

SAP Customer Success Story Banking



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Michael Rabbitt, Senior Architect for Basel II, Bank of Ireland

AT A GLANCE

Company

- Name: Bank of Ireland
- Location: Dublin, Ireland
- Industry: Banking
- Products and services: Retail, wholesale, and corporate banking
- Revenue: €146 billion
- Employees: 16,000
- Web site: www.boi.ie
- Implementation partners: SAP® Services organization and Hewlett-Packard

Challenges and Opportunities

- Change business processes throughout the organization to ensure compliance with complex Basel II capital accords
- Gain flexibility to adjust to new requirements as they evolve

Objective

Automate processes and centralize reporting data to accommodate calculations required by Basel II

SAP Solutions and Services

- SAP Bank Analyzer set of applications – including the SAP Basel II for Banking package and the SAP NetWeaver® Business Intelligence component
- SAP Consulting
- SAP Custom Development organization
- SAP Education organization
- SAP Safeguarding services
- SAP Ramp-Up program
- SAP Active Global Support organization

Implementation Highlights

- Provided first go-live for the latest release of SAP Basel II for Banking
- Supported customized development of Bank of Ireland pricing system
- Included total rollout to 11 sites and about 300 specialist users
- Enabled initial monthly calculations that were faster than expected

Why SAP

- Accomplished previous success with implementation of the mySAP™ ERP application
- Offered long-term strategic partnership between SAP and Bank of Ireland
- Provided depth of SAP experience with Basel II
- Allowed complete integration of SAP software and compliance with Basel II requirements
- Supplied prebuilt data model

Benefits

- Enabled short- and long-term compliance with Basel II requirements
- Supplied the possibility for enhanced risk management
- Provided potential for a competitive edge that affords better pricing for risk
- Centralized monthly credit data and other reporting needs
- Offered new functionality for trend analysis

Existing Environment

Multiple SAP applications

Third-Party Integration

- Database: Microsoft SQL Server
- Hardware: Hewlett-Packard Integrity
- Operating system: Microsoft Windows

BANK OF IRELAND

SAP® Bank Analyzer Supports Basel II Compliance While Enabling Improved Finance and Risk Management

Basel II, a revision of the capital adequacy framework established under the 1988 Basel Accord (Basel I), expands the guidelines that international banks must follow for managing risk and disclosing key risk calculations. Dublin-based Bank of Ireland had handled Basel I calculations manually using spreadsheets. The greater sophistication in calculations required by Basel II, however, demanded a more automated approach.

“Basel II introduced a huge degree of complexity that our existing system just could not handle,” says Bank of Ireland communications manager and senior architect Fiona Carvill. “Just understanding the new accord was an enormous challenge.” At the same time, data management within Bank of Ireland was fairly fragmented, says Michael Rabbitt, the bank’s senior architect for Basel II. “It was difficult to get information from independent islands around the bank to one spot for regulatory reporting,” he notes. After reviewing both internal and external IT options, Bank of Ireland chose the SAP® Bank Analyzer set of applications to address these issues. In doing so, it became the first bank to go live with the latest release of the SAP Basel II for Banking package.

A Long-Term Strategic Partnership

With assets of €146 billion, the bank is the leading financial institution in Ireland – which has the fastest-growing economy in Europe. Founded by royal charter in 1783, Bank of Ireland today has over 16,000 employees in eight countries. Within Ireland the company is involved in retail, wholesale, and corporate banking – as well

as corporate finance and life insurance. Global affiliates include a diversified financial services firm that handles mortgages and business and consumer banking throughout the United Kingdom as well as institutions in other countries that offer fund management and international lending.

Like many banks in Europe, Bank of Ireland faces a dynamic regulatory environment that has increased its compliance requirements significantly. The bank must address, in addition to Basel II, new requirements related to the Sarbanes-Oxley Act, the financial regulatory compliance statement, new international accounting standards, and revisions in domestic consumer rules. Increasingly, this regulatory environment had created tension between the bank's business and compliance needs.

A positive effect of Basel II, however, is the opportunity it gives banks to reduce their capital requirements through sophisticated measures of credit risk based on internal credit rating models. To take advantage of this approach, Bank of Ireland required IT support that could handle the more complex calculations. Finding that it would have been quite onerous to enhance the existing system, Bank of Ireland explored options with several external software providers. The bank reviewed – in addition to software from SAP – products available from Hyperion Solutions Corporation and SAS Institute Inc.

“We chose the SAP software in part because of the company's strategic partnership with the banking industry,” says Rabbitt. In addition, Bank of Ireland had just finished a successful implementation of the mySAP™ ERP application – which had helped the bank streamline core business processes in finance, payroll, human resources, and procurement. “We felt SAP would make a strong long-term strategic partner,” Rabbitt adds. Of additional importance were the seamless integration of SAP software with the bank's existing systems, the complete compliance of SAP Bank Analyzer with Basel II requirements, and the application's prebuilt data model.

Early Selection of Software Key to Project Success

The go-live, which was the first ever to include the latest release of SAP Basel II for Banking, took place in August of 2006. The full implementation plan involved 11 sites and 200 to 300 users.

