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Case Study: SME Bank in enterprise-wide transformation with Flexcube at its core

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Malaysia-based SME Bank has converted to the Flexcube core system from **Oracle FSS**, bringing operations onto one centralised platform from a host of disparate systems. The bank's head of ICT services, Shahazana Shaari, who spearheaded the project, talks about its ups and downs.



Shahazana Shaari, SME Bank – Case Study: SME Bank

'We are not like any other financial institution in Malaysia, our modus operandi is different,' states Shahazana Shaari, head of ICT services at SME Bank. The bank is a specialised entity, owned by the government of Malaysia and focused solely on the development of the country's small and medium enterprises (SME) sector, via financial and non-financial services, such as business advisory and entrepreneurial development. It holds no deposits, and on the lending side it practices 'early intervention', i.e. when customer funds are low and an account is nearing delinquency the bank's team receives an early alert and is dispatched to help the customer. 'We are here to nurture SMEs,' she states. In 2013, the bank was allocated with MYR2.25 billion (approximately \$696 million) to be distributed in the sector via various development funds.

SME Bank offers some Islamic financing services at present and has its own Shari'ah board. The vision is that by 2015 the entire bank will operate according to Islamic finance principles, Shaari says.

The bank has been around since 2005 and entered this decade with an array of systems, mainly from local suppliers, including **Microlink's** MIBS and **Infopro's** ICBA. It was a dispersed set-up, recalls Shaari, and it impeded the bank's growth. There were separate databases for Islamic and conventional banking operations. Centralisation was needed, she states, and with this in mind she was hired by the bank in the second half of 2011, with three successful core banking implementations already under her belt, to lead the technology transformation.

***'We are here to nurture SMEs.'* Shahazana Shaari, SME Bank**

By then, the transformation was taking place across the board at the bank, she notes, including the branding and strategy, in line with the government's SME Masterplan 2012-2020. More than 97 per cent of businesses in the country are SMEs and the government regards these entities as 'a fundamental component of the Malaysian economic fabric as it is evident that the SMEs play a crucial role in promoting catalytic growth, innovation and employment', according to this initiative. The SME Masterplan predicts the rise in contributions from the SME sector to GDP to 41 per cent by 2020 (from 32 per cent in 2010).

On the technology side, the bank embarked on the system search with an RFI sent out to 25 providers found on the internet. 17 comprehensive responses came back, and the bank's team used these to compile an RFP that was then circulated to seven vendors.



Siti Khadijah Wet Market, Malaysia, © Udeyismail, Flickr – Case Study: SME Bank



An assortment of shops, Malaysia, © Shankar s., Flickr – Case Study: SME Bank

The selection team consisted of seven IT staff, 'fully dedicated' to the project.

Shaari emphasises that it was not a purely technology-driven venture and that business users were involved in the selection and had a direct input in the RFI/RFP documentation. 'For this project to be successful we needed to ensure a buy-in from across the bank.' However, Shaari felt that if business users were asked to draw up their requirements from scratch, it would have taken too long and many would have struggled with the task. So, the core selection team put together the requirements lists that were then given to business users to verify, amend, supplement and sign off. The users were happy with this route, she notes, and as they went through the documents, they gained more understanding and became more comfortable with the transformation project. Key business users were then identified and assigned to the selection team. They were there at every step of the evaluation, she states. 'Nobody knows better than business users what they want. So having them there throughout the selection helped to bridge the gap.'

A centralised set-up was among the key criteria, 'as our main objective was to put the bank onto a single platform that would form a solid foundation and enable us to easily move in the future'. The supplier's 'human capital, capacity and capability' was also important, as well as its understanding of the financial services industry and the specifics of development bank operations.

***'We wanted to operate in an environment that is business-driven rather than vendor-driven. We were looking for parameterisation, not customisation. We should be able to do changes on an operational level ourselves.'* Shahazana Shaari, SME Bank**

Oracle FSS's Flexcube was selected to provide 'the full suite' of core functionality (see below for details about the reasons for this choice of system) and the bank also purchased its basic internet/mobile banking module. Also, new loan origination software was needed. The team looked at the Oracle offering, but decided against it and went for a solution from a domestic vendor, Juris Technologies. It is workflow-based and Shaari thinks that integration with this type of system presented a challenge for many vendors.

