



BOARD Provides Aid to Manage Bank Provisioning

Company

Founded in 1970, UBAF was set up to finance and develop trade between France and Arab countries. The founders of the institution, who continue to be the main shareholders even today, are Crédit Lyonnais and numerous banks from the Arab countries. Over the course of the years, the bank has opened branches in Japan, Korea and Singapore, representative offices in Dubai and Cairo and set up a subsidiary in Hong Kong, allowing it to expand its area of participation across all of Asia.

The challenge

A change in the statements that have to be submitted to the regulatory authorities regarding provisions for bad debts and country risks was the starting point for considering an overhaul of the system for calculating provisions. In addition, the previous system did not lend itself to conducting scenario analysis and simulation, and provided very few explanations as to the causes of variations in the funding requirements. Written in "hard-line" Cobol, the application program was capable of producing tremendous amounts data. The downside, however, is that the data could only be produced in "batch" mode, required hundreds of pages of paper, and was only temporarily useful for audit and proof purposes.

Apart from the provisions for bad debts, the UBAF wanted to implement a system of provisions on country risks. This would allow the bank to set up internal reserves before a claim occurs in an area thought to be more high-risk than any other.

Calculating the provision is based on a weighting of the net guarantee outstanding according to the nature of the liabilities and their term. The result obtained is modified by a cover percentage appropriate for the

country of risk of the debtor in order to have the provisions set up. As the majority of liabilities are in foreign currencies and the provisions are set up in francs, the bank is naturally subject to an exchange risk. Control of this risk makes it necessary to be able to rapidly display the liabilities in each currency, as well as the provisions in francs and foreign currencies that cover them in order to decide on a possible purchase or resale of currencies.

BOARD solution

The project started with a very accurate analysis describing the sort axes, the necessary and available data in the bank's information system as well as their location, the calculation rules and the statements to be provided. This study was then used in working sessions with the BOARD team in order to clarify the information that was available. In cooperation with an information technologist from the UBAF, the databases and necessary building blocks for the application were modeled. The UBAF took the lead role in providing the interfaces to the source data, which could then be loaded into BOARD using either ODBC or flat files.

Within an extremely short period of time, the first application was developed and subsequently modified numerous times - without any significant impact on the planning of the project. This unique approach - an iterative development cycle - is one of BOARD's key strengths. In other words, the developer can continuously modify an application "on-the-fly", right in front of the users and immediately displaying the change, so the users can evaluate the operation, look and feel, and its appropriateness for the task.



This provides the developer with a significant amount of latitude in their initial analysis and designs because there is much less pressure to produce a perfect application on the first pass. The same holds true for developing simulation and planning applications, where it is assumed that there will be multiple iterations (scenarios) tested before the final solution is decided upon.

The working sessions undertaken with the developer, the UBAF information technologist and the account manager took place over a period of about a month, with continued assistance and input from the Finance Director. The application development required two and a half months, and the finalization one month. In a matter of 6 months total, the provisions had been calculated and entered into the accounts. Aside from the users who had been trained on BOARD, the workforce deployed by the UBAF amounted to an additional handful of people.

BOARD Benefits

The project proved to be extremely positive for several reasons:

- The analysis was managed by the user (Finance Director), who had the best understanding of an extremely technical business and an excellent knowledge of the bank's data system.
- The iterative development capabilities made it possible for any amount of adjustment to be made - without any loss of time - to the few areas where there might have been a gap of understanding between the users and the developer.
- The instantaneous visual modeling comparisons among the data made it possible to detect anomalies that would have required hours of work of comparison and cross-referencing of lists to handle.

BOARD's ease of use makes it usable to anyone familiar with office typical automation tools and does not require the average users to manage the definitions of what is to be analyzed – this remained the domain of the development team.

The main lesson that I can personally derive from this project relates to the power of tools such as BOARD. It is now possible to simplify the teams that are mobilized to implement these kinds of projects by removing the middleman between the user and the developer.

Financial Manager UBAF

Industry
Banking

Field of application

Bad debts and country risk provisions analysis,
Provisions vs liabilities exchange risk analysis,
Scenario analysis and simulation

