

Bridge of size

Finland-based Aktia Bank overcame reservations about working with a small supplier and opted for CBA's IBAS. How has it fared?

In an era of ever-ageing core banking systems, one supplier that has quietly gone about a rewrite is Norway-based Commercial Banking Applications (CBA). It is one of the great survivors in the industry, having remained more or less in the same form and size since it was set up in 1983. However, it has completed much of the rewrite of its IBAS system over the last few years and can boast a fully object-oriented and Java-based solution as a result. There are few places to go to see this in action as CBA battles with its lack of profile and reach but it has had a few coups in the last couple of years. OCBC in Singapore was a frankly surprising recruit for CBA's payments modules and it also gained a sizeable deal from Fortis Bank in the Netherlands last year for trade finance, as a result of the splitting up of this group.

Nearer to home, Aktia Bank in Finland has both the payments and trade finance parts of the system. Although not a large player itself, it overcame its reservations about CBA's size and has had a good experience with the software. Both parts of IBAS are live at the bank and have delivered tangible business benefits.

For payments, trade finance and nostro/vostro accounting, Aktia had an old local system. This had been acquired in 1990 when the bank moved into these business areas. It was only meant as a stop-gap solution but, as is often the way, it became rather more permanent than intended. In the late 1990s, it was felt there was a need for a new system to improve the automation of the bank's processes in each area. 'Volumes were increasing, the instruments were becoming more complicated and we needed more and more personnel to handle them,' says Niklas Lemberg, director of pay-

ment services at the bank. Finland tends to have a high degree of automation in its banking, he points out, and it was felt that if this could be achieved in these areas then the bank could do a lot more with the freed-up staff.

In fact, from that first evaluation, it was to take seven years before Aktia took the plunge with a new system. In that time, the bank evaluated different system providers, considered outsourcing, considered co-operation with another Finnish bank or with its part owner at that time, Swedbank, or forming a joint operations centre with other banks. There were three projects to evaluate the options, with multiple RFIs and RFPs. A key issue was lack of buy-in. 'We are a very domestic bank. Only one per cent of our payments were cross-border, so the management didn't get very excited when we said we needed a new system,' says Lemberg. There were other systems priorities, including a new treasury system (the bank chose Trema's FinanceKit – this system, now the Wallstreet Suite from Wall Street Systems, has Nordic roots). There were also issues with the different models that were considered. For instance, Swedbank, which had a 25 per cent stake, had Swedish krona as its base currency. Aktia also struggled to find other banks to co-operate with.

Each time Aktia had gone out to the market, IBAS had ended up on the short-list. In the final search, Aktia found that this system had been rewritten. 'Our IT team had a look to see how it was programmed and at the functionality,' says Lemberg. 'Technically they thought it was a very good system.' It was also attractive

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**Niklas Lemberg,
Aktia Bank**

that there were payments and trade finance in one system. Some other suppliers, he says, claimed they had this but when the bank looked in detail, it found they had different systems with different technology. The pricing was also attractive. 'CBA was very flexible,' he says. 'We are a very small bank and we thought we got a very good deal. Some international providers had a very high price and functionality that was not that good.'

As mentioned, there were worries about the size of CBA. It only has 30 staff and all of the original founders are still at the helm. 'It was a great concern,' says Lemberg. The owners were still working in the company, he says, and there was the question of what happened when they retired. Another Finnish bank was evaluating IBAS at the time and Aktia even discussed the two banks taking over CBA if the need ever arose.

In the end, says Lemberg, it was decided that the advantages of the system out-

weighed such worries. One other aspect that might have put off some banks was that the new version of IBAS was not particularly tried and tested. 'We were more scared that an old system would not be flexible enough for all the changes that we saw on the horizon.' It was clear that SEPA and XML were on the way, he says. 'We were more afraid that systems written in the 1980s or early 1990s would not cope with the changes.'

Having at last decided to invest in the system, the project was very smooth and fast, says Lemberg. Often, with a large system, banks do not know what they want and have problems defining the requirements, he points out. But after seven years of analysis, Aktia knew exactly what it wanted and had a detailed view of its processes.

