

Mine's a best of breed

The environment Ubank operates in could not be more different from the cosseted existence of Khalifa Fund, the other subject of a case study in this Lending Focus.

South African retail bank Ubank's most recent annual report is a gloomy read. 'The year under review was characterised by poor macro-economic performance both globally and domestically, combined with equally turbulent micro-market conditions particularly in the bank's core target market in mining,' it starts. That was for the year ending in February 2013. Since then, the South African economy has continued to slow and industrial relations in the mining industry remain at rock bottom. In Ubank's words, the sector is defined by 'strikes, wage disputes, growing safety concerns and high costs'. Mining output has stagnated, while global prices have fallen. At the time of writing, 70,000 of the country's platinum miners were in their fifteenth week of strike as they hold out for higher wages from their international employers.

The year to 2013 saw a drop in the net loan book of 13 per cent, and a loss before tax of around £4 million. Even as the bank's deposits rose and loans fell, the loans to

deposits ratio dropped as the impairment rate passed 15 per cent, and this has continued to rise since. The bank's response was to launch a review in 2013 with the aim of creating a 'diversified retail banking proposition and address the concentration risk that the bank currently has in the gold and platinum mining sector'. This has not been achieved so far, with recent reports suggesting that 80 per cent of Ubank's shrinking loan book is made up of loans to mine workers.

The repositioning actually started a few years ago, when its name changed from Teba Bank. At the time it launched a few new current account offerings which bundled insurance, mobile airtime and travel and shopping discounts for a monthly fee. This helped the deposit book grow.

In terms of its lending portfolio, the bank was running a couple of systems to support about five products. 'When we looked at our value chain in the lending space, we felt there was a need to optimise

and make it more efficient,' says the CIO of Ubank, Fundile Ntuli. In terms of its core banking system, Ubank has been a user of Flexcube from Oracle FSS since 2001. 'We are looking to equip ourselves with the best possible value proposition, and based on that principle we want to use best-of-breed solutions. Our core banking system is a best of breed system, and that's what we wanted for lending as well,' says Ntuli.

So the bank started looking at new possibilities. It drew up business requirements which formed the basis of an RFP, for which there were five respondents. Functional and technical as well as non-functional criteria were weighed up, plus financial considerations. Six options were considered, which were five respondents to the RFP, plus an in-house development project. The in-house option was viable, but the bank rejected it on the grounds that the work to maintain it would increase over time. 'We are a lean organisation and the amount of effort required for this kind of undertaking would be quite significant,' says Ntuli.

Three suppliers were shortlisted. These were Nucleus Software, with FinnOne, and two un-named competitors. These were invited to do demonstrations, and Ubank also looked at case studies. It spoke to existing users although 'we didn't feel the need to do a local inspection of references', partly because Ubank could find no banks which were similar enough to it, which had taken FinnOne for both origination and collections, plus the other modules besides. 'It's not that nobody else had done it, but

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Fundile Ntuli, Ubank

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we didn't find anyone in South Africa,' Ntuli states, adding 'based on that journey, Nucleus was the strongest overall.' This led to the selection of FinnOne from Nucleus in March 2013.

The first thing the bank did with Nucleus was a business requirements mapping exercise. This was 'basically an affirmation of the functional fit'. Once this was completed the development work started. 'Almost all the development was carried out by Nucleus,' says Ntuli. Ubank's IT staff became more involved with the next stage, which was integration testing. After this, mock runs and UAT testing took place ahead of a big bang go-live.

The reason the bank had settled on a big bang was that this was felt to be the way to keep impact on customers to a minimum. The same applied to the staff. 'It meant that overnight they would move from one system to another and this was felt to be the cleanest thing to do,' Ntuli says. So long as the availability risk could be mitigated, this would also have the benefit of avoiding multiple sources of data. Two systems were being migrated to FinnOne, so there was to be an immediate simplification. One of these two systems was in-house designed and the other was from another third party firm, with one running secured lending and the other running unsecured products.

The go-live itself happened smoothly in January 2014, 'without major hiccups,' says Ntuli. The plan called for Nucleus to retain an onsite presence during and after the go-live, and 'we have benefited from that,' says Ntuli. The integration with Flexcube has been a success so far. Flexcube is still the source of all the master data for customers, and FinnOne feeds in and out of the core. The interfacing was mainly about data alignment and mapping. 'The integration itself was fairly easy but the planning and design was the complex part. But there were no unexpected challenges,' says Ntuli.



Johannesburg, South Africa,
Home of Ubank
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Reflecting on the project, Ntuli notes that 'because of our size, it's important for us not just to talk but to actually demonstrate that we are agile'. Referring to the fact that there were previously two systems running the lending products, Ntuli notes that 'one of the means of being agile is through simplicity'. Similarly, FinnOne makes it 'much easier' to develop new products. Ubank also hopes that the new system will save money. 'The way our IT team supports the system has become more streamlined. We are obviously hoping to save money but can only talk authoritatively about that later,' he explains.

Plans are in the pipeline for mortgages, asset finance and vehicle finance. Separately, new smartphone apps will be brought to market. While there are bigger factors at play in its fate, by installing new lending software Ubank is making a good fist of controlling what it can. ⚙️



**NUCLEUS
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