

Kuwait Finance House notches up Islamic banking first

*Kuwait Finance House has become the first Islamic bank to implement Path Solutions' iMAL*LiveFinancialMarkets*

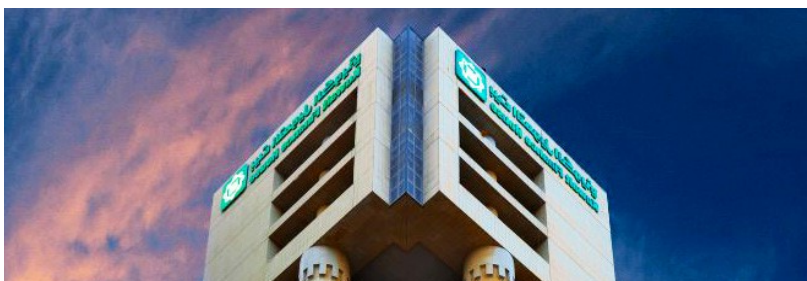
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Kuwait Finance House (KFH) was the first Islamic bank to be established in Kuwait, back in 1977. It is one of the leaders in the region, with an asset size of \$54 billion in 2015. In addition to Kuwait, it operates through a network of branches in various countries including Bahrain, Malaysia, Turkey, Germany, Saudi Arabia and Jordan. It offers a complete suite of Islamic banking products and services via more than 430 branches.

One of the major areas of concern for the bank was the fact that the commodity trade transaction process in its treasury function was completely manual, with an error rate of almost 15%. To address this, KFH management looked at a system that would automate the Straight Through Processing (STP) of treasury FX and money market deals. The challenge, however, was that no other Islamic banks in the world had adopted such a system, thus leaving KFH with no reference points.

Key facts

- **Bank:** Kuwait Finance House
- **Assets:** US\$ 53,901m (2015)
- **Branches (#):** 430+
- **Location:** Kuwait
- **Supplier:** Path Solutions
- **Solution implemented:** iMAL*LiveFinancialMarkets
- **Purpose:** Automated Straight Through Processing (STP) in Treasury
- **Timeline:** Three months



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KFH had a long standing relationship with Path Solutions, having implemented its system in 2005 and hence did not evaluate any alternate suppliers. In addition, the involvement of Thomson Reuters was also critical to the project, as the end objective was for the data extracted from Thomson Reuters to flow into the iMAL system on a real-time basis. The implementation included an interface engine, two Thomson Reuters modules and two iMAL modules.

Initial discussions on the project commenced in 2015 and the implementation began in August 2016. The successful implementation was completed in three months, and involved four onsite resources from Path Solutions, eight resources from KFH and three onsite resources from Thomson Reuters.

While the objective was pretty clear, KFH also identified specific benefits that it wanted to derive from the project. These included:

Reduction in costs – KFH hopes that the STP would enable reduction in costs by re-deploying employees involved in data entry jobs, which were an integral part of the original process

Reduction in errors due to manual intervention

Reduction in TAT – the manual process had resulted in employees taking 10-15 minutes to verify the information.

As with any project of this nature, there were some

challenges during the implementation and post-implementation phase. Considering that the project required the online integration of treasury FX and different money market products, the biggest challenge was testing and developing the application off-shore. To overcome this, Path developed the majority of the application off-shore, while the detailed testing was done onsite. A dedicated resource was assigned onsite throughout the user acceptance test phase and go live phase. There do not seem to have been any other major challenges or roadblocks in the implementation. IBS Journal understands that there were some post-implementation issues related to product class segmentation and default cost capturing which were rectified immediately.

KFH says it is extremely pleased with the overall implementation of iMAL*LiveFinancialMarkets and the results. According to the Manager - Treasury Support at KFH Kuwait, Tanveer Mohammad, the project has met the bank's expectations and helped reduce TAT and costs significantly. Processes that once took three days are now done in a matter of minutes. TAT from capturing the deal in Thomson Reuters to final settlement in the back office has reduced significantly. Error rates have also come down to negligible levels. Based on these factors, it seems that KFH's decision to be the first Islamic bank to implement STP in collaboration with Path has proven to be prudent and could result in others following suit. The bank is now also considering a similar implementation for Sukuk, and is in talks with Bloomberg, with Path continuing their involvement in the project. 🌟