



**ABSA**

## INTEGRATING FINANCE AND RISK WITH THE SAP® BASEL II APPLICATION

### QUICK FACTS

“Although other solutions were available for Basel II, none had the breadth of vision shown by the SAP application”

**Johan Woest**, Strategic Program Manager  
Absa Bank Limited

#### Company

- Name: Absa Bank Limited
- Location: Johannesburg, South Africa
- Industry: Banking
- Products and services: Personal, commercial, and corporate banking
- Revenue: €42 billion
- Employees: 33,000
- Web site: [www.absa.co.za](http://www.absa.co.za)
- Implementation partners: SAP® Consulting, SAP Active Global Support organization, Accenture, IBM

#### Challenges and Opportunities

Optimize use of data, while meeting Basel II Capital Accord (Basel II) guidelines, to gain a competitive advantage

#### Objectives

- Streamline compliance processes and systems
- Reduce capital allocations
- Match pricing decisions to customer risk profiles
- Gain a better internal understanding of risk exposures

#### SAP Solutions and Services

- SAP Basel II application, a part of the SAP Bank Analyzer set of applications
- SAP Consulting services
- SAP MaxAttention™ support option

#### Implementation Highlights

- Project completed on time and within budget
- Solution implemented across multiple business units within the bank
- Resources from a number of implementation partners used to help ensure strength in all areas of the project

#### Why SAP

- Absa's recent upgrade to the SAP ERP application and its strategic partnership with SAP
- SAP's experience with Basel II and banking industry
- Ease of integrating SAP and non-SAP applications
- The SAP Basel II application's ability to serve as a framework for analytical banking rather than a mere tactical application for Basel II or International Accounting Standards compliance

#### Benefits

- Support for current and future compliance with Basel II guidelines
- Improved ability to match pricing with customer risk profile
- Access to centralized monthly credit data and other reporting needs
- Better management reporting, resulting in more-effective decision making

#### Existing Environment

- SAP ERP
- Non-SAP pricing and scoring applications
- Legacy Basel I solution

#### Third-Party Integration

- Database: Oracle 9i
- Hardware: IBM System p
- Operating system: IBM AIX 5L



The Basel II Capital Accord (Basel II) was created to promote greater consistency in the way banks and banking regulators approach risk management and capital allocation. While the accord will foster a more uniform banking environment, adhering to the new structures will be somewhat onerous. Financial institutions will be required – among other things – to show all calculations and assumptions used to determine credit risk. Many banks are taking a tactical approach, deploying point solutions at minimal cost. Others, including Absa Bank Limited, a leading South African financial institution and member of the Barclays Group, are taking a strategic approach. Not content with simply conforming to regulatory guidelines, Absa decided to leverage its Basel II-oriented processes and systems to gain a new understanding of its credit risk exposures, using this intelligence to make operational or strategic moves aimed at gaining a competitive advantage. The key: breaking risk exposures down to a granular level, integrating credit risk data from all corners of the enterprise, and then adjusting prices or allocating capital reserves more adroitly.

Absa's commitment to leveraging credit risk data began several years ago – at a time when it was not clear what shape Basel II would ultimately take. “We began the journey toward compliance by recognizing the need for a comprehensive finance and risk database,” says Johan Woest, Absa's strategic program manager. “This database was well aligned to provide support for Basel II requirements, even though the accord was still evolving.”

### Putting the Team Together

After deciding to implement a solution to meet its Basel II needs while turning credit risk assessment into a strategic advantage, Absa turned to SAP. A long-time customer, Absa had worked with SAP to upgrade a number of its ERP applications. However, Absa felt that most credit risk management applications were in their infancy. “The accord itself was in the early stages of development when we commenced our project,” says Woest. Knowing that the decision to purchase prerelease software requires a leap of faith, Absa decided to rely on trustworthy partners.

As Woest puts it, “We knew that what we were buying was a vision, one still requiring major developments, so we chose to work with industry heavyweights like SAP, Accenture, and IBM.” SAP supplied technical skills and understanding of Basel II; Accenture led the initiative, with implementation services and an understanding of financial services processes; and IBM supplied hardware, software, services, and integration skills.

### Building a New Data Hub

While Absa leaned heavily on the talents of this triumvirate, its first task was done in-house: developing an architecture to extract data from the transactional silo systems throughout the company and then aggregate the information in a database to serve as raw material for sophisticated analytics. To this end, the bank created a central hub – complete with a self-built layer for extraction, transformation, and loading (known as an ETL layer) – while also setting parameters for a uniform data model and agreed-upon semantics. With the help of SAP® Consulting and the other partners, Absa created a common financial and risk language that could be spoken and understood by the firm's diverse business units. The work of codifying and clarifying formerly ambiguous terms will pay substantial dividends. “Data that was previously sufficient had to be enhanced to a new level to ensure it could be used in the analytics process,” says Woest. “This resulted in changes from the point of client interaction all the way up to the analyzer systems. But the work accomplished during this project



“We knew that what we were buying was a vision, one still requiring major developments, so we chose to work with industry heavyweights like SAP, Accenture, and IBM.”

Johan Woest, Strategic Program Manager, Absa Bank Limited

vastly improved our own understanding of Absa’s data and will position us well for future requirements.”

