



Business Transformation in the Asia/Pacific Financial Sector

Qingdao City Commercial Bank: Reframing the Competitive Arena with IT

Asia/Pacific: Retail Financial Services

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Situation Overview

Qingdao City Commercial Bank (QDCCB) was formed in 1996, as a result of 21 city credit societies merging to create one entity. It provides corporate as well as consumer banking services in Qingdao City, China.

With the opening up of the country's banking industry in 2006 under the WTO agreement, the management of QDCCB felt that they needed to prepare for competition and establish a sound IT infrastructure that could facilitate the launch of competitive products and services. Already, the large foreign banks such as HSBC and Standard Chartered have established a physical presence in the city.

Furthermore, there has been a surge in demand for retail banking, as strong customer-led GDP growth has boosted sales in consumer products such as housing and car loans. Coupled with stringent regulations and monitoring in corporate banking by the central bank, QDCCB is focused on growing its retail banking business.

The Challenge

QDCCB's previous technology infrastructure was typical of its peers: in-house developed, account-oriented, and segregated into departmental silos. With a period of high growth, however, comes the need to generate rapid product development. As new services are added into the existing system, there was an increased need to merge the information and develop a more integrated platform to expand the bank's products and services offering.

The top management has taken conscious efforts to run the bank in a professional manner, moving away from a traditionally bureaucratic operation. However, the IT infrastructure was struggling to keep up with the meteoric growth in QDCCB's retail

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banking business. The development team in the bank’s IT department has also been limited in what they can do with QDCCB’s in-house core banking system, which had reached its limits in terms of new services and capabilities.

Based on legacy systems, QDCCB had built silos for its card, mortgage, and call center departments. Although these systems delivered the required results, they were relatively isolated from each other and required constant patches and upgrades. There was a strong need to integrate the independent sub-systems into one single system for the bank. Furthermore, the original system had to adapt to the myriad of reporting requirements from different regulators in the country’s banking system that were prepared manually to cater to the various formats.

The Solution

The bank decided to revamp its core banking system to address the above issues. In 2002, QDCCB chose Silverlake as its systems integration provider and IBM as its hardware partner.

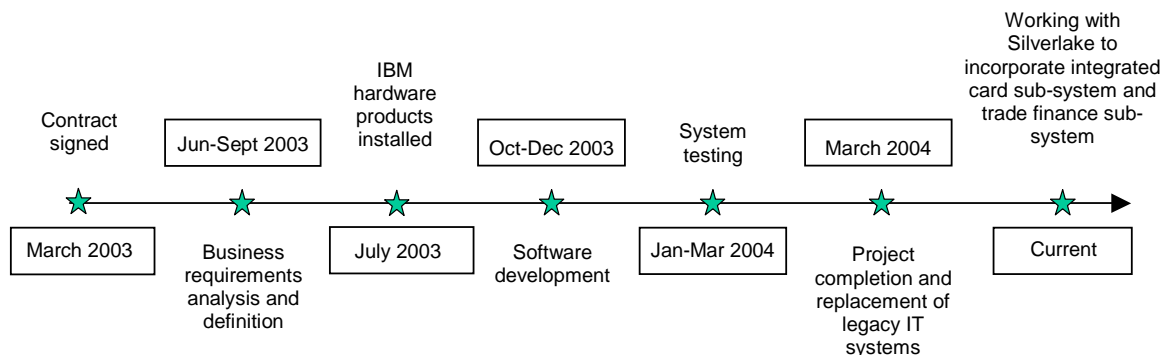
The major modules that were implemented involved retail and enterprise deposit and loans, general ledger, electronic banking, teller systems and CIF. These modules were installed on IBM iSeries servers.

The core banking systems replacement project was significant as it is a first on many fronts. Not only is this the first time QDCCB has purchased technology solutions from a foreign vendor, it is also the first time that a core banking solution was purchased from a foreign vendor by any city commercial bank in China. Silverlake’s international experience in working with banks of a similar scale and operations to QDCCB and IBM’s reputation in the marketplace has partly contributed to the decision.

There were initial reservations regarding regulations, systems and language compatibility and after-sales service availability that were assuaged with Silverlake setting up an office in China.

The implementation timeline below charts the progress of the project—from contract signing to completion. The project was completed and all 40 branches of the bank went live within the stipulated time of one year.

Figure 1: Implementation timeline



The project ran relatively smoothly, as the chief executive officer of the bank owned the project and ensured staff involvement at all levels. This factor was critical in minimizing the impact of the systems implementation. The bank's staff was encouraged to participate in the whole process from the initial business requirement analysis through to testing and post-implementation.

The Benefits

The good communication process between QDCCB, Silverlake and IBM was instrumental in the successful implementation of the project. There was limited customization work necessary given Silverlake's long track record in core banking implementation across different business and operational environments and the focus was more on language customization.

The following benefits were achieved by the bank with the project implementation:

- **Reliability** The bank was able to reduce breakdowns in its ATM as QDCCB improved its IT infrastructure tremendously. After the new system was implemented in March, QDCCB ranked 1st in ATM stability among banks in Qingdao including the nationwide banks and state-owned banks in the subsequent April-June quarter.
- **Increased process efficiency** As processes were handled more efficiently, QDCCB could re-deploy its resources to improve and build its products and services offerings. For example, the time taken for batch processing has been shortened by half with the new system implementation.
- **Improved capital management capabilities** With 24/7 processing of deposit and loans data, QDCCB has since been able to project capital requirement at the end of each day and conduct daily approval of loans and limits. This has enabled the bank to manage its capital more efficiently than its peers have.
- **Increased flexibility and time-to-market** Moving from a purely manual to an automated system, QDCCB was able to respond to new policies from the People's Bank of China with minor adjustments to the system thus increasing the bank's flexibility and market response time.
- **Revenue growth** With the ability to respond to the market quickly and improve its products and services offerings, QDCCB's revenue has doubled as compared to the same period in the previous year. The new system allows the bank to be more pro-active in its product offerings. For example, debit cards have been introduced to the bank's customers since and have facilitated customer acquisition.

- Improved employee knowledge The project implementation has expanded the staff's perspective of the banking system given their exposure to the banking best practice during the exercise and the staff are starting to take pro-active measures in improving QDCCB's service capabilities.

The Future

While most banks in China are aware that their current core banking systems are antiquated and barely able to meet the demands of a more competitive banking environment, few have made the investment given the high risks and costs perceived. With top management sponsorship, QDCCB has made a significant investment in completely replacing core systems and is now on track to deliver customer-centric products and services.

Based on the success of this project, QDCCB is working with Silverlake on successive projects to integrate the card and trade finance systems with the recently implemented core banking system. With a markedly improved product development process, the bank is expected to shorten the time-to-market for new products rollout as compared to its peers.

The next step for the bank would be to implement management and decision support systems; for instance, business intelligence and risk management modules are being planned that will allow the bank to have a detailed yet single-view of customer relationships, and will enable the bank to assess its exposure to customers across product groups. Even though business development was the single most important driver for the core systems replacement in QDCCB, the bank will be able to reap the attendant benefits in other areas going forward.

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