



IBM Global Business Services

IBM supports the foundation of an Islamic Bank in Saudi Arabia

Frankfurt, Nov 5th, 2008

Dr. Paul-Gerhard Haase – IBM Deutschland GmbH
Christopher Kalbhenn – IBM Deutschland GmbH



Agenda

1. The Saudi Banking Market

§ **Islamic Banking – a dynamic growth play**

2. Foundation of a new bank

§ **Strategy**

§ **Products & Services**

§ **Operating Model**

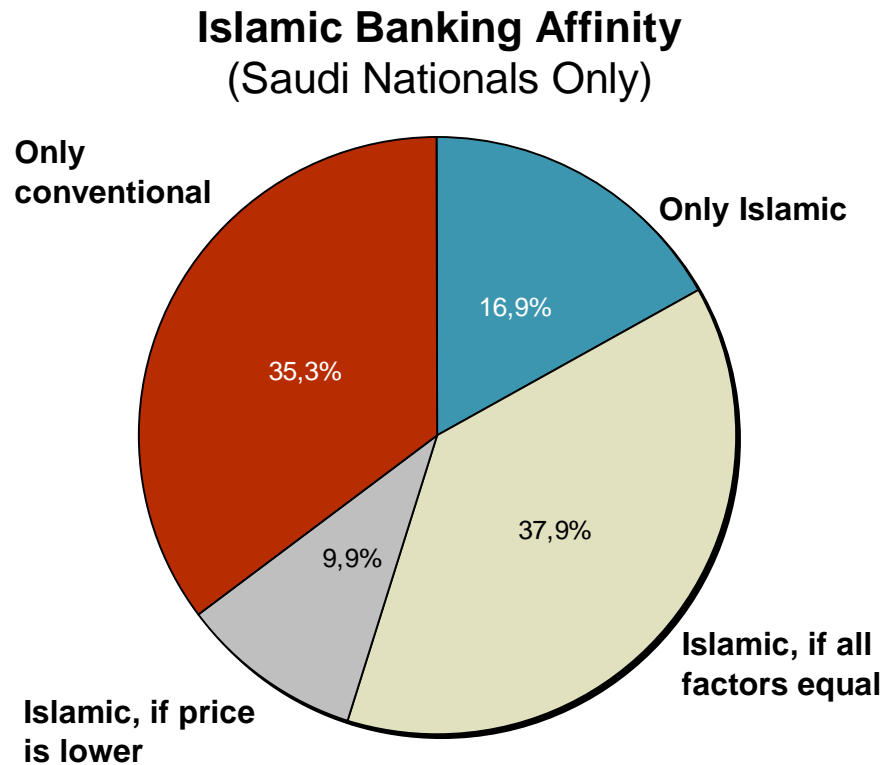
3. IBM Engagement

§ **Business Model Framework & Process Reference Model**

§ **System Integration**

4. Lessons Learnt

There is a strong demand for Shari’ah compliant banking services in the Saudi market,...

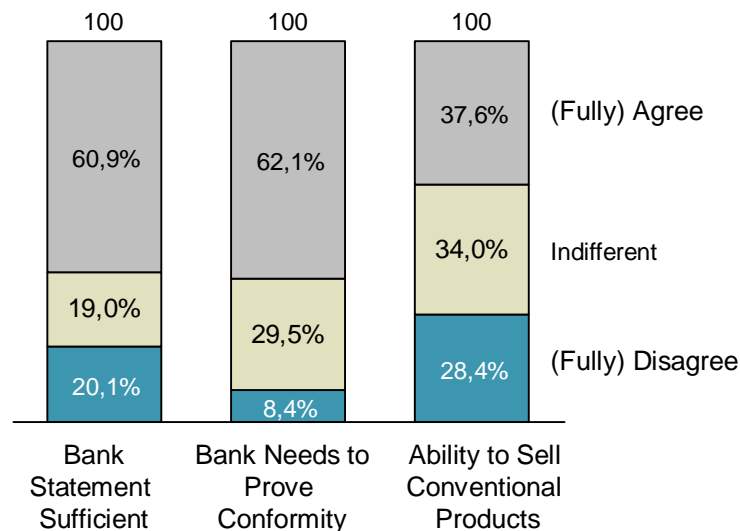


*Note: Based on opinions of Saudi nationals only (no expatriates).
Source: Results from market research, Booz Allen analysis*

Comments
§ About two thirds (64.7%) of Saudi nationals have a preference for purchasing Shari’ah compliant products
§ Within the above population, 16.9% would only purchase Shari’ah compliant products regardless of price, conditions, etc.
§ In the main, most customers will not purchase Shari’ah compliant products if this puts them at a competitive disadvantage vs. conventional products