Absa also took advantage of the SAP MaxAttention™ support option. Available through the SAP Active Global Support organization, it helps safeguard core business solutions and reduce IT risk and total cost of ownership. This is done via a comprehensive set of services that increase the performance and availability of SAP Basel II while helping to ensure the highest level of data consistency and optimum maintainability and integration.

### Putting SAP Basel II to Work

At the same time that it was building a framework for cleansing and standardizing data, Absa put SAP Basel II to work. The application is a credit risk engine that is part of the SAP Bank Analyzer set of applications (part of the SAP for Banking portfolio of solutions). SAP Bank Analyzer provides a consistent view of a bank’s operational data; the set of applications is used to calculate, evaluate, and analyze financial products. The decision to deploy SAP Basel II was influenced by the fact that it met (or was flexible enough to adjust to) the requirements of varied regulatory bodies, including Basel II, International Accounting Standards, International Financial Reporting Standards, and the Sarbanes-Oxley Act. Another key determinant: the software’s ability to work with third-party tools. Absa uses a number of different analyzers and risk management applications. The ability to assimilate these resources is a key driver for its IT and business leaders

alike. Powered by the SAP NetWeaver® Business Warehouse component, SAP Bank Analyzer connects with non-SAP applications. And the marriage that Absa views as most expedient is that between risk and finance – two areas that, despite being heavily dependent on each other, have had communications difficulties in the past. Now, thanks to far-reaching yet precise data on risk exposures, finance-oriented processes can be streamlined and enhanced.

### Anticipated Benefits

Absa’s SAP Basel II software is up and running, but bank officials are waiting until local regulators officially bless the accord before using the application to make tactical or strategic business decisions. This is giving Absa an opportunity to evaluate the software and see how it will support new efficiencies and improve profitability. However, since

ing its customers to gain compliance,” says Leon Du Rand, group executive for Absa’s business and technology services. “SAP is big on business processes and, due to the integrated nature of the technologies, ensures its software reduces complexity and provides optimum workflows.”

Absa also anticipates a big leap forward in terms of flexible pricing. With precise data about the credit quality of each individual borrower or customer, the bank should be able to match interest rates or other terms and conditions to meet specific needs and capabilities. This is likely to result in more loyal customers and better profit margins. Equally important is the ability to improve internal reporting. Another anticipated benefit: a sharper perspective on collateral management. As product silos come down, Absa believes it will gain better information about its customers, especially those who have multiple relation-

“The work accomplished during this project vastly improved our own understanding of Absa’s data and will position us well for future requirements.”

Johan Woest, Strategic Program Manager, Absa Bank Limited

SAP Basel II helps the bank understand what risks it is taking with each individual loan or asset type and since it gives an integrated view of aggregate risk from varying market segments, bank executives can be confident about meeting capital requirements precisely. Absa also anticipates that using software will generate significant process improvement and streamline compliance activities. “SAP plays a major role in assist-

ships with the bank. In the case of a consumer who has both a credit card and a home mortgage, for example, the current value of these accounts and of their linked collateral can be calculated and acted upon far more quickly than before; as a credit card balance is paid down or a home rises in value, SAP Basel II will help indicate how much capital can be put to use generating profits elsewhere. Finally, while Absa

will use the software to meet disclosure guidelines and enhance external reporting, the bank anticipates that the highly precise and accurate reports produced will also be highly beneficial. Accurate and up-to-date credit risk data, presented and analyzed concisely, should help business leaders measure the efficiency and profitability of their business units, showing which products and services are succeeding and where efforts must be made to shore up weaknesses.

### Present at the Creation

Absa is not just a consumer of SAP solutions, but a contributor to their scope and focus. Since SAP Basel II was in its infancy when Absa committed to it, SAP has relied heavily on the bank in determining what tools are needed. As it does with many key industry customers, SAP has used feedback and insight from Absa to make a number of development decisions, adding features and functions to the software. Even now, the SAP Basel II implementation is being adjusted to hit a constantly moving target: the South African regulator's implementation. Therefore, Absa will participate in a yearlong parallel run with local regulators – the equivalent of a live test.

### Looking Ahead

Despite the obstacles in meeting a new regulatory initiative, Absa has kept a clear focus on the benefits of moving beyond mere compliance. Woest says that both IT and business leaders are excited about building an analytical engine that will serve as a platform for integrating finance and risk. "There is now an architecture that will provide a single, consistent, and auditable source for finance and risk data," he says. "We are creating a solid foundation for future demands and improved reporting in the analytical space."

  
High performance. Delivered.



50 083 523 (09/10)

©2009 by SAP AG.

All rights reserved. SAP, R/3, SAP NetWeaver, Duet, PartnerEdge, ByDesign, SAP Business ByDesign, and other SAP products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of SAP AG in Germany and in other countries.

Business Objects and the Business Objects logo, BusinessObjects, Crystal Reports, Crystal Decisions, Web Intelligence, Xcelsius, and other Business Objects products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of Business Objects S.A. in the United States and in other countries. Business Objects is an SAP company.

All other product and service names mentioned are the trademarks of their respective companies. Data contained in this document serves informational purposes only. National product specifications may vary.

These materials are subject to change without notice. These materials are provided by SAP AG and its affiliated companies ("SAP Group") for informational purposes only, without representation or warranty of any kind, and SAP Group shall not be liable for errors or omissions with respect to the materials. The only warranties for SAP Group products and services are those that are set forth in the express warranty statements accompanying such products and services, if any. Nothing herein should be construed as constituting an additional warranty.