

Centralised Systems Support Allianz Bank Bulgaria's Business Strategy

European Banking Advisory Service

CASE STUDY

#IDCCS06Q

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FINANCIAL INSIGHTS OPINION

Many banks in countries such as Bulgaria are finding that their legacy systems are not flexible enough to cope with the rigours of modern banking. Their systems have developed on an ad hoc basis with only an eye to the local market. As a result of the fragmented way in which these systems have grown, there is a significant amount of duplication, with customer and account details frequently recorded more than once. There has also been considerable duplication of staff activity, with many employees involved in back-office IT work in branches throughout the country.

However, global regulatory and competitive pressures are making it increasingly important to have a core banking system that can respond to changes in this increasingly dynamic market, allowing banks to offer clients highly targeted products that have a fast time to market. It is also becoming more important to have a centralised system that can take advantage of synergies and provide a speedy view of banks' operations.

This case study examines the experience of Allianz Bulgaria in addressing the challenge of modernising its systems, training its staff and realising the advantages of a highly centralised solution. The study concludes that centralising the system enabled the bank to reduce its costs, free up staff for front-line sales and improve the flexibility and range of services and products it offered. It also looks at how the challenges were addressed and what could have been done better.

The Allianz Bulgaria experience suggests that the level and amount of training required by employees as well as the time needed to test systems should not be underestimated at the outset. Ensuring sufficient training and testing aids a seamless transition from the legacy system to the new one — essential if you have opted for a "big bang" approach like Allianz Bulgaria. The bank's experience also highlights the importance of selecting a partner that understands your business and has proven experience of successfully implementing the technology in your country market.

Introducing core banking technology is a complex process, even if third parties have expertise in this area. For the vendor, leadership is important to ensure that everyone involved in the process has had sufficient training before the system goes live. For the bank, a clear understanding of what is expected of it and a willingness to take training seriously is essential.

Allianz demonstrates with i-flex and FLEXCUBE what can be achieved in terms of flexibility, cost savings, staff deployment and business growth when new core systems are introduced.

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IN THIS REPORT

This Financial Insights case study examines the decision by Allianz Bulgaria to implement i-flex Solutions' FLEXCUBE core banking solution to support its new bank business model with the aim of maintaining or exceeding annual growth of more than 30% and accelerating its time to market with financial products. It demonstrates how the implementation complemented the Allianz New Image (ANI) project, which was set up to restructure and optimise the bank's business processes. By investing in i-flex's core banking solution for retail and corporate clients, Allianz Bulgaria has been able to centralise its processes and support its business-building strategy. The study examines the business and IT drivers for Allianz Bulgaria, the vendor selection criteria, and the implementation and benefits of the FLEXCUBE system for the financial group.

SITUATION OVERVIEW

Bulgaria's banking sector is experiencing unprecedented demand and fierce growth. Consequently, local banks need to respond to their customers' needs fast and offer highly targeted and innovative products if they are to maintain or build their market position. However, their infrastructure is generally the legacy of several decades of ad hoc investment in locally-sourced solutions that may not be up to the rigours of the international banking world. As a result, it is becoming difficult to offer competitive and targeted products quickly and to grow business using existing platforms.

Financial services institutions are realising that they need to react more quickly to business and market changes. They are also beginning to take the opportunity to reduce their cost base by rationalising their IT infrastructures and centralising their processes, and in so doing improve their competitiveness. Locally-built legacy core banking systems have been identified as a key factor limiting future growth and adaptability. Forward-thinking banks are using components of packaged core banking solutions to reengineer their existing solutions to manage higher volumes, compete in an intensely competitive marketplace, reduce margins and meet increased customer expectations effectively. For Allianz, the implementation process is part of a project known as Allianz New Image (ANI). This project is not limited to system integration and implementation of new IT solutions, but is aimed at restructuring and optimising the bank's business process.

Core banking replacements are long-term projects with lengthy decision processes. For this reason, banks are looking for highly reliable partners able to support them through the life of the project.

Allianz Bulgaria Holding is the biggest financial group in Bulgaria with 126 branches and offices across the country. Building on the international Allianz brand name, the bank is synchronising its internal rules and procedures to meet groupwide requirements while trying to harness the synergies of being part of this large brand.

In the first half of 2007 it was rated by Fitch Ratings "A-" (A minus), stable outlook, which is above the sovereign rating.

Allianz Bulgaria is one of the most dynamic banks in the local market. Its publicly stated ambition is to become the best in the bancassurance industry by offering high-quality banking, insurance and pension products. The bank has developed a wide range of products serving both retail and corporate clients. Its Retail Banking business covers loans, savings, bank cards, operations and other services, focusing on offering loan and deposit products for individuals, such as attractive savings accounts, mortgages and car loans.