'We carried out an extensive study of our processes to find the pain-points and problems before we started the implementation,' says Shaari. One of the major issues was the duplication of work that end-users had to carry out as the legacy loan origination and core banking systems did not talk to each other. 'Everything had to be keyed in twice. It reduced the staff productivity and increased the cost-to-income ratio as our legacy manual operations required a lot of human resources.' The bank was determined not to replicate this in the new set-up and therefore full integration between Flexcube and the Juris system was a priority, she states. Now, the data is keyed in once and it 'flows to and from' both systems.

SME Bank was open to adopting international best practices in system delivery, processes and infrastructure, but Shaari notes that the bank was sensible in its approach: 'We chose the practices that were applicable to our operations and could be applied with our specifics in mind'. Preference was given to global vendors. It was also deemed that a global solution possesses flexibility and scalability to support the bank's 'extensive and aggressive development'. Shaari declines to name the shortlisted global contenders, but refers to them as 'the big boys'. The incumbent, Infopro, was also on the shortlist with its ICBA system, plus another regional supplier, **Silverlake**, with its SIBS core offering.

Infopro, however, was quite promptly discarded as the bank concluded that 'if it could have done everything on a single platform and database it would have done so by now'. There were also some issues with the latest upgrade (the bank wanted to move from version 9 to version 10) and it was felt that Infopro 'was not ready for the version upgrade, as the particular solution just wasn't there'.

Another requirement that drove the team away from the incumbent vendor was the bank's lack of 'sense of ownership' of the system and overdependence on Infopro. 'We wanted to operate in an environment that is business-driven rather than vendor-driven,' Shaari explains. 'We were looking for parameterisation, not customisation. We should be able to do changes on an operational level ourselves.' It was decided that customisation should be no more than 20 per cent of the standard functionality (by the end of the Flexcube project it stood at twelve per cent).

Oracle FSS's Flexcube offering stood out in terms of parameterisation capabilities and flexibility, she says. Also, the system has conventional and Islamic banking versions, both of which sit on the same platform. 'It is a one-stop solution which is simple, user friendly and easier to handle,' she states. 'Furthermore, we have learned the system and we have control over it, not the vendor.'

Following the approval of the choice of system by the bank's management, the project moved into the implementation phase in the second half of 2012. Oracle FSS was invited for 'a detailed product walkthrough of each functionality' (treasury, trade finance, loans etc). A gap analysis was then carried out together with the vendor, external consultants and the users. The process was managed by the core implementation team, which consisted of representatives from the IT, operations, business and finance departments. 'We tried to cover all angles, so that we don't miss anything,' she points out.

The main gaps which required development were in the product area, as a number of products available in a standard Flexcube package were either different to those of SME Bank or absent altogether (e.g. annual rest type loans and monthly rest type loans). On the operational side, customisation was avoided by the bank adapting itself to the system, says Shaari. Product customisation was challenging, she recalls, partly due to the Oracle FSS consultants struggling to understand the requirements. But the bank was prepared, she states. 'We had key business users on our core team and they were able to give examples and explain in detail what was needed. The issues were ironed out.' This was a

valuable example of how important it was to have stakeholders from across the organisation on the project team. However, she points out that there were communication and understanding problems from the bank's side too, and this was when Shaari had to step in 'to bridge the gap'. In her experience, communication is always a challenge in a venture of this size and complexity. A lot of communication was done via email, which was not ideal, but the bank set an 18-month timeframe to complete the project, so things had to move quickly.

***'We stipulated in the contract that the integration between the core and loan origination systems had to be realised in full. Only then the project would be considered successful.'* Shahazana Shaari, SME Bank**

Oracle FSS provided seven staff onsite to assist with the implementation, plus a full-time project manager at Shaari's insistence. The vendor's local partner, Encoral Digital Solutions, was the main infrastructure and delivery contractor.

Contracts were drawn up to reflect the responsibilities of each party. 'We were thorough in our negotiations and the resultant documentation. We stipulated in the contract that the integration between the core and loan origination systems had to be realised in full. Only then the project would be considered successful. So between Juris, Oracle FSS and Encoral by hook or by crook, they had to make it work,' she states. This was not an easy task, she notes, as Oracle is known for its unwillingness to change the contract. 'We had a very good team of lawyers who had to find a way around it.'

