Moody's Analytics

CLIENT SPOTLIGHT:

Major Chinese Bank Selects Moody's Analytics to Deliver Comprehensive Compliance with Basel III and Enhanced Business Management

A major Chinese bank has selected Moody's Analytics to deliver its Basel III regulatory compliance solution, and enhance its business management.

Background

Since its creation, the bank has seen substantial growth, mirroring the rapid growth of the Chinese economy. It engages in personal and corporate banking, asset management, wealth management, and other banking services.

In parallel to this development and growth, the regulatory landscape for banks in China has evolved and changed. The Basel framework was introduced in phases, initially, Basel I and Basel II and finally Basel III, in 2013. Like many institutions, this bank had grown and developed its systems and applications, creating a highly diverse environment. The bank's existing compliance process was sufficiently flexible to comply with its Basel II obligations. However in 2013, the China Banking Regulatory Commission (CBRC) mandated the use of Basel III. Initially, the bank sought to leverage its existing Basel II systems and processes to manage Basel III. This approach was successful, although the bank's management recognized that a dedicated solution might be required, as the liquidity requirements of Basel III came into effect in 2015.

This plan was quickly reviewed following a liquidity crisis in China in 2013. The People's Bank of China (PBOC), China's central bank, intervened to reduce the growth of the shadow banking sector, to slow the expansion of credit in the Chinese economy. While not directly impacted by this measure, the bank faced a sharp spike in the Shanghai Interbank Offered Rate (SHIBOR), from 3% to 30%, which had a profound impact on the bank's costs and its commercial strategy. The spike in SHIBOR sharply reduced the availability of liquidity for the bank's day-to-day requirements, potentially exposing it to some of the problems experienced by banks in Europe and the United States in 2008.

The bank's senior management recognized the need for a solution that allowed them to have better visibility of their liquidity position to address this commercial challenge. As liquidity was central to Basel III, the bank's management recognized that a combined solution providing both liquidity management and Basel III regulatory compliance would address their two key strategic challenges.

They explored their options, and selected the Moody's Analytics Basel III and liquidity risk management solutions to deliver their requirements.

The Moody's Analytics Solution

The solution consisted of the Moody's Analytics data management platform, that integrated into the bank's back-office applications, including customer and corporate accounts, asset management and investment accounts, credit cards systems, and mortgage systems.

The data management platform consolidated all the key data the bank required to calculate its credit risk and liquidity risk data for Basel III. Leveraging powerful application mapping tools, the solution was implemented quickly, avoiding disruption to the business. The data platform also contained data cleansing capabilities, to ensure that the data being used in the key Basel III calculations met the bank's data quality standards.

The Basel III solution addressed the bank's key Basel III calculations, including the liquidity coverage ratio (LCR). The solution embeds the Basel III ratio calculation templates within the application, so that banks can quickly and accurately calculate their Basel III results. Furthermore, these formulas can quickly be updated, as regulations – global or local – evolve. The liquidity risk management solution managed the bank's asset and liability management requirements, including its cash flows, for the bank's LCR calculations. The bank's management also wanted to use the LCR ratio to help improve the way it managed its liquidity. It wanted to align seamlessly its business management and its regulatory compliance activities, to maintain compliance at a strategic level in the bank.

The final element of the bank's implementation was the Moody's Analytics regulatory reporting solution. This fully integrated into the Basel III and liquidity risk management solutions, and captured and consolidated the Basel III results, ready for submission to the CBRC. The solution provides regulatory reporting templates for over 50 countries, including the CBRC, and ensures that banks can submit reports containing the right data, in the right format, at the right time.

Why Choose the Moody's Analytics Solution?

The bank selected the Moody's Analytics solution for several reasons:

» **High Performance Capabilities** – a key requirement for the bank was the solution's ability to handle large volumes of transactions. Given the planned growth of the business, the bank could not afford the solution to be a constraint on the business.

» **End-to-end Automation** – the extensive use of automation allowed the bank to enhance its Basel III compliance and liquidity management without increasing headcount or costs. Automation throughout the data collection, cleansing, calculation and reporting processes gave senior management the confidence that their results were consistently accurate and would stand up to the scrutiny of their regulator.

» **Enterprise Visibility** – The bank's management valued the solutions' ability to integrate the bank's entire asset and liability data set, from multiple source systems, to provide daily balance sheet and asset and liability management (ALM) data. It enabled the bank to take a strategic view of the business and to make fully informed decisions based on accurate data.

» **Industry Expertise** – The bank's senior management recognized that Moody's Analytics' specialists were very experienced in understanding a bank's technical and operational environment, and developing a technology solution to help meet their business and regulatory requirements.

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