



CECA

Case Study

Credit Risk Processes Reengineering. BIS II-Compliance

CECA (Spanish Confederation of Savings Banks) is an institution that brings together all the savings banks in Spain. Its mission is to support both technological and Business to the Saving Banks in different subjects as training, sectoral projects, Operational Service Credit Card Services Overseas Operations, Treasury Operations, Placement Funds.

The 47 entities that make up this institution handle approximately 50% of the loans in the financial sector Spanish.

Challenge

The main objective was to design new Credit Risk Processes aligned with BIS II requirements and Best Practices and to prove that the implementation of these processes will permit to obtain economic benefits. Therefore the project was pursuing the following objectives:

- Optimizing Credit Risk Processes (admission, monitoring and recovery)
- Integrating quantitative tools (scoring/rating) in the new Processes
- Identifying compliance issues with respect to BIS II requirements
- Alignment with Best Practices in the Financial Industry

Solution

The project has been developed in two phases:

During a first phase with global or sectorial scope, TecnoCom has developed a "Reference Model for Credit Risk Processes". It has been materialized in an "Operative Model" detailing the activities of the processes forming the basis to elaborate a "Model for Value Maximisation".

During a second phase, process and gap analysis have been performed in seven Savings Banks, resulting in proposals for improvement. Based on our recommendations, the processes have been redesigned resulting in customized operative models for each of the institutions. The comparison of the before-and-after image of the processes and decision policies has supplied the customers with quantified information about the benefits of the new processes model. It could be shown that Credit Risk processes can be designed to be compliant with BIS II and, at the same time, provide improvements related to customer service, operative efficiency and quality of credit portfolio.

To obtain quantitative results it was necessary to have data about risk, cost information and efficiency information.

- About operations:
 - Probability of Default (PD)
 - Loss Given Default (LGD)
 - Exposure at Default (EAD)

Sector
Banking

Solution

- Reference Model for Credit Risk Processes adapted to BIS II requirements and Best Practices
- Gap analysis of current process in front of Reference Model
- Workflow customized of Risk Credit Processes
- Quantification of added value for each of the redesigned processes in each of the financial entities

Benefits

- Optimization of the operative cost in Credit Risk Management
- Reduction of Defaults in the Credit Portfolio
- Reduction of Expected Loss in the Credit Portfolio
- Identification of potential customers for cross-selling or up-selling



- About decision levels:
 - Refusal rate
 - Improvement rate
- About decision flows:
 - Operative Cost
 - Execution Time

Limited availability (in some cases) of this information did not hinder the analysis and to obtain a realistic result of the potential savings, given that estimation criteria were used, which allowed for consistency in the analysis.

On the other hand, the analysis was based on a sample taken from the portfolio and later extrapolating the results to the global portfolio of each entity.

Benefits

The main benefits have been obtained in the following fields:

- Optimization of the operative cost in Credit Risk Management
- Reduction of Defaults in the Credit Portfolio
- Reduction of Expected Loss in the Credit Portfolio
- Identification of potential customers for cross-selling or up-selling
- Quantification of added value for each of the redesigned processes in each of the financial entities

At the end it can be concluded that BIS-II does not just mean complying with regulations, but that it can drive an entity to the development of better ways of risk management, thus allowing improving their profit as well as their customer service.

Partners

Oliver & Wyman Co.

Client testimonial

"This Project will give the Savings Banks a competitive advantage with respect to other Credit Institutions"

Javier de La Cruz.
Project
Manager in CECA