

Industrial Bank of Korea

employs Temenos CoreBanking™
to meet growing market demands



Industrial Bank of Korea (IBK) is one of South Korea's largest banks with 11 regional headquarters and 488 branches located throughout South Korea. The bank has been continuously challenged by requirements to adapt to compliance, as new regulations are enforced to avoid financial crises such as the one in 1997. This, coupled with a massive upswing in consumer Internet use, put intense pressure on South Korea's banks to upgrade their systems in an effort to update their service offering. With a proven track record in international core banking solutions, Temenos proved the ideal partner to support IBK through this significant transition.

Fast Facts

- Name: Industrial Bank of Korea (IBK)
- Headquarters: Seoul, South Korea
- Sector: Commercial Banking

Business Benefits

- Faster time to market for new products
- Guarantees compliance with ongoing regulatory requirements
- Integrated service improves customer service
- Continuous processing eliminates down-time
- Fully customizable, scalable solution



TEMENOS
The Banking Software Company



Situation

In 1997 South Korea was a struggling economy in the grip of a devastating economic crisis that threatened to plunge the market into a savage recession. Today, thanks to a proactive government intent on bolstering South Korea's profile as an investment hub, approximately 50 percent of the region's population are connected to the internet, having embraced technology with an almost evangelical zeal. Furthermore, South Korea is leading the OECD broadband penetration with 25.5 subscribers per 100 inhabitants, creating greater demand for more sophisticated online services.

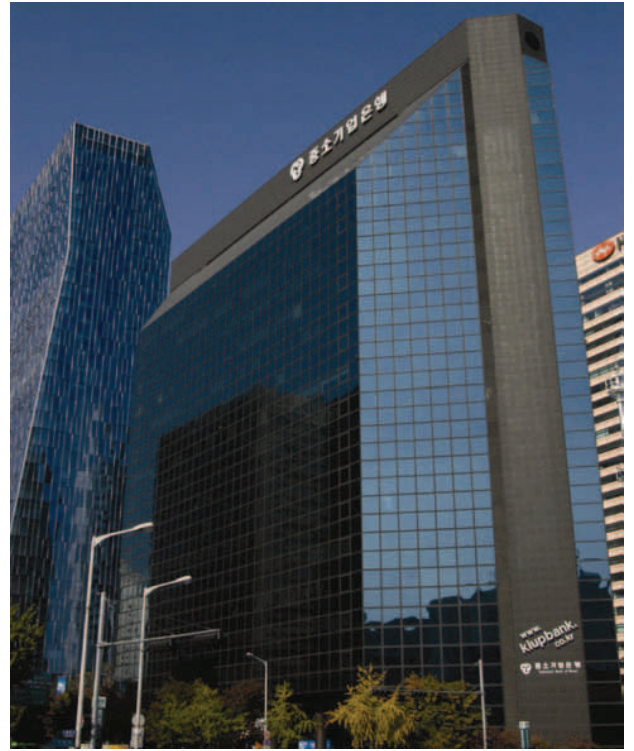
As a consequence of this impressive turnaround, South Korea's retail banks have found themselves struggling to cope with the growing demand for new, online services – not to mention an influx in competition, as western banks have sought to stake a claim in this latter day gold mine.

For Industrial Bank of Korea (IBK), one of South Korea's leading banks for small and medium-size enterprises, the need to upgrade its infrastructure to meet these new challenges became an urgent priority.



“This Next Generation Banking System offers IBK the competitive advantage to remain the leader in the SME banking space for the foreseeable future.”

Ilman Chung, partner at IBM Business Consulting Services, Korea



Bouncing fast

In the wake of the late '90s economic woes, the South Korean banking environment has been flooded with new regulations that are intended to avert any repeat of the crisis. The South Korean banking authorities have set stringent capital coverage and risk management policies with a view to making banks more accountable and less susceptible to operational risk.

To comply with the new regulatory environment, the country's banks had to upgrade their core banking systems or risk censure. IBK had been operating its existing system for over a decade and understood that its functionality could not be reconciled with the regulatory demands being made of it.

As an additional incentive, the South Korean government owns a 57.7% majority in IBK, and as such, there was added impetus to show leadership in the market and present a roadmap for other banks to follow.

Rapid development in the telecommunications industry has also spurred a huge growth in Internet availability, requiring banks to invest in online banking services to meet customer demands. Yet the constraints imposed by IBK's existing core banking system meant that new products could take up to a month to rollout.

Struggling to meet the requirements of a technically savvy client-base and beset by challenging regulations, IBK turned to Cap Gemini Ernst & Young (CGE&Y), a management consultancy group, to provide a comprehensive review of next generation banking systems.

Solution

CGE&Y reviewed six solutions for IBK, all of which focused on the various needs of small banking customers and the external requirements set by the regulators. The review concentrated on finding a package which would provide the bank with parameter-driven, easy and rapid product factory features. Coupled with this, CGE&Y also advised IBK to install a solution that had a proven track-record of success and was already being used by foreign banks. This would give IBK an advantage when foreign financial institutions began to enter into the market.

