

Case study: permanent tsb

Achieving customer management
and Basel II compliance



permanent tsb

permanent tsb (www.permanenttsb.ie) is the retail banking division of Irish Life & Permanent plc. The strategic focus of the group is the personal financial services market in Ireland. The principal products of the group are life and pensions, savings, investments, residential mortgages and auto finance.



Dave Curtis, Basel II Programme Manager at permanent tsb commented, "Probe SM for Retail Banking is now embedded within our operational infrastructure. The investment in our Basel II programme has significantly enhanced our credit risk capabilities. This, coupled with the low risk nature of our portfolios (retail focus) should result in a reduction in the bank's regulatory capital requirement following IRB accreditation."

"In addition, as we identified before we started this project, we have been able to rationalise the customer definition by bringing together all products into one system for the first time. permanent tsb are now leveraging many benefits from the single customer view and this solution will play a crucial part in helping to define and implement the bank's strategic direction for many years to come."

Challenge

permanent tsb, like many similar organisations, realised that Basel II would provide substantial benefits for its operation. With the emphasis on 'risk related' regulatory capital requirements, permanent tsb, with a relatively low risk customer profile, could potentially achieve significant capital reduction by adopting the IRB approach. The bank also realised that they could also enhance the risk and credit management infrastructure and so improve the overall operation and achieve compliance at the same time.

The bank issued a tender for the provision of a solution that could help it implement a targeted approach to achieve compliance with the New Capital Accord (Basel II). It needed to include both Retail IRB and Foundation IRB for its Bank, Sovereign and Corporate exposures.

With a short time frame to implement the solution, there were a number of business and IT challenges to address, including achieving compliance with 'use test'

requirements, creating a suitable infrastructure and developing a data process which efficiently collected, stored and used the data for compliance.

Decision Analytics answer

permanent tsb selected Decision Analytics for Basel II from Experian, which is integrated into the customer management system, Probe SM for Retail Banking. This decision followed an evaluation and was based on a range of criteria, including the proposition, delivery and experience offered by Experian.

Experian delivered capability to the bank far beyond Basel II compliance, but was cost effective compared to other vendor offerings. By adopting the Experian system, permanent tsb knew that they could achieve compliance and also implement a best practice customer level behavioural scoring system that could be used to drive customer focused strategies throughout their retail business.

Benefits

- **Prepare fully for compliance** with Basel II accord and achieve IRB accreditation
- **Reduce regulatory capital** requirements with accurate risk measurement
- **Enable better portfolio management** with consistent and systematic capital requirements
- **Enable strategic control of customer behaviour** and management strategies
- **Increase revenue and reduce costs and losses** with a single customer view for consistent and effective control.

Probe SM for Retail Banking uses the latest generation of decision rules engine to deliver strategies to manage all aspects of the customer relationship. In addition to its customer management capabilities it incorporates standard processes designed to manage all Basel II quantitative and use test requirements:

- Implementation of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) models
- Calculation of risk weighted assets, expected loss (EL) and associated risk adjusted performance metrics
- Implementation of Use Test requirements by deploying the PD, LGD and EAD at the account, customer, segment or portfolio level for use in decision making on customers
- Effective data storage and reporting capabilities

Basel II rating models are applied to each account and used to compute PD, EAD & LGD parameters. These PD, EAD and LGD parameters are then used to calculate appropriate risk weights. To fully support compliance, the simulation capabilities of the decisioning technology are used to perform stress testing and provide a complete audit trail of operational changes.

The integrated business reporting capability includes the Basel II reporting module, which has been designed to deliver portfolio level risk weighted assets reports, risk input (PD, LGD, EAD) trend analyses, pool migration and stability analyses, stress testing capability and full rating system monitoring, including misalignment analyses and population stability reporting.

permanent tsb are able to provide full reporting on the key Basel II metrics including PD, LGD, EAD, risk weighted assets and Regulatory Capital requirements.

In addition to providing compliance for Basel II, the bank is able to use the system to deliver customer focused strategies across its enterprise. On a monthly basis it processes 4 million records including current accounts, loan accounts, savings accounts and customer records, which are aggregated to provide a customer level view.

This is used to develop customer-level strategies including Pay / No pay decisions, automatic account review and limit management, collections management and streamlined origination decisions for existing customers. This has contributed to the consistency and effectiveness of the customer management strategies and enhanced the already high standard of customer service.