RFM Case Study

Bank of Queensland Deploys Loss Given Default Data Capture Application in the Cloud in 3 Weeks.

"BOQ was embarking on a significant improvement in its credit risk management approach requiring a major overhaul of its entire credit risk management framework. The project required a substantial uplift in the capability of the credit risk team across functions of policy, process and models."

Christopher Peters
Head of Credit Risk Analytics &Basel Credit Program,
Bank of Queensland

In other words, the kind of job Risk Framework Manager™ was designed for.

The Opportunity:

In 2013, this mid-sized banking institution dedicated itself to creating profitable and sustainable growth, and a major rebranding effort clearly put customers first, with a new slogan and a very consumer-friendly graphics approach. Of course, risk management, so critical to the banking industry, also received renewed attention, and the bank identified that Loss Given Default, or LGD, which had remained largely a paper-based, ad-hoc process, could be substantially improved.

At Bank of Queensland, as is the case with most banking institutions, LGD requires flexibility as well as the ability to leverage data that does not typically exist within bank systems. Analysis was typically occurring at the point of default, rather than prior to default, and was done using spreadsheets, ad-hoc databases, and other desktop tools. There was no common data model from which the institution's aggregate LGD position could be determined. Executives did not have access to current LGD information, and concerns were raised that regulators might impose more strict capital requirements than would be the case if accurate LGD data were available. This possibility was unacceptable in light of the bank's dedication to being a customer-focused institution.

The Solution:

Few commercial off-the-shelf software solutions exist to address the complexities of Loss Given Default, and those that do require the banking institution to alter its business processes to suit the software. RFM's LGD module was brought in and configured to provide an agile, enterprise LGD solution for the bank with a highly customized data model. Featuring simple yet robust workflow management, monitoring and reporting capabilities, and fully integrated model management, the solution was implemented in approximately three weeks and at a cost far less than the default potential of many of the bank's outstanding loans. In addition, the cloud-based implementation required minimal IT investment, and allowed the solution to be deployed quickly.

According to Chris Peters, who headed up the effort at BOQ:

> "Dr. Stavrou and his team were engaged to build both retail and non-retail credit risk models covering customer multiple segments. Their many years of credit risk experience, coupled with the high quality of their advice and guidance, ensured that the models were developed quickly and implemented efficiently. The benefits of working with RFM extended beyond the term of the engagement, since the opportunity for our staff to work alongside such world-class expertise raised the competency level of the entire team.
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> During the project it became apparent that there was a need to have systems and tools that helped back catalogue the vast data being collected for model development. Dr. Stavrou's RFM team were engaged to provide support and rapidly proved their system capability by configuring and installing a complex LGD data capture system in a matter of a few weeks. The system was highly usable, performed flawlessly for users distributed in multiple national locations, and provided the foundations for our most accurate LGD models to date."

The Outcome:

The bank's 2013 Annual Report looked quite different than the 2012 version in several key respects, including posting a statutory net profit after tax nearly $200M, a significant turnaround from the prior year's losses. Cash earnings after tax increased by more than 8x, and the full year dividend increased by six cents per share. Most telling, however, are these results:

Underlying improvement in the credit quality of our portfolio was evidenced by improvement across all key metrics. Impairment expense was down more than 70% and total impaired assets fell nearly 30%

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