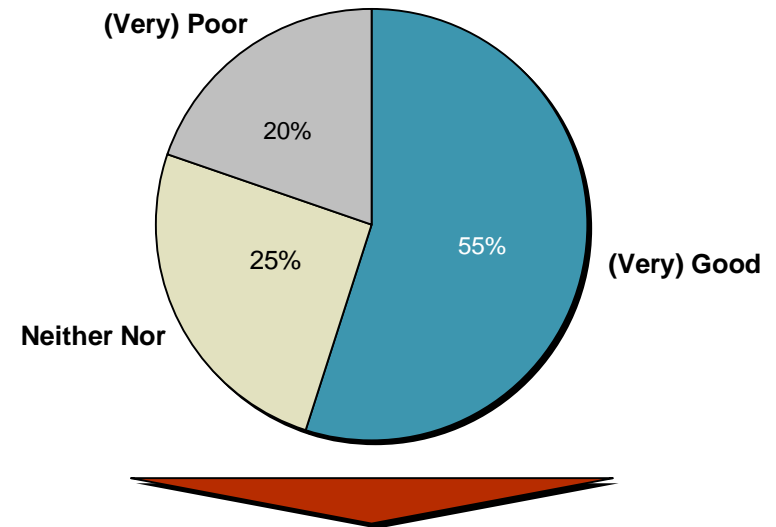
... but banks have to prove that they adhere to Shari'ah principles implying the need to invest in educating customers

Evaluation Of Shari'ah Conformity (Saudi Customers Only)



- § Islamic banks in Saudi Arabia need to make clear that their products and processes are Shari'ah compliant
- § Proof or certification of Shari'ah compliance is important
- § Only about a third (37.6%) of Saudis agree that a bank should be able to sell both Islamic and conventional products

