

Islamic Banking Technology Focus

Case Study: **FIRST COMMUNITY BANK**

It seems as though banks will do just about anything to avoid an entire core replacement these days, with many either wrapping their legacy cores with new layers or upgrading ageing solutions for improved functionality. Why did Kenya-based First Community Bank, a long-standing user of Path Solutions' iMAL, choose to upgrade?

AT FCB, **iMAL** was brought in to cover customer management, accounts, Islamic investments, trade finance, treasury, profit calculation and administration. The solution is integrated with a number of third party applications such as mobile and internet banking systems, a local government tax solution, and the ATM switch.

FCB has been running on the same version of the system since its launch, which is the 2.x series suite (which was released in February 2008). The main cause of concern with this set-up, Omar explains, was that there were 'a number of issues' which prohibited FCB from incorporating the Central Bank of Kenya (CBK) guidelines into the system, such as deal classification. Omar also notes that as regulatory requirements vary from time to time, there is a need for constant improvement of any core banking system.

The bank decided to upgrade to the latest version of **iMAL**, 12.8. FCB wanted its core banking system performance to be improved, customer financing applications to be processed in the system electronically, plus workflow alerts to be automatically dispatched by the system to the users. FCB also wanted the option to waive profits and late payment fees, and to achieve all of this, the newer version of **iMAL** was required.

Yunis Omar,
First Community Bank



be tweaked so that it met customer requirements and conformed to Islamic banking principles. The main driver behind the entire upgrade process, Omar says, was to make sure the new version of **iMAL** was able to meet the requirements of both FCB and CBK.

Omar notes that the chief stages of the project involved detailed project planning, user acceptance testing (UAT), training of bank staff, and final validation scenarios prior to the launch. An IT team made up of four senior FCB staff worked with around six people from Path Solutions throughout the process.

UAT kicked off in February 2013, and Omar says 'a lot of emphasis was placed on this part of the project to ensure that the new capabilities would work efficiently'. Another vital part, he says, was training the bank staff on the new system functionality. For this, Path adopted a train-the-trainer model to teach the relevant personnel at the bank's onsite training centre. This exercise spanned 15 days and Omar believes it was important to communicate with all staff members throughout the venture to make sure they were comfortable with the system changes.

FCB uses a Store and Forward Engine (SAFE) in eleven of its bank branches, meaning each branch has an onsite database. SAFE technology allows each branch to work in offline mode, even when the branch connectivity is down, and then replicate the offline transactions when the connectivity is back. Therefore, the most challenging part of the project was updating and synchronising all of these eleven bank branches in parallel and carrying out final validations prior to the go-live. Omar says that from the outset he knew this was going to be 'a very big challenge'.

Rather than 'ripping and replacing', many banks are investing to make their legacy systems current. Banks want to be able to develop new products quickly, offer enhanced customer services, and be up to date with the ever-changing market demands without having to completely change their core solution. This is due to the fact that many core replacement projects either fail, take much longer, or cost far more than originally anticipated.

One bank which opted for the upgrade route was First Community Bank (FCB) in Kenya. FCB, the first fully-fledged Shari'ah-compliant bank in the country, offers commercial banking services as well as a variety of retail banking products such as murabaha (the bank buys and sells the items required by the customer), mudaraba (profit and loss sharing) and musharaka (joint venture). To date, it has assets under management amounting to KES10 billion (around \$116 million), 17 bank branches across the country and a staff headcount of around 400.

Since its inception in mid-2008, FCB has been running Path Solutions' **iMAL** offering, which was chosen ahead of competition from Oracle FSS's Flexcube. According to the bank's Head of IT, Yunis Omar, FCB was looking for a system that was compliant with Islamic banking principles, and Path 'fully met our criteria'. He says: 'At the time, **iMAL** was the only system that was built from scratch in compliance with Shari'ah law, as opposed to being conventional and partly Islamic, and Path was then the only Islamic banking software provider that was certified by AAOIFI.'

To get the ball rolling, FCB created a business requirements document in early 2013, which detailed how the bank wanted the system to work, the behaviour of the different general ledgers, and how the system needed to



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He says: 'As well as upgrading **iMAL**, we had to update eleven databases in our branches across the country. Upgrading one database takes a lot of time and effort, so doing the same for eleven branches really was a challenging task.' The key behind this, he adds, was coordinating the consultants from both Path and FCB's IT team to make sure each individual understood each database and what was involved with the upgrade. FCB also ensured that specific back-up links were put in place in case of branch connectivity failure during the upgrade.

On Sunday 23rd June this year, FCB went live with **iMAL** version 12.8. The bank received its approval from CBK to close on the afternoon of Friday 21st June, so that the upgrade process could be initiated. 'We started the process at 1pm on Friday and the system was up and running by Sunday, with our IT team carrying out the final fine-tuning and testing scenarios to confirm that everything was working as it should be.' **FCB was able to open its doors and serve its customers on Monday 24th June and 'the bank did not suffer from any additional downtime'**, he says. There are now 17 branches, all of which run the new set-up, with around 400 employees using the solution on a daily basis.

Omar says the bank is now able to benefit from greater process efficiency and customer centricity as the performance of the system has significantly improved. 'Time is a critical factor when reporting to regulatory bodies such as CBK.' **Since the go-live, he says, the time taken to produce reports has reduced, and end-of-month procedures carried out via the bank's profits calculation system are promptly generated.**

So why did FCB decide to upgrade its ageing **iMAL** solution instead of completely replace it? Omar explains that the bank's main incentive was that it would remain Shari'ah-compliant. **'We believe Path is still a market leader in offering a fully-fledged Islamic banking system, and this is why we decided to stick with it'**. He adds that the issues with the old version of **iMAL** were ones which could be addressed with a system upgrade. 'The cost issue of completely replacing a core solution and the time it takes is much greater. With the upgrade it took just four months, but on average a replacement takes longer than a year.'

Omar thinks an upgrade process is 'much easier' than a core conversion, as with the former the fundamental structure of the system remains the same, with just a few changes being made for further functionality. He says: 'If the core system can be tweaked, customised or parameterised in such a way that it is going to meet the bank's requirements, then there is absolutely no reason as to why you should completely change it.'

Omar describes the overall project as 'a success', and FCB's priority going forward is to continue to meet the requirements of its clients and CBK. **'Everyone is happy with the system now, including the bank's board of directors, staff and clients, as well as the central bank, so now we need to focus on keeping this level of satisfaction up.'**

FCB also wants to embark on other projects, aside from the core, such as taking the bank's mobile and internet banking capabilities 'to the next level', he says.

Omar thinks many banks in the Kenyan market opt for upgrades due to three key motives. Firstly the cost element, he says, because upgrading an existing system is 'far less costly' than replacing it. Secondly, 'it's easier to customise or parameterise an existing system rather than starting from scratch'. And finally, Omar thinks a replacement project requires changing the third party interfaces, which may result in additional application program interfaces (APIs). 'This is quite extensive and needs a lot of resources, including people, time and finance.'

December 5, 2013. IBS Journal Supplement
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