CUSTOMER SPOTLIGHT

Bank Muamalat Malaysia: Leaping into a Bold New Phase

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About Bank Muamalat

Bank Muamalat Malaysia, headquartered out of Kuala Lumpur, Malaysia, is a fully fledged Islamic financial institution providing Shariah compliant services and products. Founded by an amalgamation of Islamic banking assets from three legacy institutions in 1999, the bank was the second full Islamic bank to be incorporated in Malaysia. DRB-HICOM of Malaysia is the current majority shareholder, with Khazanah Nasional Berhad also holding significant interests. The bank currently has over 60 branches and 250 ATMs spread across Malaysia. Assets at year-end March 2014 stood at approximately US$5.5 billion.

Bank Muamalat operates under dynamic market conditions, against a backdrop of strong domestic and global demand for Islamic banking products. Being one of the smaller banks in Malaysia and serving specific demographics in its customer base, the bank's proposition to its existing customers has had to remain somewhat distinct to that of the largest banks. The bank's Islamic foundations give rise to perceptions of a trustworthy and socially conscious financial partner which serves its customers with diligence and fairness in its proceedings.

New market opportunities abound as customer-banking requirements have evolved. Over the last few years, the bank has continuously adapted to meet new customer expectations. Today, its branch-based services have given way to a multi-channel approach, with an eye on delivering an "omni-channel experience" of consistent customer experience across the telephone, ATM and online/mobile channels. These customer requirements, coupled with the ever-evolving industry regulations, dictated the need for a new core banking infrastructure. Thus began the process of searching for the correct technology solution and partner who could support them in their next phase of growth.

Solution Snapshot

Organization: Bank Muamalat Malaysia Berhad

Operational Challenge: Total replacement of an ageing core banking system that could no longer meet both external and customer requirements – while still maintaining Shariah compliancy

Solution: To develop and integrate a new Shariah compliant modern and future-ready core banking system via a 'big bang' approach

Project Duration: 18 months

Benefit: Master customer information file (MCIF) in place, quicker turnaround times, reduced time to market for products and reduction in errors and risk for the bank. Increased competitive standing in the Malaysian banking market.
The Challenge

Bank Muamalat's existing infrastructure before the core banking infrastructure refresh was somewhat unique. Being a product of historical mergers of other banks meant that its mainframe core was parked next to that of another bank. This sharing of physical space presented an issue. While still operating on separate systems and although there was no sharing or intermingling of data between the banks, this situation no longer met with Bank Negara’s security and risk requirements. It became imperative that a new core banking system was needed to meet regulatory compliance and for new business growth.

At the operational level, change was also much sought after. Staff at all levels of the organization who were exposed to the end-user interface found that the infrastructure was inadequate. User experience was deemed lacking and its overall ability to quickly configure new or existing products was deemed to be insufficient for the growth that the bank was looking for. At the heart of the issue was the lack of a master customer information file (MCIF), enabling staff to quickly identify and prioritize customer information. Data regarding the customer was still being kept in separate file formats and systems which required multiple support skills sets interfering with the creation of the much needed MCIF.

The previous solution was also complex in its nature, having been constructed in a somewhat piecemeal fashion over the years. In total, there were 15 systems (mostly payments systems and related applications) which were used to run key functionalities within the bank and fed into one general ledger component (GL). The streamlining and modernization of the GL module was thus identified as another critical and prioritized component of the long overdue core banking system update.

The Solution

Bank Muamalat's management took the decision to explore a total system refresh for their core banking system and sought the help of capable vendors. Over 30 global vendors responded to their request for this "rip and replace" effort. Silverlake Axis was chosen as the eventual partner due to their prior experience in the Malaysian market as well as their standing in dealing with the product differences and terminology present in Islamic financial institutions. Silverlake Axis' record of successful implementations with no major disturbances also stood strongly in their favor as well as their history of providing comprehensive on-site support during post implementation phases. Local knowledge in this instance was deemed key to Silverlake Axis’ success. Local knowledge both of conventional regulatory requirements from Bank Negara, and from the requirements set out by the Malaysian Shariah Advisory Council on Islamic finance related matters.