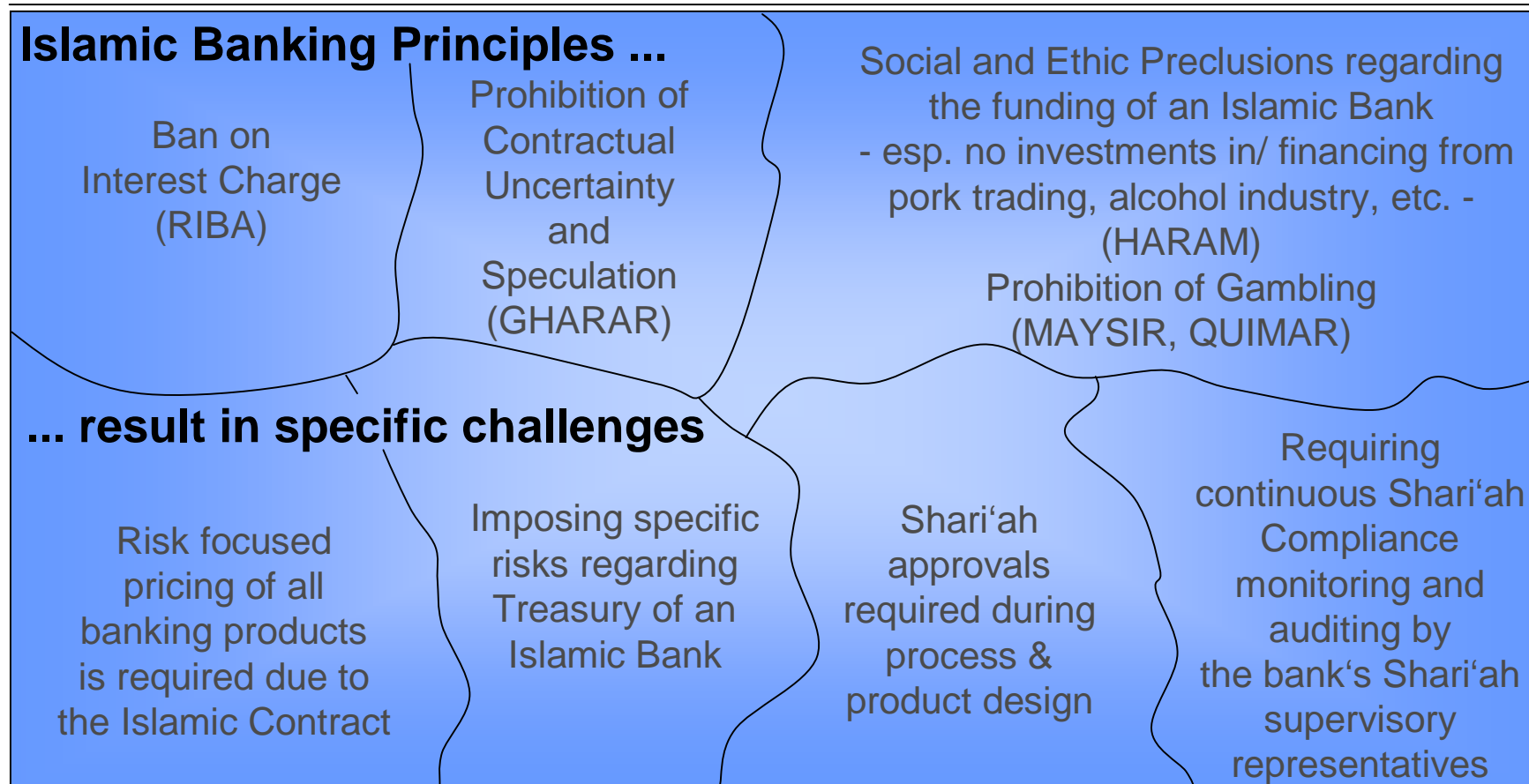
Knowledge About Islamic Banking



- § Only 55% of all customers have a sound knowledge of Islamic banking
- § Given that interviewees typically overstate their response to this question, it can be assumed with reasonable certainty that the level of understanding of Islamic banking in the Kingdom is fairly low
- § Consequently, the bank will need to invest in educating its target customers on both the nature and benefits of Islamic banking

Source: Results from market research, Booz Allen analysis

The Shari'ah Law imposes a set of principles on Islamic Banking resulting in particular challenges within the bank



> Resulting in high demands regarding reporting and monitoring capabilities particularly regarding processes, systems and people.

On royal decree the bank was founded in late 2006 with an successful IPO in 2008 and a proposed market launch early 2009



The bank's 3 founding shareholders are

§ Public Investment Fund (PIF)



§ Public Pension Agency (PPA)



§ General Organization for Social Insurance (GOSI)



Together they represent 30% of the bank's capital, or SAR 4.5 bn, with equal shares. The remaining 70% of the bank's capital of SAR 15 bn is publicly held.

Bank is deemed to be essential part of the KSA initiative for economic growth

Vision:

To be your preferred financial partner.

Mission:

To provide our partners with total Shari'ah-compliant financial solutions through the best workplace to sustainably grow and serve our community.

Agenda

1. The Saudi Banking Market

- § Islamic Banking – a dynamic growth play

2. Foundation of a new bank

- § Strategy

- § Products & Services

- § Operating Model

3. IBM Engagement

- § Business Model Framework & Process Reference Model

- § System Integration

4. Lessons Learnt

A growth strategy, best in class technology and Shari'ah compliance are the cornerstones of the bank to become the world's leading Islamic Bank

Market Growth Strategy

- § Efficient customer acquisition and migration at large scale
- § Grand entry
- § Retail, Corporate & Investment Banking
- § Superior customer service
- § Efficient and accessible service
- § Reach new customer segments (Youth & Low Paid Workers)
- § Customer focused workforce
- § Leadership in product development (Speed to Market)

Strategy Differentiators

- § Shari'ah compliance
- § Customer service
- § New concepts of branch banking
- § Efficient business process
- § Partnership (Co-branding) that adds "Big Value"
- § Strong Customer Relationship Management
 - § Behavioral monitoring at contact points
 - § Delivery channel collaboration

Proposed Corporate Banking Product Scope

- § **General Contract**
- § **Checking Account / Investment Account** (restricted / unrestricted Mudaraba)
- § **Transfers & Transaction** (SWIFT, SARIE, SADAD, Payables Mgt, FX....)
- § **Islamic Trade Finance**
 - LC Musharaka / Murabaha
 - Import Documents Finance
- **Islamic Investment Products**
 - Sukuk Musharaka / Ijarah / Bai Salam
- **Islamic Financing Products**
 - Deferred Sales (Tawqer)
 - Ijarah with ownership
 - Local Mudaraba / Murabaha
 - Istisna'a & Parallel Istisna'a
 - Syndicated loans (Musharaka / Ijarah)
- **Joint Guarantee (Takaful) / Benevolent Loan (Qard Hasan)**

List is not deemed to be comprehensive

Proposed Retail Banking Product Scope

- § **General Contract**
- § **Checking Account / Investment Account**
- § **Transfers & Transaction (bill payments, standing order, FX, Payroll)**
- § **Personal Finance**
 - Global Limit
 - Auto Finance Murabaha & Ijarah
 - Stocks Finance Murabaha
 - Goods & Service Murabaha
 - Real Estate Murabaha & Ijarah
- **Cards**
 - Charge card / Direct card
 - Secure card / Prepaid card
 - Corporate card
- **Safe Deposit**
- **POS**

List is not deemed to be comprehensive

Proposed Treasury Product Scope

§ Commodity Murabaha (with SAMA & Other Banks)

§ Placement on Mudaraba Basis

§ Investment in Shari'ah Compliant Funds

- (asset classes: real estate, private equity, liquidity fund, equity fund, commodity fund)

§ Investment in Shari'ah Compliant Sukuk

- Trade contracts (Murabaha, Bai Salam, Istisna'a)
- Equity contracts (Musharaka, Mudaraba)
- Rental contracts (Ijarah, Diminishing Musharaka)

