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CASE STUDY: BMO

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Strength in numbers

There is much talk in today's difficult times about collaboration but examples in the back office are few. The experiences of Bank of Montreal show that such models can be challenging but can also bring rewards.

Many back office outsource initiatives have fallen by the wayside and it is certainly not the case that the route taken by Bank of Montreal (BMO) has been a smooth one. Nevertheless, the bank, alongside its supplier, AMS (now CGI), and ANZ, persevered and it now appears to have a flexible, web-enabled and robust platform, with added benefits stemming from the collaborative opportunities of working with other banks. One other recruit, Union Bank of California, has come onto the platform and, in these times of cost cutting, perhaps others will be tempted to follow.

The origins of the initiative go back to the late 1990s when BMO, ANZ and Barclays decided to look at a cooperative model for their trade business. The grouping was really down to the relationships between the people at that time, says BMO's director, product management, trade finance, Murray McGuire. Over three or four months, Ernst & Young was given the task of evaluating the trade finance platforms on the market, opting for AMS's Object Tradeline. The main criteria, he says, was multi-bank support on a global, centralised basis, as the intention was to have a single iteration of the system supporting the three banks, and any additions, on a hub and spoke basis. Other requirements were more traditional ones, such as good reporting.

The banks formed Proponix in 2000,



Sara Joyce,
BMO Capital Markets

jointly owned by ANZ, BMO and Barclays, along with AMS, centred on the latter's Object Tradeline system. AMS acquired the technology platform from that JV in 2003 and renamed the Object Tradeline platform as Proponix; AMS was bought by CGI in May 2004. ANZ went live in September 2001; BMO followed for some of its processing in January 2003. Union Bank of California cut over in March last year and CGI gained a coup for the platform when Citi signed to use it for its outsourcing efforts (IBS, October 2007).

Largely for internal reasons, Barclays dropped out of the JV at a fairly early stage,

causing a rethink about the way forward. The backdrop of the dotcom crash did not help matters. Initially, the intention had been to centralise back office processing but, in the end, the outsourcing came to centre purely on the technology, with BMO and ANZ retaining their back office staff. While it did not end up as a processing utility, says CGI partner and director, Steven Starace, that option still exists. McGuire adds, 'the original vision still has a lot of merit' and, while the plans changed, the choice of AMS did not waver.

Nevertheless, as today's executive managing director, head of international financial institutions and trade finance at BMO Capital Markets, Sara Joyce, admits, the shift from a central utility shared by all partners meant it was harder to achieve savings and moved slower than planned. Within the joint venture, AMS was tasked with marketing it and gaining additional recruits, allowing it to scale up. Perhaps, says Joyce, it was too early, as was arguably the case with payments utilities such as those of KBC (FinForce) and Deutsche Bank.

Understandably, there was a need to customise the AMS platform for the new venture, with layers of processing added on top. Each bank uses it slightly differently, with different modules and models. ANZ supports a large number of countries through a hub and spoke deployment, with an almost totally centralised approach.

BMO's trade business is focused on North American companies (including via its US subsidiary, Harris Bank), supporting their international business.

Over the last few years, there has been the addition of support for open account and purchase orders. The fact that 80 per cent of Canada's exports are to the US meant open account functionality was critical, says Joyce, with much of this around checking transactions against customer checklists and electronic purchase orders, and the ability to add financing products such as reverse factoring on top. For one large North American home improvements company with a wide base of suppliers particularly in Asia, it has developed a service whereby it takes files of transactions from the customer's procurement system for reformatting, reconciliations, other checking and payment authorisation.

BMO was one of only a small number of banks that was able to build this open account capability for this demanding customer, says Joyce. Once done, she adds, it becomes a core capability that can be offered to other customers. Indeed, a somewhat slimmed down version of the service, currently without the supply chain finance aspect, is now being used by a second corporate. Proponix has the flexibility to add such services, says McGuire. 'We can stay in the game and can respond to challenges.' CGI partner and executive consultant, Kitt Carswell, adds that the platform did not have such capabilities when the customer need arose but they were added in three months. CGI added functionality to the existing letters of credit module at the start before adding an 'industrial strength' solution.