Silverlake Axis' solution was dubbed the “Muamalat Banking Solution” with the Silverlake Axis Integrated Islamic Banking Solution (SIIBS) being chosen as the core banking framework which would drive the transformation of the bank while still adhering to Shariah guidelines. SIIBS is built and optimized on the IBM i operating system (previously known as AS/400) – a tried and tested architecture already in use in multiple major financial institutions globally.

The solution required 18 months of work, spanning from 2013 to 2014. Silverlake Axis, together with Muamalat, decided to implement with a “big bang” approach. All key systems and applications were to be replaced in one phase rather than the multi-phase approach selected by other institutions. Bank Muamalat's smaller size meant that the big bang approach was optimal in reducing disruption and effort involved in the switch over. A phased approach where relevant modules are turned on in sequence over a designated period of time would have added unnecessary complexity and effort to this operation. Silverlake Axis' previous experience with such similar implementations also added confidence that this method could be used to effectively bring systems online as quickly as possible.
Work began in 2013, and one of the major issues to be first tackled were the multiple customer information files being used to track and record relevant customer information. The bank’s previous state included a number of different systems in use for differing business units. Customer information regarding deposits, hire purchases and financing was kept in silos across different business units and in seven different systems. Data across banks was extracted and cleansed from various data silos and migrated to a single consistent data file for all customers. Inconsistencies in data were filtered out to leave a data resource which would enable a bankwide consistent view into the relationship that the bank has with that customer. Opportunities for cross selling of products as well as groupwide visibility of customer account risk are now possible. This places the bank in a stronger position to capitalize on growth opportunities across its channels as well as to more clearly act upon perceived risks and to holistically mitigate them.

The diversity of systems running in the background proved to be a major challenge as they were all fed into one common general ledger (GL). This myriad of systems and applications required separate teams with different skill sets for operations and maintenance. Over time, this situation had started to become a major barrier to integration at all levels in the bank. Costs for maintaining such a broad range of technology had also become unattractive. Silverlake Axis Integrated Islamic Banking Solution (SIIBS) simplified these workflows and replaced legacy systems with the relevant integrated modules of their own solution. These efforts served to streamline overall system complexity and the associated possibilities of failures at the multiple interaction points in the infrastructure. At the same time, this new robust architecture also goes much further in reducing the support effort and costs which were required in the previous state.

The Result

The system switchover from old to new took place in June 2014 after 18 months of work, nine separate data migration trial runs and four rounds of operational readiness tests which tested every facet of the switch on process. The “big bang” activation approach went on to proceed smoothly and seamlessly with no major glitches or errors encountered. Bank Muamalat, with their new banking business engine, is beginning to see the benefits of their investment. Turnaround times for day-to-day business have improved and new products are brought to market at a faster pace than before. Existing products and services, which need changes to parameters, can now be reconfigured and sent back to market more quickly. Senior management at Bank Muamalat now speaks of clearly seen reductions in data errors and loss of data – likely a result of the simplified and integrated architecture that is now in place. Bank Negara’s regulatory requirements as well as Shariah compliancy are now fully met. In addition, future changes to regulation from both bodies are able to be quickly implemented.

While updating the bank to meet current demands was the primary concern, SIIBS also takes into account future needs and is able to integrate seamlessly with new modules for newer technologies which may arise. Bank Muamalat already has in place dual modules for both consumer and corporate online banking and will be looking forward to implementing a mobile banking application in the near future. While the bank already has business intelligence and analytics capability in-house, they are also looking in the future to expand on this capability (now made easier with MCIF firmly in place). The SIIBS is able to adapt to these new business demands via its modular approach and integrate them cleanly and efficiently into the new core. New technologies as they emerge, should theoretically pose no major issue for future assimilation.

Most importantly, the new core has seen the bank take important steps towards its ultimate aim of increasing customer satisfaction and experience and in using these pillars to increase its market share. In a hyper-competitive domestic and regional banking environment, institutions of all sizes must be innovative and seek new growth opportunities where others may not yet have explored. For Muamalat, their new core has given them the leverage with which to meet new business demands head on and find their place in the market.
Methodology

The project and company information contained in this document was obtained from multiple sources, including information supplied by Silverlake Axis, and questions posed by IDC Financial Insights directly to Bank Muamalat's employees and corporate documents.