

## CLIENT SPOTLIGHT: Qualify for Minimum Capital Benefits with Better Risk Management Kiwibank Limited



"They can deliver. I have overseen a lot of projects in 10 years of banking and this has been arguably the least stressful."

**Dave Morgan**  
Head of Portfolio Management,  
Kiwibank Limited

**Moody's Analytics  
Solution Set:**  
RiskOrigins  
Scoring and Spreading Modules

### The Challenge: Advanced Approach to Basel III

Four out of five New Zealand banks are already approved by the Reserve Bank of New Zealand to use the advanced approach to Basel III, and are, therefore, positioned to take advantage of the minimum capital benefits for evidencing better risk management. As part of its business case for approval for using the advanced approach, Kiwibank was looking for a tool to assess its end-to-end commercial lending processes. At that time, Relationship Managers and Credit Analysts in its commercial lending division were processing everything manually on paper resulting in long and inefficient processes. Immature credit risk measurement in terms of probability of default (PD), loss given default (LGD) and exposure at default (EAD) meant that the bank had to build an improved credit risk capability. At the same time it was facing the recessionary impacts on its wholesale asset provisioning balances.

The bank needed to centralize its risk management processes, increase credit approval accuracy and establish greater control of the entire lending processes. Pursuing higher operational efficiency, the bank also needed to remove the excessive paper processing it had around loan approvals.

### Moody's Analytics Solution

Implementing Moody's Analytics RiskOrigins™ software allowed Kiwibank to streamline and standardize its underwriting process for commercial and industrial (C&I) and commercial real estate (CRE) loans within a twelve-month timeframe. The bank was able to capture borrower financial data across industries in a consistent and standardized manner using off-the-shelf industry specific templates for the middle market, energy, utility and income producing real estate segments of the portfolio. Integration of the RiskOrigins software with Kiwibank's internal models allowed the bank to calculate PDs and LGDs for both its SME retail and corporate assets. This made it possible for the bank to easily compute expected loss (EL) and capital for all asset classes, perform timely and accurate credit grading, and calibrate calculated PDs to its internal risk ratings.

### Success Metrics:

- » The bank has been able to satisfy Basel III regulatory requirements and accelerate the timeline for Basel III accreditation by one year implementing an internal ratings-based approach.
- » Risk-based pricing has improved quality of loans offered by the bank.
- » The bank has improved enterprise risk management practices and achieved greater analytic precision due to the new internal rating methodology and benchmarking process.
- » The bank can easily identify key inputs and manual overrides in the credit decisioning process.
- » The bank has an integrated portfolio view of its entire credit exposure across all counterparties.
- » The bank has reduced paper processes and implemented standardized spreading to correct input decisions while reducing potential errors.
- » Time to decision has been reduced from days to hours.

## CLIENT SPOTLIGHT: Kiwibank Limited

"The flexibility of the RiskOrigins tool is one of its key strengths. Credit policy, industry profiles and analytical requirements change from time to time. A bank needs a tool that can cope with these changes."

-Dave Morgan

### Looking Ahead

Kiwibank's vision is to leverage RiskOrigins software to standardize and refine its entire credit risk framework including its lending limits, and strengthen its credit risk management and reporting processes. RiskOrigins software will also provide the bank with the proper framework towards advanced Basel accreditation and a centralized single source of truth for their credit risk data.

### About Kiwibank

New Zealand-based Kiwibank is a government owned commercial bank with assets over \$10 billion. The bank has over 800,000 customers and a 10% share of the domestic market.

## ABOUT MOODY'S ANALYTICS

Moody's Analytics, a unit of Moody's Corporation, helps capital markets and credit risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By offering leading-edge software and advisory services, as well as the proprietary credit research produced by Moody's Investors Service, Moody's Analytics integrates and customizes its offerings to address specific business challenges.

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