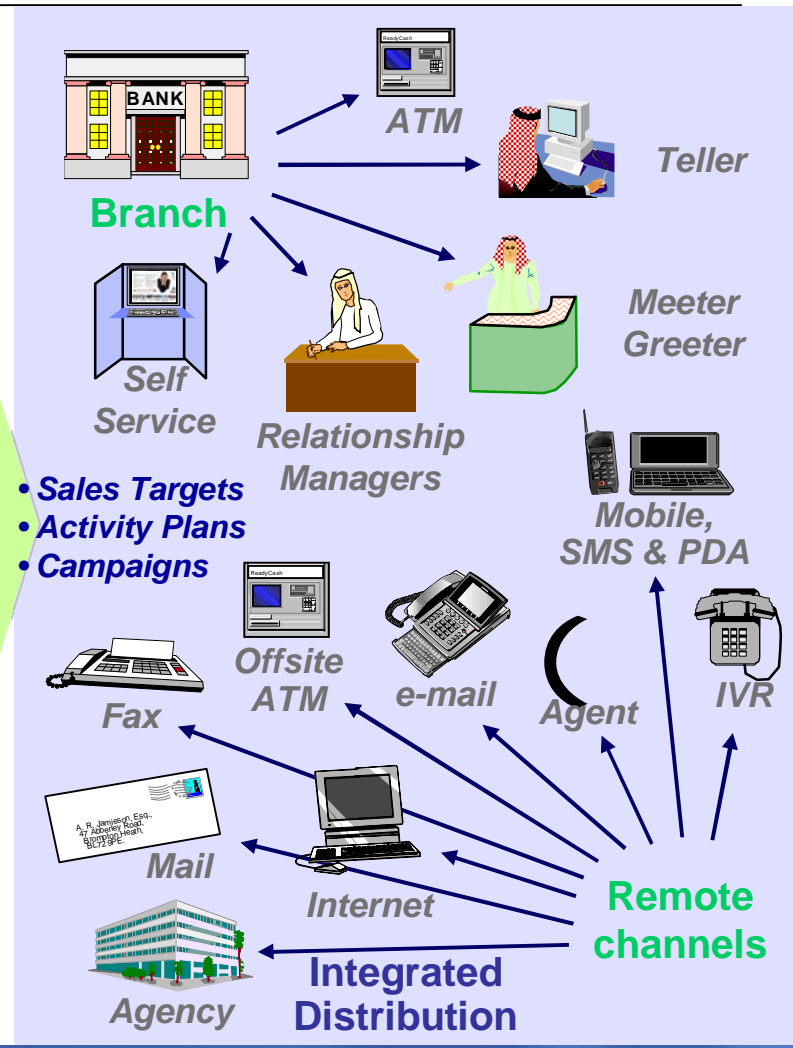
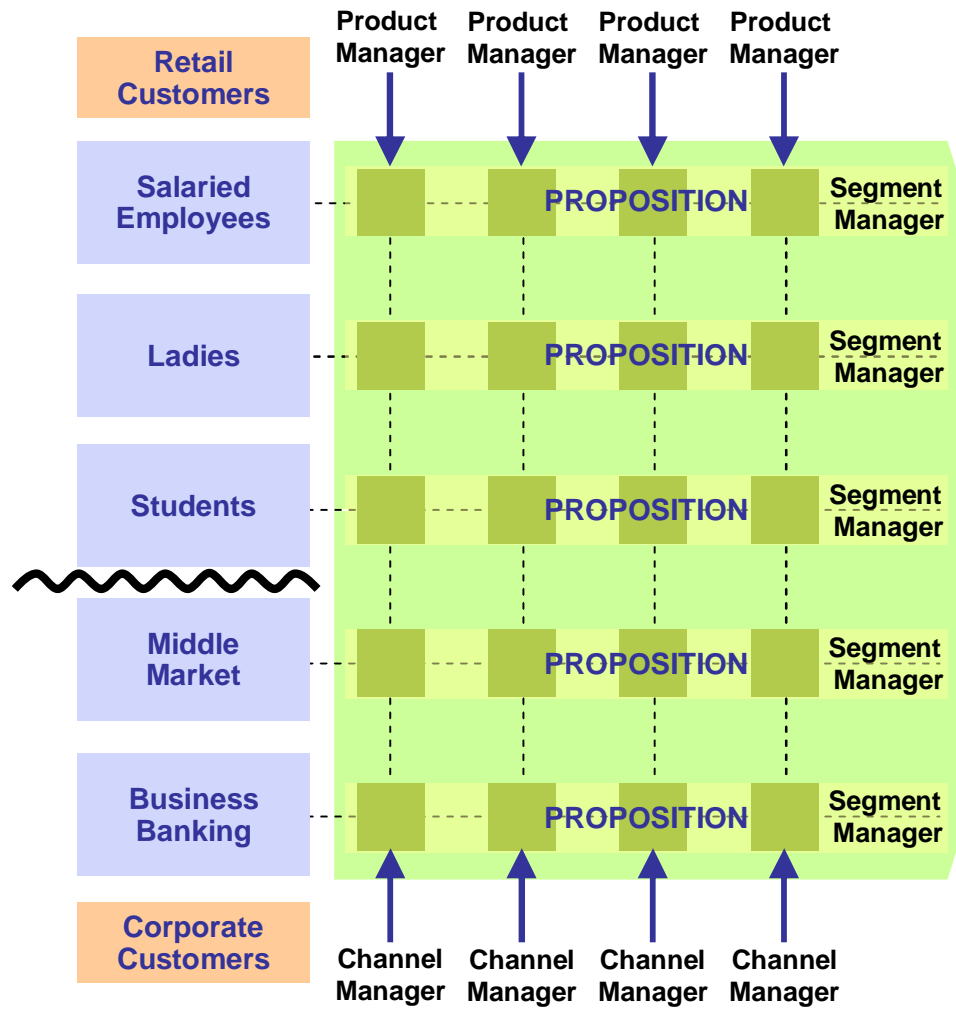
§ Wakala-tul-Istismar Basis

