

## SAP Customer Success Story Financial Services – Banking



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Jörg Beulich, Assistant IT Director, Hypo Real Estate Bank International

### AT A GLANCE

#### Summary

Hypo Real Estate Bank International chose the SAP® Collateral Management application to ensure compliance with the Basel II framework of international banking standards. The solution enables the company to enforce consistent risk management processes across its global operations without increasing overhead.

#### Web Site

[www.hypointernational.com](http://www.hypointernational.com)

#### Key Challenges

- Put in place collateral management and reporting structures to facilitate compliance with Basel II framework
- Standardize risk-compliance processes in nine locations worldwide
- Generate longer-term efficiency improvements through the automation and streamlining of collateral management

#### Project Objectives

- Replace paper-based collateral data with electronic records
- Make real-time risk management data available to branches and head office
- Cut cost of compliance while growing international real estate business

#### Solutions and Services

SAP Collateral Management

#### Why SAP Solution

- SAP Collateral Management offered most comprehensive functionality and met needs best
- SAP Collateral Management interfaced with existing SAP solutions already used by the bank

#### Implementation Highlights

- SAP Consulting analyzed requirements of all locations to develop a collateral management solution that meets all needs with minimal customization
- SAP Consulting implemented and rolled out SAP Collateral Management in seven months
- SAP Collateral Management went live in nine countries simultaneously

#### Key Benefits

- Bank's collateral management policies will enable full compliance with the Basel II framework
- Seamless integration with existing SAP solutions
- Basis for consistent processes to identify, assess, monitor, and mitigate operational risks
- Automation and availability of real-time collateral management data will lower administration costs
- SAP Collateral Management underpins bank's strategy to improve profitability through further international expansion

#### Implementation Partner

SAP Consulting

#### Existing Environment

- SAP R/3® software, functionality now available in the mySAP™ ERP solution
- SAP Loans Management application
- SAP software for corporate finance management

## HYPO REAL ESTATE BANK INTERNATIONAL

### SAP® Collateral Management Helps Bank Streamline Compliance with Basel II Standards and Cut Costs

Leading global real estate financing company Hypo Real Estate Bank International (Hypo International) has adopted the risk-sensitive minimum capital requirements for banks, as required by the Basel II framework – a broad set of supervisory standards, guidelines, and best practice recommendations for the international banking community. Headquartered in Dublin, Ireland, the bank chose the SAP® Collateral Management application to support this effort. Implemented across nine locations worldwide in just seven months by SAP Consulting, SAP Collateral Management automates management of the processes that control collateral data–related processes in the bank.

Part of the SAP for Banking solution portfolio, SAP Collateral Management helps the bank meet the Basel II requirements for calculating risk exposure and implementing new supervisory review and disclosure processes. By providing a solid basis for managing all areas of credit risk, SAP Collateral Management allows Hypo International to synchronize compliance with regulatory requirements. It also helps risk managers comply with the bank's own risk management strategies. Hypo International uses the SAP Collateral Management analytical capabilities to help the company remain lean, efficient, and transparent as it expands its international real estate portfolio.

### **Consolidating Collateral Management**

Hypo International specializes in high-volume transactions, and, since its inception in 2003, the bank has built up a strong presence in the world's key real estate finance markets.

In order to enforce the reporting transparency required by the Basel II framework for internationally active banks, Hypo International needed to create a single, centralized repository of collateral data. "The bank started with paper-based collateral management, which meant a lot of reconciliation work and the danger of data inconsistency," says Jörg Beulich, assistant IT director at Hypo Real Estate Bank International. "Reports on collateral were submitted to our Dublin head office on Microsoft Excel spreadsheets. A corporate risk management report was then compiled and made available to the management. Consolidating the data was a costly, labor-intensive process."

### **Faster, Easier Compliance**

Having a single database of collateral information and a standardized set of rules governing collateral management would instill consistent data management processes across the bank. This would enable credit supervisors in all countries to assess the adequacy of their capital before committing to a new loan. It would also help ensure that their risk ratio and disclosure standards were in compliance with the rules laid down by the Basel II framework.

