

Rapidly Adapting to Address Basel III Requirements

Top 10 European Bank

"Sapiens DECISION has allowed us to better understand which decisions we are making in our processes, and the factors in each decision that lead us to reach a specific conclusion. From a regulatory standpoint, we can see which factors and risk drivers result in our products attracting a particular regulatory charge. Answering these questions allows us to make the necessary changes that have the greatest impact."

Basel III Subject Matter Expert

About the Client

A leading European banking and insurance holding company, delivering a wide range of services to over 35 million customers through more than 40 well-known consumer brands. Operating one of Europe's largest bank networks, the organization provides worldwide services in the fields of business and private banking, insurance and corporate finance.

Adhering to a Newly Dynamic Regulatory Environment

Largely in response to the credit crisis, regulatory authorities have introduced several new measures to increase the stability of the financial markets. One central focus is Basel III, aimed at improving the banking sector's ability to absorb shocks arising from financial and economic stress. Basel III includes the introduction of new regulations that will increase capital requirements and drive up capital and liquidity costs, thereby increasing pressure on the banks' profitability.

After evaluating their readiness for Basel III, the Bank determined that a number of complex analysis steps and activities would need to be undertaken to achieve compliance and the desired risk profile. Much like other large banks, the Client had a number of independent systems deployed from a variety of vendors, in different environments. These legacy systems had evolved over time to become cumbersome, complex, time-consuming to change and most critically, did not provide the visibility to understand precisely how the regulations had been interpreted and compliance determined. Furthermore, there was prevalent disconnect between the means of compliance determined by the business, and the actual operational implementation due to misinterpretation at the hand-offs between business and IT.

Formerly, the bank was using a traditional requirements management process that utilized Word documents and Excel spreadsheets to document Basel III process and business rules. These sizeable documents would be communicated to in-house and third-party developers that would translate them into coded rules.

The business entities that communicated the requirements were frustrated by their inability to verify its accurate implementation across numerous systems as they did not understand the IT language, nor environment. Likewise, the process and method of requirements definition and documentation did not allow verification that the requirements were complete, validated and unambiguous, frustrating IT and considerably extending required testing. This limited governance was hindering the Client's ability to quickly determine, manage and audit the life cycle of every change from initial request through to final deployment. Impact assessment was reduced to experienced estimation, at best. They needed a new approach to a common problem.

Streamlining Change with Accuracy, Flexibility & Visibility

Seeking a solution that would enable them to significantly improve the timeliness, quality and maintainability of their regulatory alignment project in the short term, and of their overall business operations over the long term, the Client turned to Sapiens. A training workshop was presented to a select group of business analysis staff on the decision management approach and methodology that lies at the foundation of the Sapiens DECISION solution. Decision management enables the business to rapidly describe business logic (requirements) into an intuitive, consistent and reusable form that is readily understood by business users and technology alike. Business analysts learned that the shift from a traditional business rules management approach to a decision management approach - would introduce compelling opportunities to the organization.

Excited by the prospect of implementing a centralized process and system that would grant them the accuracy, flexibility and visibility required to adapt to a newly dynamic regulatory environment, the Client embarked on a three month pilot deployment with Sapiens DECISION, focusing on meeting Liquidity Coverage Ratio (LCR) requirements. Following the success of the pilot project, the Client decided to deploy Sapiens DECISION as a core asset to assist in overhauling its business logic operations.



Granting Business Users True Governance & Control

The Sapiens DECISION team worked with the Client's business analyst staff to create a complete and coherent model of the regulatory business logic at the heart of its Basel III LCR operations. Sapiens DECISION's centralized business logic repository enables consistency and reusability of policies across the Client's existing systems and ensures that business and IT users across the organization are referencing a common glossary. A common language between business and technical experts guarantees that accuracy does not get lost in translation as the business decision is streamlined from design and definition through to execution an optimization.

Sapiens DECISION provides a business-user interface that lets the business users create, automate, simulate and test business decisions for any process. The platform's administrative tools are designed to support a streamlined, traceable process that is understood by all. Business users utilize Sapiens DECISION's powerful impact analysis capabilities to anticipate the impact of any change and quickly refactor any requirement to reduce risk and ensure compliance. Sapiens DECISION's versioning capabilities enabled the Client to introduce the necessary rigor and governance, supported by complete traceability and clear ownership of all changes aligned with the associated business drivers and business owners. By enabling business professionals to be in control of the design, implementation, analysis and optimization their policies, the customary liability associated with adaptation to new regulatory requirements is eliminated.

Achieving Rapid & Cost-Effective Company-Wide Compliance

In just three months, Sapiens DECISION enabled the division to comply with Basel III Liquidity Coverage Ratio requirements and dramatically improve the efficiency of business logic changes. DECISION allowed the bank to:

- Document clear, complete, unambiguous requirements that represent a 'single version of truth'
- Automatically identify and correct logic discrepancies between bank systems
- Implement a fully governed glossary that utilizes business terminology and maps to underlying data structures
- Easily and accurately deploy business logic via a user-friendly interface that pre-validates business logic and automates SQL code generation¹
- Fully govern future logic changes via end-to-end workflows

The Client was able to deploy their Basel III solution in record time and estimated savings in the region of 40%-45% for requirements capture and signoff; up to 55% reduction in their User Acceptance Testing (UAT); and up to 80% reduction in deployment of ongoing operational changes.

When a change in LCR compliance requirements was subsequently introduced by the regulator, the change, building on the modeled logic, took only one week to implement. This represents a significant reduction in time to implement change compared to previous results. Further, the completeness and accuracy of business logic supports clear communication between the SME, Treasury and Implementation teams and improves the business to IT handover.

¹ In this instance SQL code was created. The Sapiens DECISION application can also create code for the business logic in a range of target execution environments, such as ILOG, Drools and Java. In addition, an SDK enables other target environments to be supported.



For more information about The Decision Model, please visit www.kpiusa.com

For information on how Sapiens DECISION can help transform the way your financial institution manages change, visit

www.sapiensdecision.com