On December 31, 2006, the bank's total assets reached 945.1 million Bulgarian lev, representing a growth of 33.3% year on year. This is higher than the average growth of its main competitors. The bank reported profit after tax of 9.233 million Bulgarian lev, a 30.1% year-on-year increase.

TABLE 1

Allianz Bulgaria Performance, 2005–2006 (Bulgarian Lev, 000)

	2006	2005
Total income from banking operations	35,180	26,018
Profit before tax	10,845	8,475
Total assets	945,130	709,172

Source: Allianz

THE APPROACH

Business Drivers

Allianz Bulgaria operates in a fiercely competitive market and in a predictable macroeconomic environment with sustainable growth. The bank's existing core system had been sourced from a local vendor and had reached the end of its functional life. It was out of date, based on an MS DOS platform and had its own database structure, making it hard to interface with other vendors' software. In addition, it operated on an entirely decentralised system working through approximately 40 different banks before consolidating information at head office. A key requirement was to centralise back-office, IT and support functions to free up personnel in the bank's outlets for customer service and sales.

In 2006, a strategic decision was taken to introduce a common platform, so Allianz Bulgaria could achieve its aim of becoming the best in the bancassurance business. There were several reasons behind this decision, as discussed below:

A system that could support a new banking business model and strong annual growth. Allianz was aiming to grow at an annual rate of 30% in Bulgaria. However, it was unable to grow its business further using its existing platform because it could not bring competitive new products to market fast enough. Product functionality was also a big issue, making it difficult to offer customers individually tailored products such as flexible deposits and loans. To ensure business growth, Allianz needed an easily scalable system.

Quick time to market. In order to maintain its competitive edge, the bank recognised it had to continue to offer its customers targeted and innovative products. A key factor in achieving this goal was the ease with which new products could be developed and brought to market.

Breadth of functionality for retail and corporate clients. Product functionality was a big issue for the bank because it was unable to offer services tailored to its customers, such as flexible deposits and loans.

Real-time processing for all channels/systems. With competition such a major issue, the bank needed a system that gave its users a positive experience regardless of the channel or touchpoint they used to access its banking services.

Wide range of reports and a management information system (MIS). Keeping abreast of its business and ensuring compliance with a growing range of national and international regulations required a system that would enable bank staff to quickly generate and access reports and information connected with all parts of its operations. The bank believed that a system based on Oracle technology would help it achieve these goals.

Possibility of interfacing with customer relationship management (CRM) and other satellite systems. Allianz Bulgaria wanted to closely target its products at individual customers, so a system that was able to interface with CRM and other satellite systems was essential.

Internationally-recognised solution. Allianz Bulgaria needed a solution that complied with the IT policy of the Allianz group. It therefore wanted a solution that had been designed by a company with international expertise. However, it also required a local support system that could understand the nuances of the local Bulgarian banking market.

All these requirements presented a very compelling set of business drivers for change. It was clear early on that Allianz's business ambitions could be realised only if it implemented an IT system designed by a firm with international expertise. Vital to the success of the transition to a new system was the right solution with the right functionality and support. Allianz Bulgaria therefore set out to select its facilitator of change.

Solution Description

Having identified the business drivers for change, Allianz Bulgaria was faced with the challenge of selecting the solution and the provider.

It was essential for the bank that the solution provider was able to demonstrate global experience as well as at least one successful installation in the local market. This needed to be backed up by a local implementation team which could provide high-quality support at a competitive price.

Selecting the Solution

Initially, the bank looked at more than five vendors. However, many of these were excluded early on because they had only local experience. In the second phase, it evaluated two international solutions — FLEXCUBE from i-flex and T24 from Temenos.

During the procurement process, Allianz Bulgaria examined existing implementations in local banks before having meetings with vendor representatives. No formal RFP was issued; instead, solutions providers were invited to give Allianz Bulgaria a proposal based on their experience in the market.

Having shortlisted i-flex and Temenos, Allianz Bulgaria looked at the two firms in more detail. Only i-flex offered a local integrator that could provide support for FLEXCUBE in Bulgaria after the system had gone live. Furthermore, it was able to beat Temenos T24 on price.

