

Banco de Oro:
Moving Ahead of the Pack with TechnologyCase Study gmsAP719003M
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Analyst: Michael Araneta, Manager, Research, Asia/Pacific Financial Services

Situation Overview

Banco de Oro is currently among the top 10 banks in terms of asset size in the Philippines. Owned by the Sy family, the bank has PhP128 billion in deposits as of end-December 2004 and is highly regarded in the banking sector for its product innovation in both the retail and corporate banking fronts.

In 1997, having acquired a universal banking license the year before, the bank decided to expand its offerings in the country. At that time, however, the country's economy was in turbulence because of political crisis, citizen unrest, and instability in the Asian region. Good customer service was not characteristic of banks in a country plagued with slow transaction processes and ATMs that were frequently offline. Further, as the economic and political crisis saw frequent bank runs and bank closures, the banking sector was facing its lowest level of customer confidence.

Banco de Oro's owners recognized the need to lay the groundwork for, and then to improve, its customer service and significantly reduce operating costs, and that a key enabler to achieving these goals would be an active investment in technology.

The Challenge

Philippine banks were beleaguered with high operating costs due to several factors — slow technology adoption, limited rationalization from past acquisitions of other banks, and a lack of scale and size to gain the economies of scale and purchasing power. There was pressure across the country's banks to reduce high operating cost-income ratio, which can be as high as 70% against a regional average of 50%. The pressure was no less for Banco de Oro.

Banks in the country largely compete on conventional banking products, and there was mounting need to increase the product diversity to capture a larger audience. Banco de Oro saw that they had to reduce product development cycles and increase process efficiencies to generate product innovation and decrease time-to-market in product launches.

The bank’s branches, numbering over 100, were previously not connected to a central core banking system. This took its toll on the branch personnel, who stayed late to balance the books and to run the end-of-day processing each business day. Banco de Oro management saw that in order to grow it was important for the bank’s service delivery to be pervasive across its customer base, and a key factor to develop would be the bank’s branches.

For Banco de Oro, the impetus to implement a central core banking system was two-fold: to enable customers to bank with the bank, and not only with the branch; and, to be able to develop and support new products, which the bank’s then-existing system was no longer capable of sustaining.

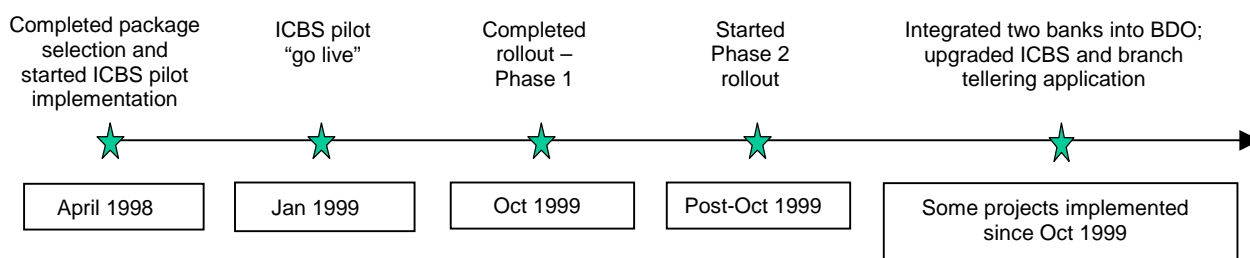
In 1999, the need to replace their core banking systems was especially pressing. The bank had to deal with Y2K issues, and faced an obsolete proprietary system and hardware that was being phased out by the manufacturer.

The Solution

Banco de Oro decided to install Fiserv International Comprehensive Banking System (ICBS) on the IBM AS400 platform. As the major banks in the country were on mainframes, top management had to be convinced to adopt the IBM AS400 platform by citing stability and easy and less costly maintenance as key reasons. The bank was also the sixth bank (albeit the largest at that time) in the Philippines to adopt ICBS. With ICBS already proven and in use in five other Philippine banks, Banco de Oro felt that ICBS would be well versed with the Filipino regulatory and country specific requirements, hence the bank implementation would run more smoothly.

The selection process took four months and, to minimize the impact of the implementation on staff and customers, the bank implemented the system in phases. In Phase 1, the basic modules — current and savings account, loans, general ledger — were implemented with minimal modifications. Phase 2 included the implementation of bank-specific products and modifications.

