

Allied Irish Banks strengthens its position in Europe through core bank transformation

Overview

■ **Business Challenge**

With competition and regulation increasing, Allied Irish Banks—Ireland's largest bank—needed to become more agile and cost-effective in serving its retail customers to remain a major player in the European banking market. Its aging and rigid core banking systems posed a significant barrier.

■ **Solution**

AIB embarked on a complete transformation of its retail banking platform, with impacts extending from the heart of the bank's core processes out to hundreds of branches. The new system provides a quantum improvement in speed to market and fundamentally changes the bank's cost model.

■ **Key Benefits**

- *Faster time to market with new banking products and services*
- *Major reduction in time required and cost of regulatory compliance*



Headquartered in Dublin, Allied Irish Banks (AIB) offers a wide range of personal banking services, including loans, credit cards and mortgages; insurance products, such as home, travel and health insurance; life assurance and pension plans; and corporate banking services. With operations in Ireland, Poland, UK and the United States, AIB employs more than 25,000 people worldwide in more than 750 offices.

- *Improved ability to offer targeted services through a portfolio view of the customer (not account-centric)*
- *Improved cost/income ratio through lower computing and IT support costs*
- *Improved ability to support rapid organic and acquisition-driven growth with a scalable, low-cost core banking infrastructure*
- *Faster and lower-cost integration of acquired banks*

Over the past several years, the European banking market has been in various stages of flux, driven by changing economic, political and regulatory structures, as well as the forces of competition. The result has been a gradual yet steady change in the market's structure, with consolidation and cross-border expansion becoming the rule. Today, however, European banks stand on the threshold of a new phase of this evolution, with the pace of change accelerating. The catalysts are many. One is an increasing tide of regulation within the European Union, exemplified by Basel II, which addresses

Adapting to change in European banking through business agility

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“We expect 80 percent of the project’s payback to come from faster speed-to-market and the ability to respond rapidly to regulatory changes. The remaining 20 percent will come from reductions in cost, increased efficiency and enhancements to straight-through processing.”

– Steve Meadows, COO and Director of Operations and Technology, Allied Irish Banks

banks’ risk management practices, and SEPA (Single Euro Payments Area), which creates a common, borderless zone in the EU for electronic payments. Another is the broad trend toward banking market liberalization, which is changing the nature of competition in Europe by encouraging banks to expand outside their borders while at the same time strengthening their home market operations. The opening of markets is also spurring the ongoing consolidation of the European banking sector, with a good deal more consolidation—especially through cross-border mergers—expected in the future.

As with any market in transition, Europe’s evolution will produce winners and losers, with the main discriminating factor being the ability to adapt rapidly to this changing landscape. This means having the agility to keep up with not only the challenges of changing regulatory requirements, but also the opportunities created by changes in the marketplace—with the turnaround interval measured in days, not months. Ultimately, survival and success in the evolving European banking market will depend on the ability to sustain profitable growth, a theme reflected in the edict “grow or die.” Moreover, since acquisitions will play an important part in this growth, the ability to rapidly integrate by acquiring banks—therefore speeding the realization of operational efficiencies—will also be increasingly important.

The flexibility deficit

For the larger global and regional banks most affected by these changes, however, few have achieved anything close to the level of business and technological flexibility they will need to thrive. The reality is that nearly all major banks are hobbled with old, inflexible and increasingly costly core banking systems, which control nearly every aspect of banking operations. In the years—and sometimes decades—they’ve been in service, core banking systems tend to become highly customized and “brittle,” making it difficult, time-consuming and costly to implement changes across them. Such was the challenge facing Allied Irish Banks (www.aibgroup.ie), Ireland’s largest bank. Having expanded from its base in Ireland to Poland, the United Kingdom and the United States through acquisition, Dublin-based AIB in many ways epitomizes the increasing importance of cross-border growth for European banks. What makes AIB stand out from other banks is its willingness to take bold action to enable profitable growth in the future.

A longtime user of the IBM System z9@ for its core banking systems, AIB reaffirmed its commitment to the platform when, with the help of IBM, it put a consolidated, yet even more scalable infrastructure in place to handle the substantial

growth in the number of retail accounts managed by 2009. However, AIB realized that while gaining scalability was necessary, it was not sufficient. To achieve the level of business agility it needed to compete in the long term, AIB knew it needed to fundamentally transform its core retail banking systems. One of the most important elements of the transformation strategy it laid out was to completely replace its existing core bank system with the FLEXCUBE retail banking package. While a number of other European banks had taken incremental steps to address their core banking systems, AIB has the distinction of being the first to target its entire banking platform in its core market. AIB realized that adopting such a comprehensive approach to transformation positioned it to make a major leap in competitive strength.