The Solution: FLEXCUBE

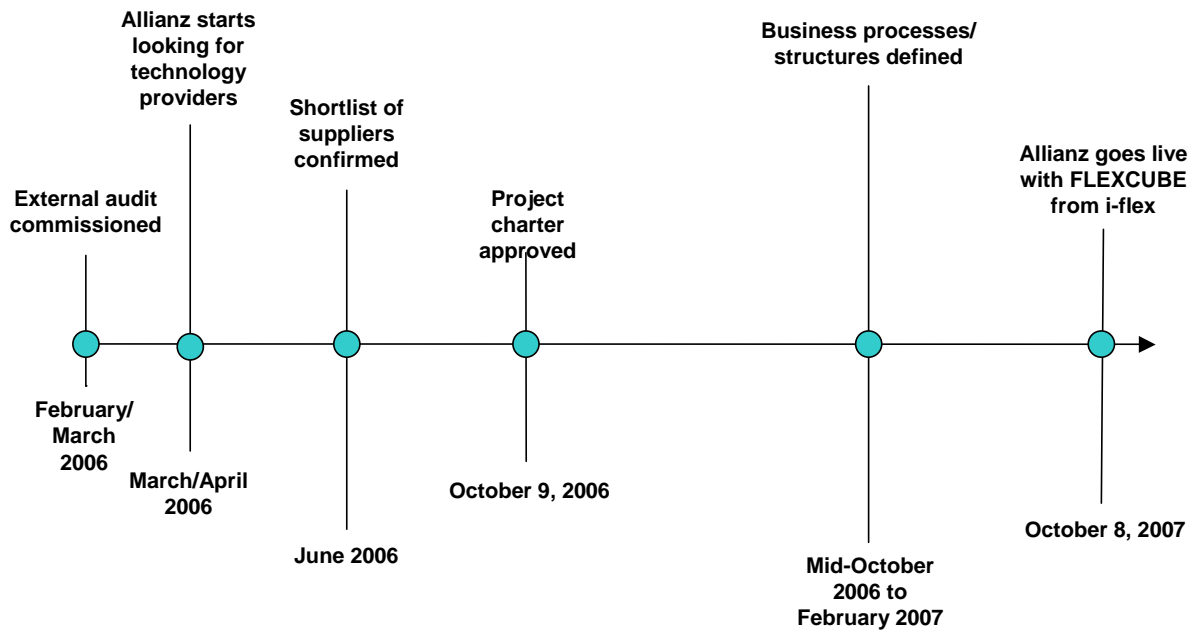
FLEXCUBE is a specifically designed universal core banking system configured for retail, corporate and wholesale banking. Application modules include current and savings accounts, deposit accounts, loans (including applications and underwriting, collateral management and collections), syndications, bills and collections, letters of credit, foreign exchange, money market, dealer functionality, investor services, cash and liquidity management, asset management, derivatives, securities trading and settlement, related support features such as funds transfer, clearing, nostro, reconciliations, signature verification and authorisations, secure messaging, general ledger, expense management and customer information.

FLEXCUBE is a multichannel framework covering Internet, email, XML and open financial exchange (OFX) network access, WAP mobile phones, short messaging service (SMS), PDA, set-top boxes for Web TV, personal financial managers (such as Microsoft Money and Quicken) and call centre voice services such as interactive voice recognition (IVR) and computer telephony integration (CTI).

It can interface with back-end systems over a variety of standard technologies, including SQL, VSAM, ISO 8583, XML and Fix, and has a variety of integrated features for security, session management, navigation, business rules, alerts, Web site personalisation, load balancing and channel integration. The solution connects with FLEXCUBE or third-party back-end systems in real time with many customised functions. FLEXCUBE also has specific modules for investor services, electronic bill presentment, and payment and workflow.

FIGURE 1

Allianz Bulgaria and FLEXCUBE Implementation Timeline



Source: Financial Insights, 2008

In February and March 2006 Allianz Bulgaria commissioned an external audit of its IT systems. This recommended that it should change its core banking and infrastructure and update its domain policy. In March and April 2006, the bank started looking for possible suppliers. During this phase it went through the normal process of visiting sites and meeting with vendor representatives. No formal RFP was issued; instead, solutions providers were invited to give Allianz a proposal based on their experience in the market.

In June 2006, it shortlisted two international solutions — FLEXCUBE from i-flex and T24 from Temenos — for evaluation.

In October 2006, following its selection of i-flex and local system integrator Sirma Business Consulting, Allianz Bulgaria drew up and approved a project charter, which set up the structure, roles and responsibilities of everyone involved. The bank also appointed a project director and a project office structure. Project organisation was set up in the bank with 30 different subprojects taking place. The bank did not need to make any major customisations to the technology, as it had already been deployed in the Bulgarian retail and corporate market. The only customisations were fairly minor and related to ensuring that

all parts of the front-office system were in Bulgarian and that IT related to the loans business reflected bank regulations.