### **Improved Efficiency and Resilience**

As well as improving compliance, Hypo International wanted to build on the opportunity presented by the new Basel II conventions to improve its internal risk measurement and management systems. The bank was already operating at very high standards of risk management and its state-of-the-art structuring and risk-transformation skills meant it had suffered no meaningful credit losses. The requirements imposed by the Basel II framework would ensure that comprehensive internal auditing took place and would further improve monitoring and risk reporting.

### **High Profitability with Low Risk**

"Hypo International's success and reputation is a result of our close attention to capital ratios and our commitment to continuously upgrading risk-mitigation processes," says Beulich. "We saw Basel II as an opportunity to improve overall efficiency and business continuity planning. The enhanced business intelligence Basel II required of us would allow us to strengthen our market position and improve our resilience to change."

Having enterprise-wide risk management data available in real time would also make it easier for credit rating agencies to assess Hypo International's performance when making recommendations to potential investors and borrowers.

### **Synchronizing Risk and Portfolio Management**

Hypo International had implemented SAP software as its standard solutions for financial and cost accounting since the bank was formed. In fact, the bank was already using other applications from the SAP for Banking solution portfolio. For example, the bank uses the SAP Loans Management application to map the entire life cycle of each loan, from contract signing and repayment through to inventory and disbursement management. In addition, synchronized balance sheet and profit and loss accounting for each real estate investment are available to portfolio managers.

"SAP Loans Management harmonizes all the processes involved in our core banking mortgage loans," says Beulich. "It supplies the information that connects loans to collateral, which is the foundation for compliance with Basel II. We wanted our collateral management solution to integrate smoothly with SAP Loans Management and our existing SAP financial management processes – with workflow-routed processes to automate compliance but without the cost and expense of building interfaces."

### **End-to-End Collateral Management**

Hypo International evaluated solutions from several leading collateral management software vendors to ensure that the company would be able to comply with the Basel II framework. SAP Collateral Management met the bank's needs for a comprehensive, end-to-end collateral management solution and could accommodate its complex, multinational requirements. "SAP Collateral Management had the functionality to match the real-life requirements of a bank like ours – with a strong geographic diversification and a client base composed mainly of international investors," says Beulich. "It also contained a built-in interface to SAP Loans Management."

### **Rapid Implementation**

SAP Consulting met with credit risk managers from each of Hypo International's locations and conducted a detailed analysis of the bank's loan processes. According to Beulich, SAP Consulting brought to the project a deep understanding of the international banking sector and its compliance requirements. This

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enabled SAP Consulting to map the standard functionality of SAP Collateral Management to the needs of each of the bank's branches. Customization made to the standard software – to accommodate country-specific, loan-to-value ratio management – was kept to a minimum. Implementation began in May 2004, and SAP Collateral Management went live in the bank's locations seven months later.

### **One-Stop Solution from SAP Consulting**

"We presented SAP Consulting with a detailed list of our requirements, and they developed and implemented the entire collateral management solution with only minimal input from us," says Beulich. "SAP Consulting understood our needs, met them, and delivered on time and on budget. No changes were made to the source code, which will allow us to implement upgraded versions of SAP Collateral Management quickly and inexpensively, as they become available."

### **Basel II Compliance Without Additional Overhead**

SAP Collateral Management is one of the basic pillars that enable Hypo International to comply with the additional risk mitigation, portfolio management, and reporting requirements of the Basel II framework when it becomes effective in 2006. The seamless flow of data between SAP Loans Management and SAP Collateral Management will allow the bank to achieve compliance without adding more interfaces.

### **Making Faster, Accurate Investment Decisions**

Having faster access to information and better-structured collateral data from a single source improves the efficiency of risk assessment and portfolio managers and enables them to make faster, more accurate investment decisions.

"We anticipate that SAP Collateral Management will allow us to make substantial savings in time and effort in the longer term by freeing up more staff time for strategic rather than administrative activities," says Beulich.

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