§

Currency Swaps – (On Qard Basis)

List is not deemed to be comprehensive

The Customer Engagement Model and proposition for each segment define how the bank will engage with those customers



Agenda

1. The Saudi Banking Market

§ **Islamic Banking – a dynamic growth play**

2. Foundation of a new bank

§ **Strategy**

§ **Products & Services**

§ **Operating Model**

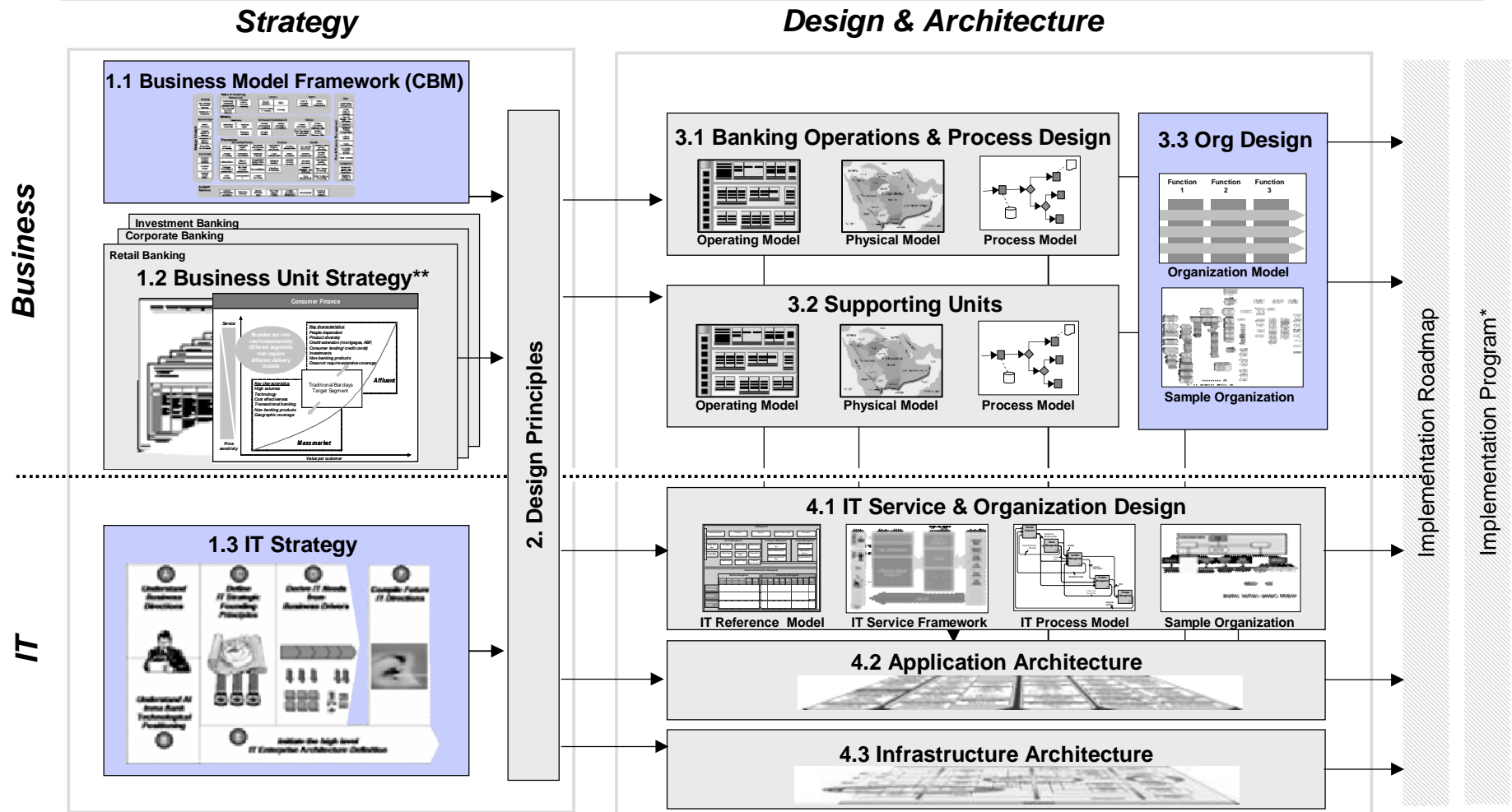
3. IBM Engagement

§ **Business Model Framework & Process Reference Model**

§ **System Integration**

4. Lessons Learnt

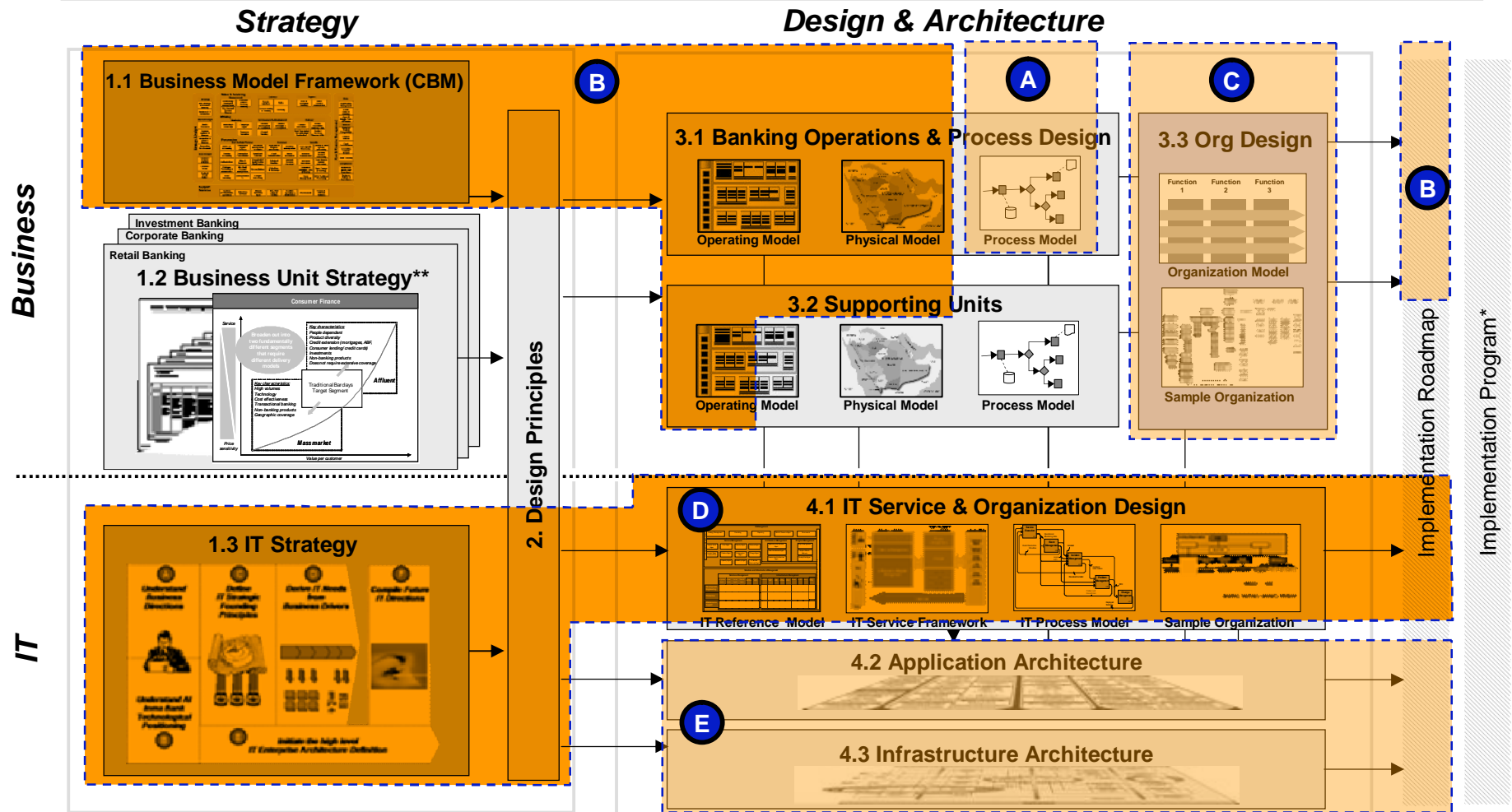
IBM's initial proposal covered the whole scope of the Business & IT Architectures in two phases: 'Strategy' and 'Design & Architecture'



*Out of scope

Based on IBM's proposal, the scope was decomposed into 5 separate work streams

- A** Core Business Processes
- B** Operations Strategy & Operations Business Unit
- C** Organizational structure
- D** IT Strategy
- E** IT Architecture



**Assumption is, that Al Inma Bank Business strategy is already done

*Out of scope

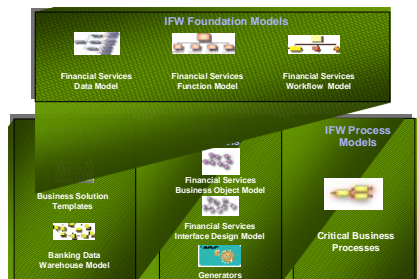
Why IBM? We were the only supplier able to propose for all elements