During this process, the bank's strategy was defined and a pre-model of its business was created.

Between the middle of October 2006 and the end of February 2007, business processes and structures were defined by Sirma and the project office. Project walkthrough also took place between these months. Other solutions vendors, such as the suppliers of the card system, Internet banking and treasury system, were also involved in the implementation during this phase.

In addition to changing the core system, the bank also needed to carry out a major upgrade of its communications lines and infrastructure to operate FLEXCUBE successfully.

The bank's strategy was to take a big bang approach to going live with the new system, by shutting down the old system and launching the new one in a single day in December 2007. However, before this, a number of sub-implementations of the card solution and other systems were carried out.

Eventually, on October 8, 2007, just 12 months after the project was approved, and two months ahead of the official deadline, the system went live. The decision to launch in October was driven by the fact that the solution was ready to go live. Also, it was acknowledged that the end of the financial year was not the best time for a major system change, particularly as all parties would be busy with their end-of-year accounting.

The changeover actually took place over the course of a weekend. The first phase involved a centralised implementation and data transfer. In the second phase, bank employees tested and tuned the system.

The process went very smoothly, with no deviation from plans established at the outset. This was the third time that Sirma had been involved in an implementation of FLEXCUBE in Bulgaria.

Challenges

Data cleaning. The previous system did not have any control over account creation. As a result, customers were often entered into the system multiple times from different locations, so time had to be dedicated to cleaning all duplicate customer and account entries. The bank also discovered there were a lot of inactive accounts. These customers had to be notified that their account was going to be closed. It took an estimated six to seven months to complete this exercise.

Network availability. The bank had to upgrade its communications bandwidth and network. It moved to Multiprotocol Label Switching (MPLS) layer 3 connectivity. Although this was done in time, there was a minor challenge: the bank had to find a company that could provide this level of coverage throughout the country and it discovered that the national telco was the only one.

Database issues. The big bang approach was fairly trouble-free. However, the integrators had to apply five different patches and fixes from Oracle for the database when it went live as its initial performance was slow.

Training. The amount of time it takes to train staff should not be underestimated. It is essential that end users feel confident with a new system, so time must be devoted to ensuring this. Allianz Bulgaria staff needed a few weeks to get used to new screens as they had moved from DOS-based to Windows-based technology. They also had to become familiar with using a mouse. At the outset, it was thought that two months would be sufficient for training, but after the implementation it became obvious that it wasn't enough as it can be hard to change people's habits.

Stress testing. As with training, it is essential that all parties are involved in stress testing. Three mock migrations and three stress tests were held before the system went live, but these were not taken as seriously as they could have been, with not everyone taking part. It is believed that the, admittedly limited, number of patches and fixes required after going live could have been avoided if the bank had been more actively involved in the stress tests.

Leadership. Although the parties worked very well together, the systems integrator could have insisted that more training and testing took place before going live to ensure everyone was ready for the new processes.

Change management and cultural differences. Generally, staff were positive about the change, but in some branches there was resistance to the programme.

Business Value

Although Allianz Bulgaria took no formal steps to measure the benefits of the FLEXCUBE business case, it has achieved efficiencies within its organisation thanks to the centralisation of its activities. The IT department now employs 28 people compared with 54 previously. Furthermore, 126 branches no longer need IT staff working specifically on the system. This has released them from back-office duties to front-line sales. The bank now closes at 19:00 every day, and end of day (EOD) activities finish at 22:00, meaning no one has to work overnight, which has in turn improved morale and reduced costs.

Since going live in October 2007, the bank has enjoyed a faster time to market, has been able to launch seven new products and has grown its business by 15%.

It can now respond faster to regulatory changes and can report to the Bulgarian central bank and Allianz Germany two days after the end of the month.

The technology has also helped it develop its business channels and offer more innovative solutions to customers. Allianz Bulgaria is now the fifth bank with real-time online cards in the country. It now gets 65% of its payments business from Internet banking and it also offers email and SMS notification for transactions and statements.

CONCLUSIONS

The deployment went very smoothly and was either on time or ahead of schedule. Logical integration went very well, with the systems for Internet banking, cards, SWIFT and Bulgarian payments interfacing easily with the new platform. The bank now enjoys a secure, centralised and easy-to-use IT system that responds to change quickly, enabling it to launch new products quickly.

The bank has already benefited from some of the advantages of the system with an increasing number of electronic channels and higher client and employee satisfaction.

The challenges of the project have been overcome, and the parties involved have recognised how some of these issues could have been resolved earlier.

To lead the implementation, Allianz Bulgaria chose a local partner which knew the Bulgarian banking market and was able to help the bank with processes and procedures.

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