The timescales were met, with the implementation starting in September 2012 and completing on 6th January this year. The new system went live in a 'big bang', following a live simulation. Some managers were advocating a phased cutover, starting with a pilot branch and then rolling out the system across the bank, she recalls. 'I am against this approach. This would stretch users' capabilities and demoralise the users, and we would then lose momentum.'

The go-live was successful. There was some downtime in the course of January, due to infrastructure issues. The first time, the system was down for four hours, but the two subsequent downtime periods were reduced to 30 minutes. The issues were resolved with the help of onsite specialists from Oracle and Encoral. The project came \$500,000 under the \$4 million budget.

***'Learning a new system is always a challenge. We asked ourselves: are the users genuinely ready to accept it, having worked in the old system for 18 years?'* Shahazana Shaari, SME Bank**

Well-organised project management contributed greatly to the success of the venture, says Shaari. To ensure all 'checks and balances' were done, the bank recruited an external consultancy firm, Business Technovise International (BTI). Having an unbiased third party 'with a strong project management background'

providing independent quality assurance (IQA) gave comfort to the bank's management and project stakeholders, she notes. Each major step – from drawing up the RFI requirements through to system launch and post go-live support – was IQA governed. 'Every time we reported to the top management on the progress, BTI would provide its view on it as well.' Strong support from the senior management was a vital component too. 'It made my job and the job of my team much easier,' she adds. 'We didn't have to battle.'

A fresh look at training



SME Bank – Case Study: SME Bank

'There are three essential components we have focused on throughout the project: people, processes and technology,' states Shaari. As the transformation of the latter two was taking place across the bank, it was felt a comprehensive e-learning system was needed to support the users and help them cope with the change.

A lot of e-learning platforms are static, often based on Powerpoint presentations, observes Shaari, 'but we didn't want that. We wanted our e-learning platform to be using live data and presenting the users with a snapshot of the actual system.' The experience should be as close to running the system as possible, she states. Another requirement was a paperless nature of the set-up. SME Bank is keen on 'going green' and cutting down its paper waste, Shaari says. A number of initiatives have already been introduced to that effect, she adds, such as the Dropbox functionality for boardroom meetings.

BTI, the IQA consultancy firm that was working on the transformation project recommended Gieom (Graphical Intelligent Electronic Operations Manual), an India-based specialist company that has developed a cloud-based e-learning platform. It came with recommendations from a couple of banks in Mauritius that had gone through an IT overhaul. Mauritius Commercial Bank used Gieom to train staff on Temenos' T24 and Mauritius Post and Cooperative Bank (MPCB) had it installed for training on Infosys' Finacle.

The Gieom set-up is as follows: a bank's documented material is initially loaded into the cloud and converted into process flows in the supplier's offshore operation in Bangalore. Then, the bank's screens are captured, also uploaded to the cloud, and linked to the processes. The bank is then trained to use and make changes to the content, so that it takes full ownership.

The team was impressed with the offering, Shaari says, and it also liked the fact the company's founder, John Santhosh, came from an I-flex/Oracle FSS background, so he knows and understands the workings of Flexcube. She adds that she has positive experience of working with Oracle specialists overall, saying that 'you can really learn from them' and that 'if you are stuck, they always come up with a solution'.

The Gieom platform was deployed straight after the go-live of Flexcube and the loan origination system from Juris at SME Bank. Users went through a standard train-the-trainer approach during the implementation, but the project team wanted to make sure that the staff built up a comprehensive knowledge of the two systems. 'Learning a new system is always a challenge. We asked ourselves: are the users genuinely ready to accept it, having worked in the old system for 18 years?'

All processes were documented in Gieom and as it is cloud-based, users can access it at any time from home or workplace. They can drill down from general procedures to specific ones, and the platform can tell the users whether a certain procedure is done by the Flexcube/Juris software or whether it needs to be carried out manually. In the latter case, it takes the user through the process step by step. A range of 'specific cases' has also been introduced into Gieom – how to deal with loan rescheduling or restructuring issues, for example – with instructions how to handle these and the required training. 'This really helps,' states Shaari. 'The users say Gieom has a "wow" factor.'

By Tanya Andreasyan