Figure 1: Implementation timeline



Aside from meeting the business and technical requirements, vendor track record and support was important to Banco de Oro. The bank spoke to its peers to validate vendor claims and finally chose Fiserv and the IBM AS400 platform because it was cost-effective, easy to use, and relatively low-risk. Further, Fiserv had a favorable record of accomplishment in the Philippines and the region.

In addition to scalability, the bank cited flexibility in product design, and speed to market as important competitive reasons for implementing ICBS, and the integrated general ledger boosted productivity and provided a clearer vision of the business for better decision making.

A major advantage of Fiserv ICBS is the availability of a front-end tellering system. This was important, as the bank was also focusing on building its delivery channels, together with the core system replacement project. The bank was able to implement more easily an integrated front- and back-office solution for its branches.

At the time of the implementation, the bank had 20 staff in its IT department, and IT development was outsourced. Therefore, project discipline was provided externally by Accenture (formerly Andersen Consulting), who was brought in to lead the process redesign, and to oversee the change management process, guiding the bank through its first major change project. Fiserv provided the technical consultancy. The bank's main involvement was in the testing and rollout stages. In addition, over 1,000 branch staff had to be trained, which presented a logistical challenge.

The support of Banco do Oro's top management was critical to the project, and saw it through its initial birthing pains. The bank president communicated to the management team on a regular basis regarding the impact of the changes and what they meant for the bank. There were regular steering committee meetings with representation from different parts of the bank, including HR and marketing, which actively sold the idea and benefits to the staff. Business owner support and ownership was also integral to success.

Additionally, the project team was open with the bank's other departments, and prepared all staff for the major changes with regular updates in internal newsletters throughout the project implementation. The team also ensured that they dealt with problems as they arose during the exercise.

The Benefits

The comprehensive change management process in such a major project has well prepared the bank for future upgrades. It has been continuously upgrading its systems and has implemented risk management, profitability, and regulatory reporting systems, replaced its ATM switch, and stabilized the branch and head office network infrastructure, among other numerous projects.

Given that the project implementation was bank-wide, Fiserv smoothed the project's progress greatly by providing full-time staff onsite during the implementation process to immediately deal with any issues.

As the general ledger and reporting was automated with ICBS, processes were vastly improved and shortened. The centralized accounting systems enabled the branches to be more focused on their customer service and sales task, and to do away with branch-level balancing of books.

There were a few challenges to address along the way, too. With the scalability of ICBS, acquisitions were integrated easily, but the rapidly increasing account volumes impacted normal operations, such that end-of-day processing timeframes increased dramatically. While Fiserv is quick to apply remedies to reduce processing timeframes, the bank chose to upgrade to the latest version of ICBS in 2004 to take advantage of processing enhancements that have seen the end-of-day processing timeframe shrink to around four hours, thus enabling the bank to extend the hours of operation.

Moreover, the bank was able to measure project success in hard numbers. Deposit accounts tripled from 250,000 accounts in 1998 to nearly 700,000 accounts in December 2004. Loan accounts saw the same growth magnitude over the same period, from 4,360 accounts to 12,000 accounts. The bank also increased its brick-and-mortar reach, growing from 108 branches prior to ICBS, to its current 184 branches.

With the integration of these systems, the bank was also able to process a larger number of electronic transactions. ATM transactions processed ballooned 30 times, from 400,000 in 1998 to 12,000,000 by December 2004.

Banco de Oro has since received acclaim for its innovative products that have been rolled out on the back of its integrated and relatively advanced IT infrastructure. The bank was also able to attract accounts that were loyal to the bank's competitors through new products with superior features, or those that were not offered by these other banks.

The Future

The bank is still driving to increase process efficiency, for example, by migrating sequential processes in the ICBS end-of-day processing to simultaneous or parallel processes. Going forward, the bank is looking to further reduce its overnight processing window from four hours to two hours.

Scalability has also been singled out as one of the areas that the bank is looking to develop, as it foresees a doubling and tripling of current transaction levels. This can be due to future expansion through mergers and acquisitions, given that the bank has been active in the M&A scene and is usually singled out as a potential acquirer as the fragmented banking sector in the Philippines consolidates. The bank is planning to migrate to the iSeries platform, which builds increased flexibility and better cost performance on top of the powerful AS400 processing engine.

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