

Financial Services

A credit risk data warehouse for Basel II compliance



A top 10 U.S. financial organization

BearingPoint helped a premier U.S. financial institution comply with Basel II requirements. We implemented a credit risk data warehouse that leverages Oracle's PeopleSoft Enterprise Performance Management product for the bank.

One of the 10 largest and most complex banks in the United States needed to implement the requirements of the New Basel Capital Accord (Basel II). Basel II is aimed at more closely aligning economic and regulatory capital by leveraging a bank's internal models for both credit and operational risk.

The bank asked BearingPoint to help build a credit risk data warehouse (CRDW) incorporating data from 35 source systems. The goal was to facilitate credit risk and economic capital reporting within the bank's portfolio management division to provide data for Basel II credit and equity risk capital calculations.

Based on our experience and understanding of Basel II and EPM, we identified potential data sources and data gaps, developed a data model and Basel II data mart design, and designed a detailed strategy for implementing the CRDW.

Expanding and enhancing data collection, storage and management

Basel II requires changes to a bank's public disclosures and the regulatory review of capital. Key requirements for credit data storage and management include maintaining a cradle-to-grave history of obligors. Banks also must use consistent, reconciled risk data across origination and servicing, risk management, and financial reporting systems.

The portfolio management division was managing the bank's portfolio of credit risk exposure through modern portfolio theory and risk management techniques. However, it was collecting credit data from a number of systems and manual data feeds, resulting in data inaccuracies. In addition, the division had not yet identified the various potential sources for credit risk data or associated data gaps. To do this, the bank needed to upgrade data collection, storage and management capabilities.

The bank decided to leverage its existing PeopleSoft Enterprise Performance Management (EPM) platform, which its finance division had previously implemented with another system integrator. Because of problems with that implementation, the bank asked BearingPoint to conduct an assessment, implement the credit risk data warehouse and assist in the management of the Basel II program. The bank chose us based on our experience with PeopleSoft EPM, our strong functional skills in Basel II and finance, and our extensive program management experience.

Building the CRDW, meeting multiple challenges

The BearingPoint team first conducted an assessment of the Basel II data requirements. Then, based on our experience and understanding of Basel II and EPM, we identified potential data sources and data gaps, developed a data model and Basel II data mart design, and designed a detailed strategy for implementing the CRDW.

We helped the bank establish a project governance structure to drive implementation not only of the CRDW, but of all Basel II requirements. To address the scale of the Basel II compliance challenge, we worked with the bank to establish seven separate work streams to support the initiative. In addition, our team helped define the implementation approach, which allowed the bank to complete the work on an accelerated timeline.

Our team used a multistage "work breakdown structure" approach for the implementation phase of the project. Because of the complexity surrounding the CRDW implementation, we divided the project into four distinct implementation work streams: wholesale banking, retail banking, securities/trading, and bank securities. The various work stream efforts were executed in parallel to meet the completion timeline.

In the first stage of the engagement, we established the project governance framework and communication strategy, identified key stakeholders, and defined the high-level test and training strategy and approach. The team then worked closely with the bank during the subsequent two stages: functional and technical design.

During the functional design stage, we used a workshop approach to facilitate changes in the bank's finance department. We also worked with the bank's technical team to complete the technical application design. Key steps included:

- Confirming source-to-target mapping.
- Designing extract, transfer and load (ETL) rules, standards and procedures.
- Designing interfaces for the various in-scope source systems.
- Building a working prototype that integrates a physical data model.
- Developing a training plan.
- Building test plans based on functional specifications and designs for unit, system integration, performance and user acceptance testing.

Finally, the joint BearingPoint/bank team implemented the build stage of the project. The team used the development environment previously configured by the bank to build ETL maps and integrate interfaces as set during the design phase. We also finalized the data dictionary for the EPM data model, executed unit testing and conducted three conference room pilots to demonstrate the new business processes.

After completion of testing and validation of the system and data feeds, we helped the bank migrate the CRDW into a production environment. Once the system went live, we provided continual support to the bank through both a month-end and year-end close period.

In compliance, and better managed, too

With our help, the bank met the Basel II compliance deadline. This project also gave the bank a centralized mechanism to analyze and report on its financial data.

The CRDW database has established a consolidated data store for a majority of the bank's financial information, which it can now leverage for other management reporting activities. Being one of the first institutions to comply with Basel II positioned the bank as a leader in Basel II compliance. As a result, the bank can help shape the demands of regulators and resulting credit and operational risk management standards.

Positioning a major bank at the forefront of Basel compliance demonstrates several of BearingPoint's leading capabilities. We were able to help bridge the gap between functional and technical requirements. We delivered results quickly and correctly by combining our broad functional knowledge of Basel II and leading industry practices in finance with our technical and PeopleSoft EPM-specific experience. Our focus on training key bank personnel on the system's functionality helped the institution gain real benefits from the implementation, while equipping it to operate the system going forward.

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