§ IBM proposed for all subscribed projects:

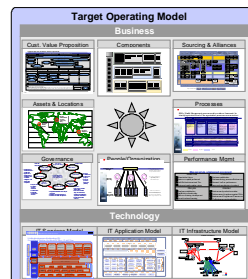
- § A - Core Business Processes: IBM Information Framework for Banking
- § B - Operations Strategy and Ops BU: Component Business Modelling
- § C - Organizational Structure: IBM Organizational Design Methodology
- § D - IT Strategy: IBM IT Strategy Framework
- § E - IT Architecture: Enterprise Architecture Methods and Framework

§ IBM's strong asset based approach along with our industry knowhow and delivery capabilities were decisively for winning the streams A and B and the System Integration

IFW



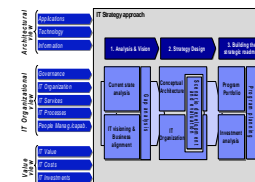
CBM & TOM



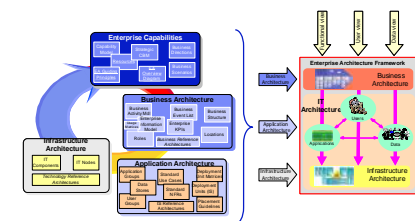
SPORTS

- 1. Define Design Principles**
 - Assess the business drivers & strategic direction
 - Identify and translate to Organizational Design Principles
 - Assess high-level work/activities
- 2. Define High-Level Design**
 - Develop high-level organizational design options
 - Evaluate organization design options
 - Assess design options against Design Principles
- 3. Define Unit-Level Design**
 - Develop unit-level 'to-be' structures
 - Prepare unit and people role descriptions
 - Identify required skills, behaviors, job definitions and performance measures
 - Develop cross-references of organizational roles and business processes
- 4. Define Organizational artifacts**
 - Define all organizational artifacts in Oracle Business suite

