



HSBC Finds Integrated Program Manages Risk

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With the economy still feeling shocks from the subprime mortgage meltdown and the ripple effect it sent throughout the financial world, the importance of risk assessment is now clearer than ever. As commercial property deals with its own upheavals, industry lenders and investors are taking steps to more closely and accurately evaluate the risk profiles of underlying assets.

To that end, HSBC is utilizing a program from consulting and technology firm Risk Integrated in order to keep tabs on its commercial real estate loans under its European lending business. The program, dubbed the Specialized Finance System (SFS), is aimed at providing lenders with an accurate, robust and standardized system for evaluating risk, according to Risk Integrated CEO Chris Marrison.

Marrison described three major tenets of the SFS program: data centrality, deal structuring and standardizing reports.

By centralizing data, the program allows users from all of HSBC's offices throughout Europe to easily log onto the system and enter data, which is then recorded into a central database, allowing for uniformity and easy access by any user. "Many traditional banks have loan information but no info on what the underlying property is," Marrison noted. "So the first step is data consolidation." That data can be entered into the system three ways: manually by the user, through a database link or via an import from a program such as Excel.

The second major use of the program is in deal structuring. A user considering making an investment or loan can run stress tests at a portfolio or deal level in order to gauge the effect that certain variables will have on the investment. "You can run thousands of possible scenarios," said Marrison. "Clients can put in a particular stress, such as interest rates going up 2 percent, while rental rates and property values fall, for example, and they can run that stress against the whole portfolio." Having such information at hand allows users to fine-tune a deal by offering fixed or floating interest or by hedging, for example.

The third advantage is in standardizing reports across the bank's many offices. Documents such as credit application reports will now be uniform across the different branches and departments, something that was often not the case previously.

HSBC's process of adopting the Risk Integrated program was multi-phased. First, the bank was given access to the program via Risk Integrated's Web servers, which allowed HSBC to enter data into the system and tailor it to the bank's specific needs. "The first six weeks were about HSBC users being trained to use the system," Marrison said. "We trained about 50 of their employees ... and from the workshops we got some requests for changes."

The next step entailed making those changes over about four weeks. Finally, there was a two-week period wherein the program was installed on HSBC's in-house servers. Risk Integrated continues to provide the bank with system support under a multi-year maintenance agreement.

Marrison said that HSBC has opted to install only new loan information into the system, but that it is also possible for clients to retroactively enter existing data. He also noted that, given the financial straits many firms are currently facing, Risk Integrated is also offering the program as an online-only service on the firm's servers, which is less costly.

Up until now, most interest in the program has come from European firms, Marrison said, due to more interest there in adhering to uniform risk standards such as the Basel II Accord. However, as more capital sources across the globe realize the importance of close risk management, that could change. Indeed, according to Marrison, "we are expecting to close a contract very soon with a North American asset manager that will take us into both North America and other asset classes, like CMBS and CDOs."