

**SAP Customer Success Story**  
**Banking – Personal, Commercial, and Corporate**  
**Banking Products and Services**



**“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

**AT A GLANCE**

**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
- Implementation partners: SAP® Consulting; SAP Active Global Support; Accenture; IBM

**Challenge and Opportunity**

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 Solution 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 ensure strength in all areas of the project

**Why SAP**

- Absa’s recent upgrade to the mySAP™ 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
- Support for a wide range of strategic objectives

**Existing Environment**

- mySAP 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

**ABSA**

**Integrating Finance and Risk with the SAP® Basel II Application**

The new Basel II Capital Accord (known as 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 assuredly foster a more uniform banking environment, adhering to the new structures will be a somewhat onerous task for the 5,000 banks in 100 countries that are likely to be affected by the initiative. By 2008, when the accord goes into effect in most areas, 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 to Basel II, deploying point solutions to assure compliance 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, the Johannesburg, South Africa–based Absa has decided to leverage its Basel II–oriented processes and systems to gain a new understanding of its credit risk exposures, using this improved 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, then adjusting prices or allocating capital reserves more adroitly.



With more than 33,000 employees, assets of €42 billion, and a vision of becoming the preeminent African bank, Absa's commitment to leveraging credit risk data began several years ago – at a time when it was by no means clear what shape the Basel II framework 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**

Shortly after making the decision to implement a long-term solution that would meet its Basel II needs while turning credit risk assessment into a strategic advantage, Absa turned to SAP for help in designing and deploying a software solution. As a long-time SAP customer, Absa had been working with SAP to upgrade a number of its enterprise resource planning applications, including software to help manage financials, procurement, and real estate. However, at the time the bank's Basel II project was launched, 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,” comments Woest.

Knowing that the decision to purchase prerelease software would require 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.” This tripartite team worked closely with Absa over the ensuing months. SAP supplied technical skills and broad understanding of the Basel II framework; Accenture led the initiative, furnishing implementation services and an understanding of financial services processes; IBM supplied a mix of hardware, software, services, and integration skills.

### **Building a New Data Hub**

While Absa leaned heavily on the talents of this experienced triumvirate, the bank's first task was handled in-house: the development of an architecture that would extract data from the transactional silo systems throughout the company and then aggregate the information in a database where it could 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, not surprisingly, as an ETL layer) – while also setting parameters for a uniform data model and agreed-upon semantics.

Coming to grips with semantics and business objects was no simple matter. With the help of SAP® Consulting and the other partners, Absa labored diligently to create a common financial and risk language that could be spoken and understood by the firm's diverse business units. One example: the term “outstanding value,” which has a different meaning for a home mortgage than it does for a credit card. The work of codifying and clarifying formerly ambiguous terms – made all the harder by the constantly

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evolving Basel II guidelines – will ultimately 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 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 SAP Active Global Support, SAP MaxAttention helps companies like Absa safeguard core business solutions and permanently reduce IT risk and total cost of ownership. This is achieved via a comprehensive set of services designed to increase the performance and availability of the Basel II solution, while ensuring 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 via the ETL layer, Absa put the newly enhanced SAP Basel II application to work. The application is a credit risk engine that is part of the SAP Bank Analyzer set of applications (in turn, a part of the SAP for Banking portfolio of solutions). SAP Bank Analyzer is designed to provide a consistent view of a bank's operational data; the set of applications can be used to calculate, evaluate, and analyze various financial products.

Absa's decision to deploy the SAP Basel II application was influenced by the fact that it met (or was flexible enough to adjust to) the requirements of varied regulatory bodies, including not just Basel II but also 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 currently uses a number of disparate but best-of-breed analyzers and risk management applications, and the ability to assimilate these resources is a key driver for the bank's IT and business leaders alike. Powered by the SAP NetWeaver® Business Intelligence component, SAP Bank Analyzer is designed to connect seamlessly with non-SAP applications.

While any cross-enterprise integration can be valuable, 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 such as financial accounting and financial reporting can be streamlined and enhanced.

### **Anticipated Benefits**

Absa's SAP Basel II software is currently 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 “dry run,” as it were, is giving Absa an opportunity to evaluate the merits of the software and to see how it will support new efficiencies and improve the bank's

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profitability. However, since the SAP Basel II application helps the bank understand exactly what risks it is taking with each individual loan or asset type, and since the software gives an integrated view of aggregate risk from varying market segments (consumer, commercial, and corporate, for example), bank executives can be confident about meeting capital requirements precisely.

Absa also anticipates that the use of the SAP software will generate significant process improvement while streamlining compliance activities. “SAP plays a major role in assisting 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 taking a big leap forward in terms of flexible pricing. With highly 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, from Absa's point of view, 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 much better information about its customers, especially those who have multiple relationships 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, the SAP Basel II application will help indicate how much capital can be liberated from reserves and put to use generating profits elsewhere.

Finally, while Absa will use its SAP software to meet disclosure guidelines and enhance external reporting, the bank anticipates that the highly precise and accurate reports produced by the system will also be highly beneficial within the enterprise. 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 in the market 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 the SAP Basel II application was in its infancy when Absa committed to it, SAP has relied heavily on the bank in determining what tools are needed and how to match solution functionalities with market needs. 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 to meet Absa's specifications.

Even now, the SAP Basel II implementation is being adjusted to hit a constantly moving target: the South African regulator's implementation. Therefore, commencing in early 2007, Absa will participate in a yearlong parallel run with local regulators – the equivalent of a live test. During this time, the SAP Basel II system will run simultaneously with Absa's current Basel solutions, and the South African banking community will use insights gained from this tandem operation to ensure a successful implementation of the Basel II Accord in 2008.

### **Looking Ahead**

Despite the obstacles (and occasional headaches) associated with meeting a new regulatory initiative, Absa has kept a clear focus on the benefits of moving beyond mere compliance. Program manager Woest says that both IT and business leaders are excited about the building of an analytical banking 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," says Woest. "We are creating a solid foundation for future demands and improved reporting in the analytical space."