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Money

Latin America

Regional banks discover smarter software

Regional banks have found that business intelligence tools give them a competitive edge

BY JANE BUSSEY

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Robert J. Mercer likes to pitch SAS software as a competitive tool for Latin American banks to ferret out credit card fraud, comply with anti-money laundering laws or spot new business opportunities.

"You don't drive by looking in the rearview mirror," said Mercer, director general for SAS Latin America, as he described how banks are fighting to stay competitive by modernizing their operating systems.

Mercer works out of the Cary, N.C. headquarters of SAS (pronounced sass), but his frequent trips to Latin America and the Caribbean take him through Miami, where the company has offices.

SAS, the world's largest privately held software company, was founded 30 years ago by Jim Goodnight, a North Carolina State University statistician and computer programmer, and is now a leading provider of what is known as "business intelligence solutions." This means software programs that sift through and analyze billions of bits of data to alert banks and companies to problems as well as expose patterns that could result in business opportunities.

SAS software or similar programs developed by competitors can detect unusual credit card activity, such as expensive clothing purchases made by a normally low-budget card user.

Other applications reveal, based on past patterns, which bank clients might be the best candidates for a loan pitch or new insurance.

One of the key selling points for business intelligence solutions is that they allow banks to pinpoint areas of interest, rather than just take a blanket approach.

Although SAS already counts most large banks, telecommunications companies, manufacturers and governments in Latin America as customers, heightened interest in complying with more stringent anti-money laundering laws and preventing credit card losses have sent regional sales soaring.

The Latin American and Caribbean region is SAS' area of fastest growth. Although the region accounted for only a small part of the company's 2005 revenue of \$1.68 billion, its sales have grown at around 40 percent year-over-year for the past three years.

SAS, which once stood for "statistical analysis software," has experienced 30 years of rising revenue, plowing 24 percent of profits back into research and development.

Latin American financial institutions, after weathering a series of devastating banking crises in the 1990s (the most recent in the Dominican Republic in 2003), view the applications as a way to build competitiveness.

To compete with bigger global banks outside, and even inside, their borders, Latin American banks now need the same time-saving software programs bigger banks use to churn through data and free up bank staff.



MERCER

TOUGH STANDARDS

Many banks are improving their oversight to meet the standards of U.S. anti-money laundering regulations and the anti-terrorism rules in the 2001 Patriot Act.

"It's almost like we've got the push from Latin America to comply with U.S. banking rules," said Mercer, who oversees a regional division that has nine offices and 200 employees.

Banco de Crédito del Perú, the country's largest bank, started using SAS anti-money laundering software in its bank agency in Miami and Panama last year, selecting the company after analyzing different software systems.

"We are at the beginning in the fine-tuning stage," said Fabiola Morales of the management information systems department at the Miami agency. "It definitely has helped us because before we didn't have a system to identify suspicious behavior."

At Banco de Crédito, clients are ranked by risk (high risk clients are those moving large sums of money or who are politically exposed), and then the software analyzes all transactions involving clients deemed to be high risk.

RED FLAGS

Account patterns are compared to various scenarios, and the SAS software automatically flags bank officers if there is some kind of distortion or unusual activity. Depositing sums over the \$10,000 limit trigger suspicious activity reports.

When an account is flagged, "we have to do some research" to see whether there really is a problem, Morales said in a telephone interview.

Mercer said that banks and other companies are discovering they can take the data a step further and use it to discern personal preferences and predict what kind of financial services a client might want.

Despite the ubiquitous presence of SAS software and its ability to delve into the daily lives of consumers, it isn't a household name.

The program can check credit card purchases against a user profile—typical spending habits and locations—and in a matter of minutes throw up a red flag so the bank can investigate further to make sure the card hasn't been stolen or cloned.

While a bank is looking into a suspicious transaction, it will generally deny use of the plastic until it is sure there is no problem. Balancing consumer satisfaction—no one wants to have their card rejected—with protecting a credit card against fraud is key to a successful business.

Mercer said the new software is more accurate in predicting fraud and helping banks provide better customer service while not annoying card users who have their transactions denied.

Credit card theft or cloning has become a major problem in the region. Cards are sometimes cloned by waiters, for example, who swipe the plastic through copying machines in their pockets. Partially to avoid these problems, some restaurants in Latin America have waiters handle the credit card transaction at the table in front of the customers with a portable machine.

At BBVA Bancomer, one of Mexico's largest banks, all credit card transactions are run through SAS anti-fraud detection software. The method has not only helped the bank reduce credit card fraud but also trimmed the number of times clients find their card use denied.

"It has been one of the pillars—along with other initiatives—that has allowed us to reduce the impact [of authorization denials] on our clients by 40 to 50 percent this year," said Gastón Huerta, director of the bank's fraud prevention department in a telephone interview from Mexico City. "We have reduced fraud [losses] by 25 percent."

"Customers are looking for outcome," said Mercer, who served in the Queen's Gurkha Engineers—part of the British army—and later worked for Dell in Europe before joining SAS as global sales development director.

Mercer said SAS business intelligence applications can identify how much cash banks need to leave in ATMs so that money is not sitting idle.

"Less cash in the cash machine—that is worth a fortune to them [banks]; they can take millions and millions out and invest it," Mercer said.

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SAS FACTS

-2005 revenue: \$1.68 billion

-Headquarters: Cary, N.C. The company has 390 offices around the world, with nine in Latin America

-Worldwide employees: 10,064 about half in the U.S. and 200 in Latin America

-Workplace honors: The firm made Fortune's list of "100 best companies to work for" this year, the ninth straight year. Other awards for outstanding workplace environment come from Mother Jones and Working Mother magazine.

-Interesting applications: SAS software supported The Miami Herald's investigation of voter fraud in Miami's 1997 mayoral elections, a series that won the paper a Pulitzer Prize.