A key benefit of collaboration is that functionality such as that added for BMO's customer can be picked up by the other banks, and vice versa. ANZ is more exporter driven, BMO more importer driven, while Union Bank of California has its own nuances. Each brings different ideas and needs. The aim, says Carswell, is to have a true partnership between all parties. McGuire says: 'It has been an unexpected benefit of the ASP, that all are driving it forward.' Some ideas do not, of course, work for the entire group, while the sharing of ideas can also ensure that you do not go down blind alleys, with the other banks constituting a good 'sounding board'.


There is also a sharing of ideas within the individual banks themselves so that, for instance, ANZ uses some of the imaging capabilities of the trade platform for its lending business. Within BMO, says Joyce, the bank asks, 'who else could use the capabilities?'

As a result, while the different banks' requirements have to be prioritised, Starace says, 'we thought there would be greater challenges getting alignment across the business'. Carswell adds: 'We have tried to institutionalise the processes, so agree priorities and roadmaps.' CGI has a team of more or less 100 in its trade group, out of 600 in its overall banking group, and total staff of 26,000. Once functionality has been added, it is immediately available to each bank because of the ASP nature of the configuration. Joyce points to one incident which shows the partnership approach. BMO needed to install a new release to gain some added functionality within a tight timeframe, which necessitated implementation and testing over Christmas, but ANZ cooperated and 'took it on the chin'. Union Bank of California, which does not seem to have had the easiest of migrations, has now entered into the collaborative spirit, according to Starace, and benefits from functionality built for the larger two partners.

Today, additional banks could sign up to use the platform directly or there might be scope to outsource some or all processing to BMO or ANZ, which would leverage the platform to support this. Traditionally, says Joyce, 'trade has not been a big growth business for banks so this encourages under-investment'. BMO is talking to some banks about potentially insourcing their business, she says. This would be along the lines that BMO already works for its own US subsidiary. She feels BMO has a competitive offer and is not viewed as a threat by regional US banks but rather as 'benign'. There might also be a disaster recovery aspect so that, for instance, if New Orleans was to flood again, any banks there could flip over to CGI's system. Nevertheless, she does not expect insourcing to be a big area of revenue growth. The tendency for banks is still not to want to relinquish their own operations and to have more interest in using their own teams but with third parties potentially providing aspects such as web front-ends. CGI is also actively talking

to the legacy Tradeline base (it was sold on a traditional licence fee basis) and Starace hopes that the supply chain aspects will create the impetus. At present, it has one small client. 'If we worked on a couple of deals, it would be a nice idea. We are not going to be the next Bank of New York but we could extend our activities,' says Joyce.

Whether the wider matching services offered by the Swift-driven Trade Services Utility (TSU) have a role to play for the banks' internal or third party processing remains to be seen: the 'jury is still out on this', says Joyce. 'We want to ensure we are compatible, we are a subscriber and I think you could say we have been fooling around on it.' McGuire adds: 'We could be a quick follower if we need to be, we want to be sufficiently flexible to go in any direction if clients want it.' So far, he says, BMO has never had to say 'no'. Carswell points out that the purchase order XML messages within the system are based on Swift's TSU messages. Joyce believes it is up to the banks to build services on top of the TSU's matching capabilities and that the corporates won't care how those services are facilitated. BMO is not involved with Bolero, as no clients have asked for this to date. And it was one of the original banks to back the Tradecard utility but stepped back, as did just about all the other banks at that time.

BMO's trade services business is growing, in contrast to that of many other banks. The open account facilities are helping and it can demonstrate clear focus on this sector. Its platform appears to give it flexibility and improved time to market, while the pooling of ideas and requirements adds to the benefits. 

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