Raiffeisen Bank International case study

Working in partnership to achieve Basel II compliance and enhanced retail risk management

About Raiffeisen Bank International

Raiffeisen Bank International (www.rbinternational.com) is one of the leading banking groups in Central and Eastern Europe, managing subsidiary banks and leasing companies in 17 markets of the region. Almost 60,000 employees serve more than 15 million customers in almost 3,000 business outlets.

The vision

Raiffeisen Bank International’s (RBI) mission is to “enable sustainable and profitable growth, effectively managing the retail portfolio and making sure that a suitable risk infrastructure is in place.” To accomplish that, RBI chose the Advanced Internal Rating based Approach (AIRB) of the new Capital Accord (Basel) as the group level solution. Given the greater risk sensitivity, the AIRB approach also allows the adoption of a more enhanced retail risk management framework, key to manage the business challenges and exploit opportunities in the group’s network.

The challenge

The implementation of a consistent risk management and Basel II framework across the entire network has been a long and demanding journey during which RBI faced several challenges:

- **Organization** – need to develop local expertise and know-how. Network unit specific issues challenged traditional approaches, calling for more sophisticated analytical solutions (e.g. parameter estimation for low default portfolios);
- **Data, methodologies and tools** – the AIRB approach requires significantly increased data capture and retention but historical depth and breadth of data assets varied across subsidiaries in misaligned systems. The new set of analytical solutions required the harmonization of processes and definitions across the entire network (e.g. definition of default);
- **Solution implementation and roll out** – legacy systems and processes differing across operations and countries, limited resources and knowledge in individual subsidiaries could restrict implementation;
- **Reporting** – harmonization of reporting standards across the entire network in order to allow for a group level analysis of portfolio requirements and trends;
- **Validation** – creation of standardized validation process and validation templates that would also serve as inputs into an established ongoing monitoring and improvement process.

The answer

RBI recognised that the significant challenges of Basel II required well established know-how and experience.

“With Experian’s support we have been able to create and roll out methodology, processes, documentation and standards that are consistent across our operations, helping to move towards compliance with local and international regulations and to enhance our retail risk management infrastructure” said Zsolt Jaczko, Vice President, Methodology and Validation Department.

“Experian is a strategic and reliable partner for our business. Their international reach and industry experience perfectly match our organization and needs, and are valuable assets for our success.”
Benefits

- **Working towards full Basel II implementation** with a clearly defined roadmap and phased implementation
- **Common minimum data infrastructure** in place across the entire branch network
- **Continuous research and improvement** of analytical tools for risk measurement and management
- **Enhanced risk assessment** with the development and implementation of leading risk management solutions
- **Cross-selling and up-selling activities** to increase portfolio size using newly developed tools
- **Consistent approach** to reporting, operational processes and risk management across the network
- **Trained staff** through sessions on Basel II and specific risk management issues.

RBI chose Decision Analytics from Experian as the ideal partner to deliver Basel II consulting and analytics to assist in the journey to regulatory compliance and the development of a new risk management framework.

Experian and RBI began their relationship in 2003. Ever since, Experian has assisted RBI through a dedicated team of Basel II and analytical consultants working in partnership with RBI's Credit Risk Management Retail Division and in close cooperation with the local risk management teams.

The first step was the development of a roadmap toward compliance and state-of-the-art risk management for the entire banking network, harmonizing group’s vision and requirements with local feasibilities.

Experian consultants carried out a Basel II gap analysis through site visits to all of the network units. Detailed data and process audits led to the design of the most suitable analytical framework and the identification of actions required to improve data standards where necessary. This activity resulted in country specific roadmaps, defining activities and milestones and prioritizing them (from data collection, through to scorecard development and risk-weighted assets calculation). Country level roadmaps converged then into the group level one that allowed the project teams to keep project oversight and control.

Following the plan, the required analytical solutions have been developed, gradually covering RBI's entire retail portfolio. Such analytical developments have been the result of a seamless research and development approach to the identification of best modeling techniques. The analytical tools are currently used for the estimation of compliant PD, LGD and EAD parameters, covering both the origination and account management phases for the retail portfolios (including low default portfolios such as mortgages).

RBI considers the local knowledge development as key to both a successful implementation of an AIRB system and the development of an enhanced risk management framework able to provide active support to the business. This was achieved through a number of training courses and workshops organized by Experian and delivered to the local banks’ risk managers and analysts focusing on regulatory issues and risk management best practice.

The consulting expertise of Experian, gained through several projects with prominent financial organizations worldwide, supported also all the compliance activities across the organization, developing the overall Basel II framework adopted as standard within the RBI’s network.

RBI and Experian have worked closely to implement the roadmap, creating the framework and the standardized methodology which have successfully fulfilled the Basel II requirements.

**The future**

The focus has now shifted to the broader operational implementation of all the new analytical tools developed for regulatory purposes. Besides the improved decision management, Basel risk parameters are the drivers of more advanced portfolio management and marketing strategies, budgeting process and performance measurement.

RBI continues its extensive research and innovation activities. The strategy design under tight business and operational requirements, strategy optimization, is where greater benefits can be achieved and just the next stage in this long and strategic journey.