A commitment to success

But AIB was also fully aware of the risks and was committed to doing everything it would take to succeed. This included making sure that it had the right underlying infrastructure in place to get the most out of the new core banking solution, as measured by performance, scalability, reliability and total cost of ownership. A detailed examination confirmed what the bank already suspected, that implementing the new solution on the IBM System z™ platform running z/OS®—and employing IBM DB2® as the solution's core database—would produce far and away better results for the bank.

Demonstrating its commitment to putting the strongest possible solution in place, AIB engaged IBM Global Services to accelerate the porting of FLEXCUBE onto the IBM mainframe platform and to provide comprehensive implementation support. To maximize the performance of FLEXCUBE on the platform, IBM brought together specialists from a range of product areas—including IBM WebSphere® Application Server (on which the FLEXCUBE solution runs) and DB2—to assist in code optimization and otherwise tune the system. IBM technology also plays a critical role in enabling full channel integration and the realignment of the bank's processes around the customer experience. Key enabling products include the IBM WebSphere Enterprise Service Bus appliances, which are used to integrate the bank's applications and processes, and IBM WebSphere MQ, which is used to transport data between the bank's applications. Within the new solution, AIB also employs a full range of IBM Tivoli® systems management products and utilities to manage the new retail solution as well as the wider infrastructure.

Broadly speaking, the biggest benefit of AIB's new retail platform is that it will give the bank the flexibility, scalability and efficiency it needs to compete in the dynamic European marketplace. On the revenue front, the out-of-the-box functionality of

Key Components

Software

- IBM WebSphere Application Server
- IBM DB2
- IBM Tivoli product suite
- IBM WebSphere MQ
- IBM z/OS

Hardware

- IBM System z9
- IBM WebSphere Data Power Enterprise Service Bus appliances

Services

- IBM Global Services

Business Partner(s)

- FLEXCUBE by Oracle Financial Services
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Why it matters

By becoming the first large European bank to replace its entire retail core bank platform with an off-the-shelf package in its home market, AIB is positioning itself to thrive in the competitive and regulatory dynamism of the European banking market. By leveraging the scalability and lower cost of its mainframe environment, the new core bank system gives AIB a means to significantly improve its cost income ratio as the bank grows.



FLEXCUBE—combined with the flexible and easy to manage infrastructure provided by IBM—gives AIB a huge boost in business agility, enabling it to seize opportunities fast, through all of its channels.

This same flexibility also gives AIB the capacity to respond far more quickly and cost-effectively to changing regulations than its competitors, effectively providing AIB with the means to turn a challenge into an opportunity. The underlying change that makes this flexibility possible is the reorientation of AIB's systems from a more limited "account-centric" view of the customer to a more holistic "portfolio" view—a profound shift because it also enables AIB to transform the way it interacts with customers through personalization and targeted cross selling.

Zippering down costs

AIB was also motivated by the knowledge that future competitiveness depended not only on top-line growth, but also on fundamentally changing the cost equation—and that's what the new platform does. Running the new solution on the System z delivers not only unmatched scalability and reliability, but also a significantly lower cost per transaction by virtue of the ability to offload transaction processing workloads to specialty processors known as zIIPs (z9 Integrated Information Processors) and zAAPs (System z Application Assist Processors). In addition to optimizing resource utilization, zIIP and zAAP also optimize software costs. The bank's most fundamental architectural decision—to centralize application serving on the Systems z—has also produced some of the most fundamental benefits, most notably the ability to make one change and roll it out across all of the bank's branches and channels at very low cost. AIB has already achieved another industry milestone by being among the first banks to remove all the servers in its branch network and deploy Linux® desktops served by applications on the System z, in the process reducing branch support costs by millions of euro.

With a scalable and low-cost infrastructure in place and retail transformation well under way, Steve Meadows, Chief Operations Officer and sponsor of the project, believes that AIB is well positioned to thrive in the challenging environment that is European banking. "Our embrace of a bold transformation strategy is a measure of both the challenges we face and our commitment to success," says Meadows. "By working with IBM, we're gaining the agility and efficiency that are becoming essential for success—and we're doing it today."

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