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HBOS AUSTRALIA (BANKWEST)

Leading the way in Basel II compliance

Industry

Financial Services

Business Issue

As one of the first Australian financial institutions to commence work on Basel II, BankWest required a solid basis on which to build a new regimen of international banking rules compliance.

Solution

Following a comprehensive evaluation of market offerings, BankWest partnered with SAS Australia & New Zealand on the implementation of a SAS® Risk Management solution.

Benefits

The ability to exploit data to better understand customer behaviours; and the bank's relationship managers writing better loans with less risk to the bank and, importantly, the customer. "We saw Basel II as a catalyst to make significant changes to our risk management practice, rather than as a regulatory compliance program with capital benefits at the end," according to Ed Bradley.

A full service bank that first opened its doors for business in 1895, the Bank of Western Australia (BankWest) services approximately 660,000 customers in its home state of Western Australia. Further a field, BankWest has offices in Adelaide, Brisbane, Melbourne and Sydney, along with a highly effective third party distribution channel for the interstate market, which currently accounts for 48.8% of the bank's lending.

Acquired by the Bank of Scotland (BOS) in 1995, BankWest became a member of the HBOS group, when the Bank of Scotland merged with the UK financial institution, the Halifax Group.

An early start

In April 2001, BankWest was one of the first financial institutions in Australia to commence work on complying with the international banking rules developed by the Committee on Banking Supervision – the Basel Committee.

According to HBOS Australia (BankWest) Head of Portfolio Management and Models, Risk Management Division, Ed Bradley, while there were other vendors marketing solutions for Basel II compliance, there was a fair bit of doubt around those claims. "After we'd looked at the market and what the vendors were offering," Bradley says, "We fairly quickly formed the view that SAS was the only company with something solid to offer."

Protecting customers and the bank

For the bank's approximately 400 relationship managers, each with the

responsibility of managing up to 200 customers, one of the most significant benefits arising from the SAS solution is the ability to identify the initial signs of customer distress. Bradley explains: "We have developed a very robust set of behaviour patterns within SAS that automatically trigger an alert when something out of the norm occurs."

While BankWest relationship managers receive regular reports on their portfolio of customers, it's the immediate notification of customer activity falling outside the behaviour pattern norms that is playing a major role in protecting customers and the bank itself.



"When it comes to money, people can get in trouble quite quickly," Bradley says. "By providing relationship managers with early alerts on abnormal customer behaviour, they can more closely monitor the customer and if necessary, work with the customer to better manage their financial situation."



"It should mean fewer defaults because we can now identify earlier warning signs of distress and go out to the customer and say 'we can see things aren't tracking in the ways we'd both like them to'. We should then be able to work out a process to help the customer avoid any future problems."

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Just as with all other banks, BankWest holds customer retention high on its agenda; and the SAS-delivered ability to better understand customer account behaviour patterns is crucial in meeting this. “The information to better understand our customers has always been there,” Bradley says. “What SAS provides is the means by which we can extract and use that information.”

Managing risk

When BankWest began its Basel II journey in April 2001, it was with the aim of achieving the advanced level of sophistication in Pillar 1 – determining minimum capital requirements to meet credit, market and operational risk.

The SAS® Risk Management solution provides the bank with excellent insights into the potential risk of loans, and enables relationship managers to adopt a risk adjusted profit approach rather than profit only.

“It used to be that relationship managers were incentivised based solely on profit which did little to dissuade a manager from writing poor quality or low margin transactions. Now managers are able to conduct

risk analyses which ensures that the risk/return equation is appropriate for the customer and the bank. Managers are then incentivised against risk adjusted profit measures. The increased sophistication in measuring and monitoring risk enables us to price for risk more accurately.”

The stress test

At a higher level, SAS is providing BankWest with the ability to better plan the strategies that are used to counter many of the effects of marketplace changes. By creating a series of “what if” scenarios within SAS, the bank is able to determine the likely impact on capital and risk profiles from fluctuations in interest rates, housing prices and unemployment rates. Importantly, with the bank’s data now regarded as “clean” the results of the stress tests are recognised as being accurate indicators of the impact arising from those marketplace changes.

“In many cases it has been a wake up call for us in regard to certain products,” Bradley says. “We have seen that some simply would not have been able to withstand the pressure of certain market changes, so this has given us the ability to change those products in a way that will better weather changes.”

It is also proving to be a valuable solution in stress testing products well before they are released to the market. By applying stress testing to new products, BankWest can now determine the effectiveness of the product under different market conditions and, importantly, as it applies to certain demographics. This then ensures that once released to the market, the product can be targeted to specific groups and deliver minimal risk.

While the team at BankWest has seen how successful the SAS solution is, external sources are also providing significantly strong feedback. As a member of the HBOS group, BankWest’s Basel II efforts are being constantly observed by international members of the group, including the Bank of Scotland.

“We have had representatives come out from other members of the HBOS group and go away absolutely impressed with what we’ve managed to achieve here, Bradley says. “Most importantly though, what we have indeed achieved is merely the starting point; and the SAS solution is providing us with a firm basis to continue moving forward.”



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