An additional difficulty was that IBK's existing legacy system was based on banking processes and not on customer expectations. Therefore, a major goal of the core banking system upgrade involved implementing a system that focused on customer service. For this aim, the following requirements were established:

- Rapid development of products/services;
- Continuous processing;
- No single point of failure;
- Customer data-centered;
- Component-based and centered on functionality;
- High level of system independency.

TEMENOS facilitates rapid deployment

Following a diligent review process, IBK decided to implement Temenos CoreBanking™. In addition to meeting all the selection criteria, TEMENOS has a proven pedigree in providing integrated, open, modular and scalable software to the wholesale, retail, private and universal banking sectors.

IBK went live with Temenos CoreBanking™ in September 2004, with the support of IBM Korea. The full implementation was completed in just over two years; a deployment far ahead of other similar projects in progress, and all the more impressive when labor difficulties, which caused a four month delay in roll-out, are taken into consideration.

According to executives involved in the implementation, the robust architecture of Temenos CoreBanking™ was credited for the successful implementation in IBK. The system's packaging allowed a third party systems integrator, such as IBM Korea, to rapidly implement the overall core banking project.

Even more impressive, IBK snubbed the traditional phased approach to its roll-out and instead chose the more dynamic 'big bang' strategy. The reputation of Temenos, coupled with successful tests, inspired IBK to go live across all their branches over the course of a single weekend.

Faster development of products and services

	Average time-to-market in days	
	Legacy System	Temenos CoreBanking
Deposits	195	0.7
Loans	148	1
Services	20	3

Source: Industrial bank of Korea

Benefits

The successful deployment of Temenos CoreBanking™ has allowed all of IBK's branches throughout South Korea to provide a welcome, customer-focused approach to retail banking. In addition to meeting the stringent regulatory demands, IBK has cemented its position as a leading innovator in the South Korean banking community. "Temenos CoreBanking™ offers IBK the competitive advantage to remain the leader in the SME banking space for the foreseeable future," says Ilman Chung, partner at IBM Business Consulting Services Korea.

New products reach market in just two days

Critically, IBK has now slashed the time-to-market for new services from an unwieldy 25+ days to just two or three days. Furthermore, it released 163 new products in the three months following the system go-live. This provides the bank with a significant advantage, not only over local players, but also over those foreign banks hoping to stake a claim in the market. For example, when the financial services industry was rushing to develop and launch a savings product related to the dispute with Japan over the 'Dok-do' island, IBK managed to beat the competition to market, in the process capturing 1 trillion won (US\$ 1 billion) of deposits within 15 days of its release.

Solution

- Product: Temenos CoreBanking™
- Go live: 6 September 2004
- Users: 8000 users



Benefits

Sir Jai-Hoa, general manager at IBK says: "Temenos CoreBanking™ not only enabled us to meet the critical requirements of the next generation banking systems but also offers the best of both worlds: functional richness combined with the flexibility of its data model and component-based architecture."

Temenos CoreBanking™ allows the bank to harmonize its client-facing processes, resulting in a reduction of bank to customer relationships. The customer need only deal with a single bank employee, because the scale of Temenos CoreBanking™ allows that employee to dig down through multiple products and services and provide timely, consistent information to the client without having to pass them on to a different department.

Scalable solution allows customization

The Temenos solution has also allowed the bank to introduce its own functionality as a consequence of the system's unique scalability.

Sir Jai-Hoa, general manager, explains that IBK chose to redesign various business areas including debit, credit, FX and external systems based on the design framework of Temenos CoreBanking™. "The redesign work included rewriting of programs to fit Korean business practices and thus the new system is able to support both retail and SME corporate operation". The unique architecture of Temenos CoreBanking™, based on fine-grained re-usable functions was the central factor in making possible the re-design work.

Continuous processing eliminates nightly shut downs

In a society where Internet use is commonplace, continuous banking service is no longer considered a luxury. This was a major problem for IBK prior to the implementation of Temenos CoreBanking™ as its old system had to be shut down at night to run end-of-day processing. Temenos CoreBanking™ has allowed the bank to operate around the clock, meaning it no longer needs to risk shutting down its system. In addition, the time for batch end-of-day settlement, including interest accrual settlement is now shortened by 30%.

Open to self-service channels

With more than 80% of transactions by corporate customers generated through the internet channel, the ease of integration of Temenos CoreBanking™ meant that all information and services is readily available to channels. Sir Jai-Hoa explains that a single definition of services for channel integration allows to develop offerings and expose them to all channels, especially the lower cost self-served channels.

Looking to the future

With the twin worries of regulatory compliance and competitive disadvantage now behind them, IBK is free to focus its future investment on products and services that can enhance its customers' experiences. With Temenos CoreBanking™ taking care of the complex processes that underlie the bank's daily operations and reducing the emphasis on back office processing, its staff can focus on customer services that will generate further revenue for the bank.