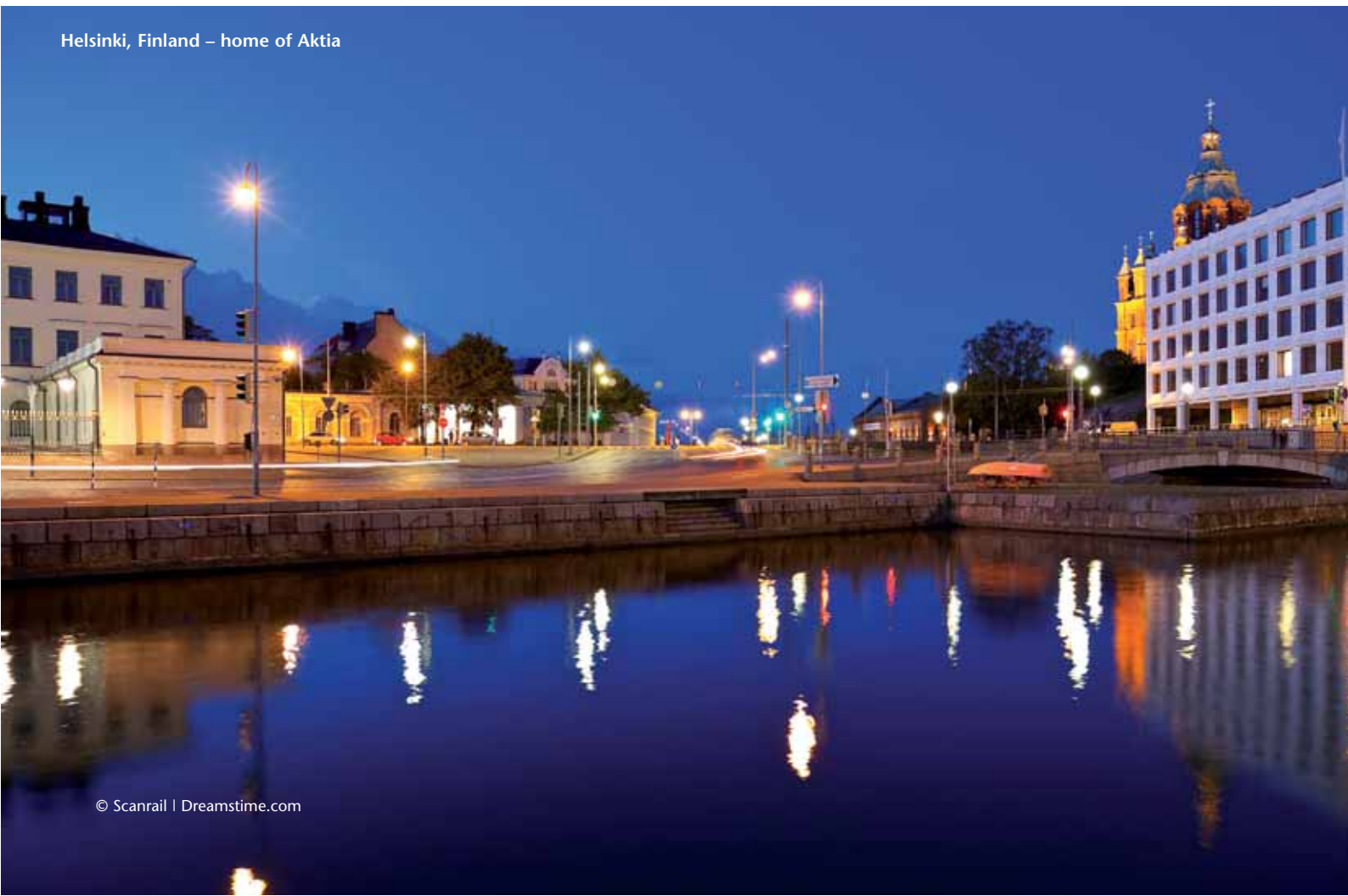
The first phase, for the core and incoming payments, went live in around six months. Outgoing payments followed a couple of months after this, then trade

finance around one year later. There were some enhancements needed but these were done by CBA as the bank wanted to ensure it would not have problems upgrading.

