area

of risk management. ZKB is in the process of adjusting its systems to be able to do a huge number of calculations in a relatively short time while also enhancing the ability to deal with risk.

Going first class

“We use SAS as a reporting tool for our risk engine. We have realized that to play in the ‘premier league’ of risk management, you need premier league risk management and you need premier league reporting to go with it,” says Hirni. “If you have all that information to hand but cannot bring it to the stakeholders then the information is not useful. We decided to use SAS because it helps us to leverage our know-how and we think it is a powerful platform that not only meets our current needs but also our future needs as we move into different areas and need to scale up.”

The ability to grow was a prerequisite for the system, according to Christoph Wysling, Head of ZKB's SAS Team. “It was very important for us, that our solution is scalable, as we have fastidious applications at the bank and we want to be able to incorporate new ones as we go along. We want to be ready for new applications and large insourcing projects. Insourcing clients will include other banks, pension companies and other financial institutions.”

Wysling explains that “SAS is integrated in the central control system of the bank. We have an access control system governing our central data store, as much of this information is highly confidential.”

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Before the latest push to enhance risk management, SAS was already a trusted software provider in ZKB. Twenty-five employees currently use SAS in their day-to-day work. “We have a good relationship with SAS and consider them as a partner. When we agree on new implementations, it is always mutually beneficial. When both parties walk away from the table smiling, that is a good sign,” says Hirni. “The fact that SAS is a large, reliable company was important in our choice of vendor as well.”

Ensuring a profitable future

Hirni explains the bank's view of ROI for investments in business intelligence: “If you can avoid one big loss, you have paid for your whole risk management system. We are not expecting a big-bang impact from our new system, but we view it as insurance for the whole company. It is important for everyone from the CEO to the line managers. We know what our risk is, precisely; we have real-time information so that when we enter a deal we know what our limits are.”

In an effort to maximize its investment in SAS software, the bank has a SAS Competency Center. “It centralizes our SAS knowledge and helps us to leverage know-how for deployment platforms, creating reports and so on. The competency center makes sure that all our SAS applications are close together and that the communication lines are short and efficient in new projects. Since we have concentrated on developing a new level of internal reporting, we have implemented a change management system. When someone goes on a SAS training course, the center helps us share the new knowledge to benefit our company,” says Hirni.

The risk management solution will significantly impact ZKB's processes,” Hirni explains. “We will be able to avoid risk arbitrage, which happens when you have instruments where the risk is not measured effectively. Our new system for risk management and reporting should benefit the company on the scale of tens of millions. We will reduce the amount of equity we need to retain to balance risk, as we will have a much clearer picture of what our risk is.” The SAS Competency Center helps us to optimize our investment in SAS software. It centralizes our SAS knowledge and helps us to leverage existing skills. The competency center makes sure that all our SAS applications are close together and that the communication lines are short and efficient in new projects.”

The establishment of the SAS risk reporting application is the final step in a 2 1/2-year risk management project. “We hope that this system will give us an edge over our competition and help us meet regulatory requirements,” says Hirni. “Companies that cannot meet these requirements will be at a disadvantage and have to outsource. Risk management is nothing new, but it is still important, and we see our work in this area as giving us an advantage.”



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