Part of the project's success, according to Carvill, was selecting software early in the move to Basel II. To understand what Basel II meant at both the IT and business levels, the bank sought early counsel from a small team of internal experts – as well as from

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Bank of Ireland*

outside sources such as the Irish Banking Federation, the nation's leading industry trade group. Over the course of a two-year pre-installation process, the bank worked through its key business issues and translated those needs into IT requirements.

SAP Consulting was also involved early in the project. “SAP Consulting led the implementation,” says Carvill. “They brought a lot of breadth to the program in terms of their technical expertise, their knowledge of Basel II requirements, and their understanding of our data needs.”

Of particular help was the use of the SAP Solution Manager tool – a centralized tool set that facilitates technical support for distributed systems. SAP Solution Manager provides functionality that covers all key aspects of solution deployment, operation, and continuous improvement. “This helped us establish a good audit trail for key documents and decisions,” Carvill says.

SAP Safeguarding services, delivered by the SAP Active Global Support organization, were heavily involved in performance testing and helped to fine-tune production and hardware related to the new system. This support option focusing on technical risk management safeguarded the implementation and operation of SAP Bank Analyzer. The SAP Ramp-Up program provided further assistance and was especially helpful as the bank addressed unexpected implementation issues. Hewlett-Packard served as an additional implementation partner, managing the system's infrastructure. This partnership has helped ensure that the speed at which SAP Bank Analyzer runs has exceeded expectations.

Customized Risk Pricing for Loans

With help from the SAP Custom Development organization, part of the SAP Services organization, Bank of Ireland created a proprietary application for risk-related pricing of loans. The bank had determined that the stand-alone software it had been running on individual desktops could not handle the volume of data and integrity required by the new Basel II calculations. Nor could it handle the customer identification required under Basel II. "We realized early on," Rabbitt says, "how crucial these areas were and replatformed the existing application onto the server running SAP software."

The new, fully centralized Bank of Ireland pricing system (BIPS) provides greater data integrity, as there is no major shifting of data from one point to another. Enhanced templates make the software compliant with Basel II. "SAP Custom Development provided us with a range of experts that were readily available when we ran into tricky design issues," notes Rabbitt. "This helped us overcome any challenges quickly and gave us a very successful program that supports a highly complex set of requirements."

With BIPS, Bank of Ireland can integrate sophisticated risk assumptions into the pricing of loans and generate customer ratings of creditworthiness. The tool, which was developed in Java on the SAP NetWeaver® platform, is fully Basel II compliant and integrates seamlessly with SAP Bank Analyzer to identify overall

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risk for the company. The centralized solution provides real-time access to the most up-to-date risk assessments. By replacing local desktop client software with standard browser access, it has helped reduce administrative times and costs.

Bank of Ireland installed a third-party tool for data loading from paricon as part of the SAP Bank Analyzer implementation. The paricon STS (Standard Transformation System) software can accept data from a variety of sources for use by SAP Bank Analyzer and is particularly useful for processing high volumes of data efficiently.

Key Support for Massive Business Restructuring

The new system provides critical support for the large-scale business restructuring that Basel II requires. "The bank's larger business program will change a variety of processes, practices, and behaviors, with the goal of enhancing risk management and freeing up capital," says Carvill. "Basel II affects everything from our credit approval processes to loan decision making, pricing, approval, and management."

From the start of the project, Bank of Ireland has engaged both internal and external change-management experts to help with related business and technical issues. This part of the program will continue for some time, Carvill notes. Of additional help has been the SAP Education organization. SAP Education is providing specialized training, including customized classes and materials delivered on-site, in the use of the SAP NetWeaver Business Intelligence component. Bank of Ireland will use internal resources for training in the new processes and procedures for Basel II.

Additional Benefits Expected

Besides helping Bank of Ireland meet ongoing changes in Basel II and optimize its credit requirements, the new system is expected to provide several key business benefits. These include the following:

- Greater sophistication over time in risk management expertise
- Increased advantage over competitors through use of the new BIPS tool for loan pricing when calculating loan margins and risks
- A centralized resource for monthly (versus quarterly) credit data reports and other reporting needs
- New capabilities for trend analysis

Ongoing Support

Implementation of the new system has proceeded on time and within budget. Following completion of the licensing agreement in November of 2004, scenario testing began in November 2005. Testing of the SAP software occurred between February and April of 2006. The system went live in August of 2006 and has exceeded expectations. Initial monthly calculations were completed in four and a half hours, versus the six hours Bank of Ireland had anticipated.

SAP continued to provide, and even exceed, additional deliverables. These included updated versions of SAP Bank Analyzer that will comply with the new Capital Requirements Directive, which was released in June of 2006. In addition to supporting the 33 different reports required to meet the regulation, Bank of Ireland can deliver more than 180 management reports and 60 different views for reporting on the finance and credit side – using data that is stored in a central database. “It’s comforting to know that SAP has a large team of people who are continuously analyzing the new Basel II requirements and preparing new software to conform with the latest developments,” says Rabbitt.