There is a relatively large number of interfaces and, while never straightforward, this aspect was handled by CBA and there were no issues or down-time. There are datafeed links for currencies and exchange rates, interfaces to the account system for incoming payments and branch system for outgoing, to the bank's treasury and custody systems, and to a reconciliations system.

One aspect touted by CBA when it manages to do any marketing is the flexibility of the new system. It is made up of multiple objects, with a large degree of reuse of these, and there is a workflow aspect that allows users to tailor the system themselves. 'As we were going along, using the system, we realised the flexibility,' says Lemberg. He backs up CBA's claims when he says that the

Helsinki, Finland – home of Aktia



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bank can change its own processes and does not need to go back to CBA for this. Workflows and routines can be changed on the fly so that the bank can improve the efficiency of its processes over time.

Of course, there are times when Aktia needs to go back to the supplier for functionality that was not in its original version. CBA sells its system as objects, with these turned on and off depending on what the customer has licensed. At times, the bank believes the functionality it wants is in one module, only for CBA to propose another. 'It is a vast system,' observes Lemberg, and it is not easy to understand everything that is in it. But this is a minor complication, with no major problems having been experienced.

On the payments front, the bank had four people for foreign payments. Now, it has one or, at times, one and half, despite a fourfold increase in volumes, says Lemberg. Those staff are specifically focused on exceptions. For incoming and outgoing euro payments, the straight-through processing (STP) rate is around 97 per cent. For cross-border payments in other currencies, this is understandably lower, but is still between 80 and 95 per cent, he says. If there is a problem with the routing of a payment, the look-up of data can be done manually and the rules put into the system so that next time the payment will be handled automatically. 'So you build up a kind of knowledge base.'

For trade finance, the bank was extremely manual before, with an over-reliance on Excel. By automating, a lot of time has been saved. There were previously two people who spent more or less their whole time processing transactions. Now there is one, with two other staff focused on sales and customer management.

The trade finance part of the project saw the replacement of a number of small applications. The volumes were increasing, says head of trade at the bank, Riitta Mustonen, and the only way to process these with the previous set-up would have been to add more people. The first phase of IBAS to go live was for guarantees, which took

around three months, she says, followed by collections (two months) and incoming and outgoing letters of credit (three months). Some changes needed to be done by CBA for discounting and to handle credit lines. The latter aspect was for managing limits across the structure of the local savings and co-operative banks supported by Aktia. Mustonen reiterates Lemberg's point about being able to adapt the system without going back to CBA every time, although points out that this ability must be handled carefully and professionally. Trade finance does look like a strength for IBAS, and Aktia acted as a reference for Fortis Bank during the latter's deliberations.

For the future, on the trade side, Aktia might look at CBA's internet front-end for trade and will also work on improved reporting. For payments, there is actually a slight decline in the use of IBAS for payments because domestic payments are moving to SEPA and these go a different route. This is via a form of middleware that links the bank's branch system to Swift. Aktia Bank is the central bank for 75 local and co-operative banks and its branch platform is hosted by Finnish company, Samlink, which also houses the SEPA solution. Nevertheless, IBAS is firmly entrenched in Aktia and will still have a foreign payments role to play as well as supporting the trade finance and nostro/vostro accounting.

There is a lack of new systems on the market but CBA seems to have one of these. By retaining the IBAS brand, this may have been missed by many people. There are still some outlying parts that need to be completed, but in the areas taken by Aktia, the system is proven and is clearly flexible. CBA has been around since the early 1980s, so is one of the industry's most stable players; the natural wastage of its user base has been a blow, but the Fortis deal and win at OCBC before this were significant. All in all, it probably deserves more consideration than it receives when banks are looking for systems, at least in the payments and trade finance arenas. 