

Business Transformation in the Asia/Pacific Financial Sector

Premiere Bank: Confident in Crisis

Case Study
February 2009

Sponsored by IBM

Analyst: Abhishek Kumar, Senior Research Analyst, Asia/Pacific

Situation Overview

Premiere Bank is one of the Philippines' smaller banks with total assets of approximately US\$67 million and a network of 38 branches. The fairly conservative, family-run bank suffered with the onset of the Asian economic crisis under the brunt of delinquencies and increases in non-performing assets. As a result, like many other institutions, Premiere Bank instituted significant cost cutting specifically in infrastructure investments as well as employee training and compensation. Consequently, the bank's ability to compete against more dynamic players in the market eroded. In December 2006, management of the bank was ceded to its new partner, a New York-based private investment company, the Rohatyn Group which was determined to turn the bank around.

As Premiere Bank did not have the size or the network to directly compete against the larger Philippine banks, most with over 600 branches each, the new management decided to focus on differentiating itself by strengthening its value proposition to customers as well as its sales and service partners. Rather than choose the usual strategy of pushing products out on the market, the bank decided to use service quality and a revamped market positioning strategy to pull customers into the bank instead. However, in order for this to occur a number of hurdles had to be first be overcome.

The Challenge

Premiere Bank's new management realized that the bank needed to undergo a complete operational overhaul if it were to achieve any of its goals. Firstly, management decided that the bank needed to focus its business in order to build a risk-managed yet high-yield portfolio. The President CEO of Premiere Bank's President, Mr. Herminio M. Famatigan Jr. states that as a result of this policy the bank turned its business focus to consumer and SME banking.

Even as this new strategic focus was still being conceived, management recognized that consumer banking requires the bank to be able to process a large volume of transactions in a relatively short period of time. This was beyond the bank's capabilities at the time as Premiere Bank was encumbered by manual processes. Famatigan stated that the bank's

Financial Insights
An IDC Company
80 Anson Road
Singapore, 079907
Tel +65.6228.7719
info@financial-insights.com

home grown technology system in use fell far short of the requirements under the new business plan and needed to be replaced. Until an effective solution was deployed, the bank had to focus on providing products that were fairly low in volume and thus could not effectively provide personal finance services.

The Solution

In 2007, Premiere Bank organized a task force composed of representatives from key divisions to choose an appropriate core banking system. They finally chose the Silverlake Axis Integrated Banking Solution (SIBS) on IBM's System i platform. The solution met the bank's key vendor assessment criteria such as:

Experience: Silverlake had worked with numerous similar types of banks in the Philippines and in the region

Strong Referrals: Silverlake customers gave the company positive feedback across the board

Faster Processing Speeds: The system provided much potential to help the bank automate manual processes, ultimately resulting in faster transaction turnaround times for the bank

Scalability & Flexibility: The IBM System i platform has proven itself to be a scalable solution, perfect for Premiere Bank which sought to aggressively grow its number of products and services. The System i platform was also flexible, allowing the bank to deploy a variety of products to the market in a short period of time and to alter them as needed to suit customer needs with minimal delay

Affordability: Though this was the last criterion the bank used to rate the solutions, it did help that the core banking system was reasonably priced

The Benefits

Strong Support and Rapid Implementation – The Silverlake implementation and support team was extremely efficient in deploying the SIBS solution. They were able to deploy the solution within three months. Since implementation, Premiere Bank has been very satisfied with the support it has been receiving from Silverlake

Processing Centralization – The processing of day-to-day back office and non-customer contact work was centralized to the bank headquarters, allowing branch personnel to focus their efforts on high value customer fulfillment and sales activities

Processing Turn Around Time – As planned, processing turn-around time decreased dramatically. Consumer loan applications were now processed within the same day, if not the same morning, as compared to taking a few weeks to do previously

Business Benefits – The SIBS solution has helped Premiere Bank in meeting its business goals. Since implementation, the bank's deposit base has increased from approximately

US\$32 million in 2007 to US\$44 million in 2008, an increase of more than 35%. The loan portfolio expanded 75% in 2008 with consumer loan bookings increasing from a meager US\$2 million in 2007 to US\$21 million. In addition to this, the bank also experienced a decrease in its delinquency rates both in ratio and actual amount

The Future

With the current economic crisis, Premiere Bank anticipates more financial institutions to enter the consumer and SME banking space due to the high revenue potential in this market. Despite the expected increase in competition, Famatigan is not overly concerned as he feels that the last two years have validated the bank's business and technology strategies. However, there is still work to be done. In the coming years, the bank plans to focus on growing its core business as well as improve its core offerings. Premiere Bank will have to continue to aggressively build its deposit base in tandem with the growth of its loan portfolio, continue to work on decreasing delinquency rates and shorten process turn-around times.

Premiere Bank is confident in its ability to aggressively compete for more market share in the Philippines. The bank is even looking to acquire another financial institution that can provide synergies in its drive for growth. The bank is secure in its knowledge that Silverlake will be there every step of the way. Mr. Famatigan sums up the bank's competitive spirit when stating, "Size is ultimately not a factor if you have the right strategy and technology to support you."

Copyright © 2009 Financial Insights, an IDC Company. Reproduction without written permission is completely forbidden.

External Publication of Financial Insights Information and Data — any Financial Insights information that is to be used in advertising, press releases, or promotional materials requires prior written approval from the appropriate Financial Insights Vice President. A draft of the proposed document should accompany any such request. Financial Insights reserves the right to deny approval of external usage for any reason.