

Domestic banks beef up risk management systems

Further investments needed to prepare for tougher days

DOMESTIC banks are aggressively beefing up their risk management systems to prevent further contagion effects from the global recession, analysts say.

They agree banks now have better risk management tools, ample liquidity and are better managed compared with during the Asian financial crisis.

But they stress that banks need to continue making further investments to enhance risk management in preparation for tougher days and check on rising non-performing loans (NPLs).

With better risk solution tools, a bank will be able to save on operational costs amid the current margin squeeze, reduce NPLs and provide efficient services to customers, says a banking analyst with a bank-backed brokerage.

Affin Bank Bhd has allocated a budget of RM20mil for 2009/2010 to enhance its risk management systems.

"The risk management systems in place have enabled the bank to proactively manage the loans portfolio, particularly in early and prompt identification of vulnerabilities, emerging risks or adverse trend in various industry sub-sectors and products portfolio," says its chief risk officer Kasinathan Kasipillai.

"The systems in place are able to guide us in ensuring that the loan portfolio's expansion is in line with the bank's strategic objectives and established risk tolerance and risk appetite levels," he tells *StarBizWeek* in an e-mail reply.



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According to Kasinathan, the effectiveness of the systems can be judged by the bank's ability to reduce its net NPL ratio from 7.7% in 2007 to 3.2% last year.

In its first quarter this financial year, the bank had been able to sustain its loans growth momentum whilst continuing to manage its net NPLs at the 3% level.

Last year, Affin Bank implemented the credit scoring system for consumer mass market products like



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mortgages, hire purchase loans and credit cards at a cost of RM1.5mil.

Credit scoring solution is a "predictive" tool applied to assess the risks associated with a consumer's loan application (mortgage, hire purchase and credit card).

Also in 2008, it embarked on a Basel II-compliant credit grading project for its corporate customers, driven by the probability of default factor, which has cost the bank US\$1.1mil to date.

Probability of default is a tool to predict the likelihood that a borrower would fail to repay the debt owed to the bank in the next 12 months.

Alliance Bank Malaysia Bhd group CEO Datuk Bridget Lai says the bank is also investing more to further beef up its risk management system, and has just upgraded the bank's trade system and loan origination systems.

"We have a holistic risk management architecture which integrates the whole process of risk management as it looks into credit, operational and market risks across all business units. We have invested a substantial amount to ensure that our systems are enterprise-based and scalable according to business needs.

"Our enterprise database system enables us to capture and store all the relevant information. Using management information system and analytics to help manage risks, we are able to retrieve this information for scenario planning and predictions," she says.

In the current market where margins are thinning, Lai says banks need to be efficient to save costs.

They also need to be accurate in assessing risk proactively, in addition

to a fast turnaround response rate to customers, she adds.

OCBC Bank (M) Bhd director and CEO Jeffrey Chew says the bank has proprietary tools such as a credit scoring model and an early warning and account monitoring system to protect loan portfolios.

"With such robust systems already in place, we do not, at this moment, feel a need to add any new systems but will continue to enhance the existing ones as a matter of natural upgrading," he says.

SAS Asia Pacific Risk Management Practice Head John Foulley notes that banks have been spending more on risk management systems despite the economic slowdown.

"We see a big pick-up for such systems in Malaysia as well as in the region. Banks are willing and more serious to invest in these solutions during these current times. Last year was SAS Asia Pacific's best year in the region, chalking growth of 118% in sales," he says.

Many major banks in Malaysia are currently using SAS software.

US-based SAS Institute Inc is the market leader in business analytics software and services.