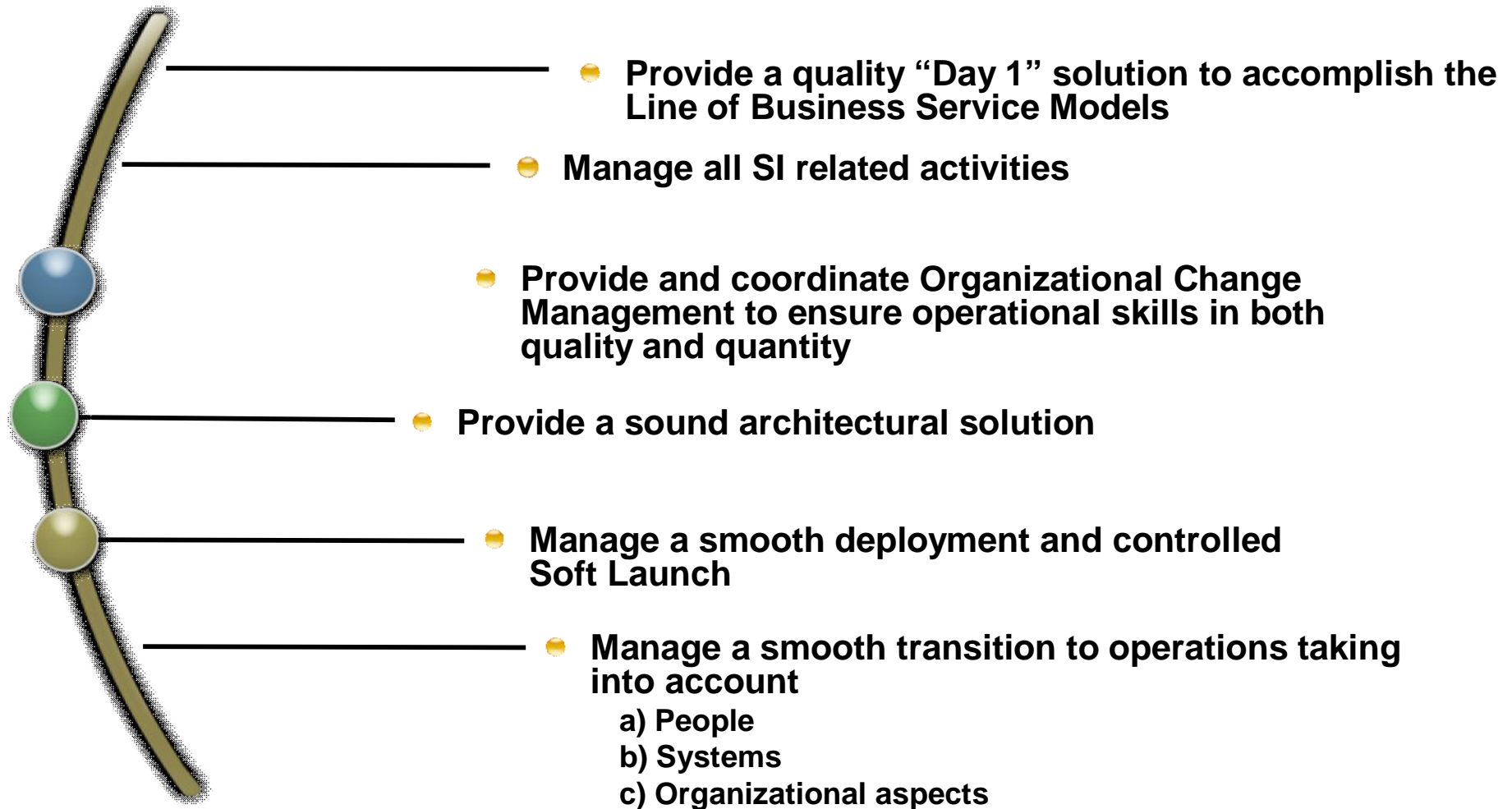
IT Architecture Framework



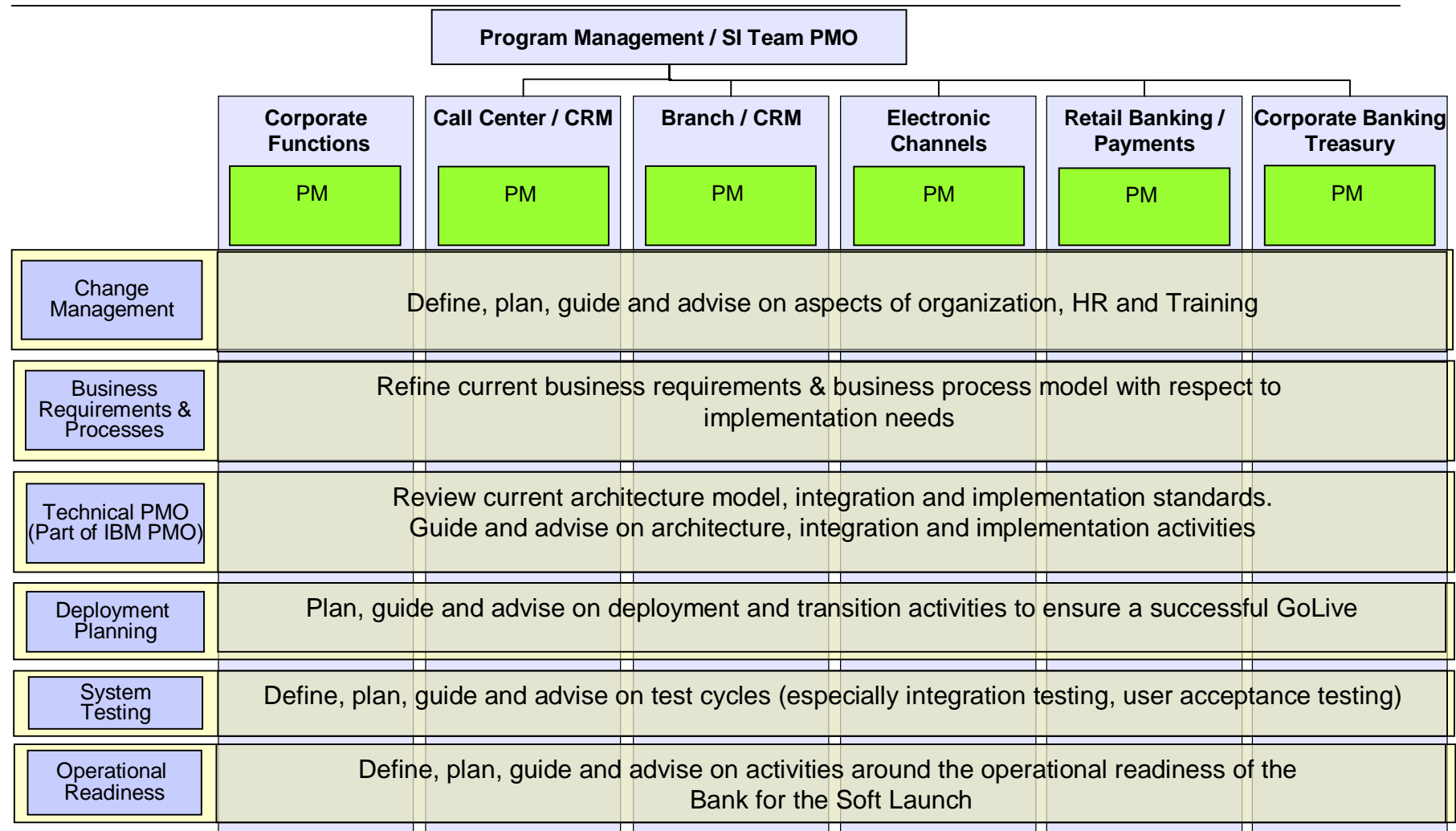
EA Framework



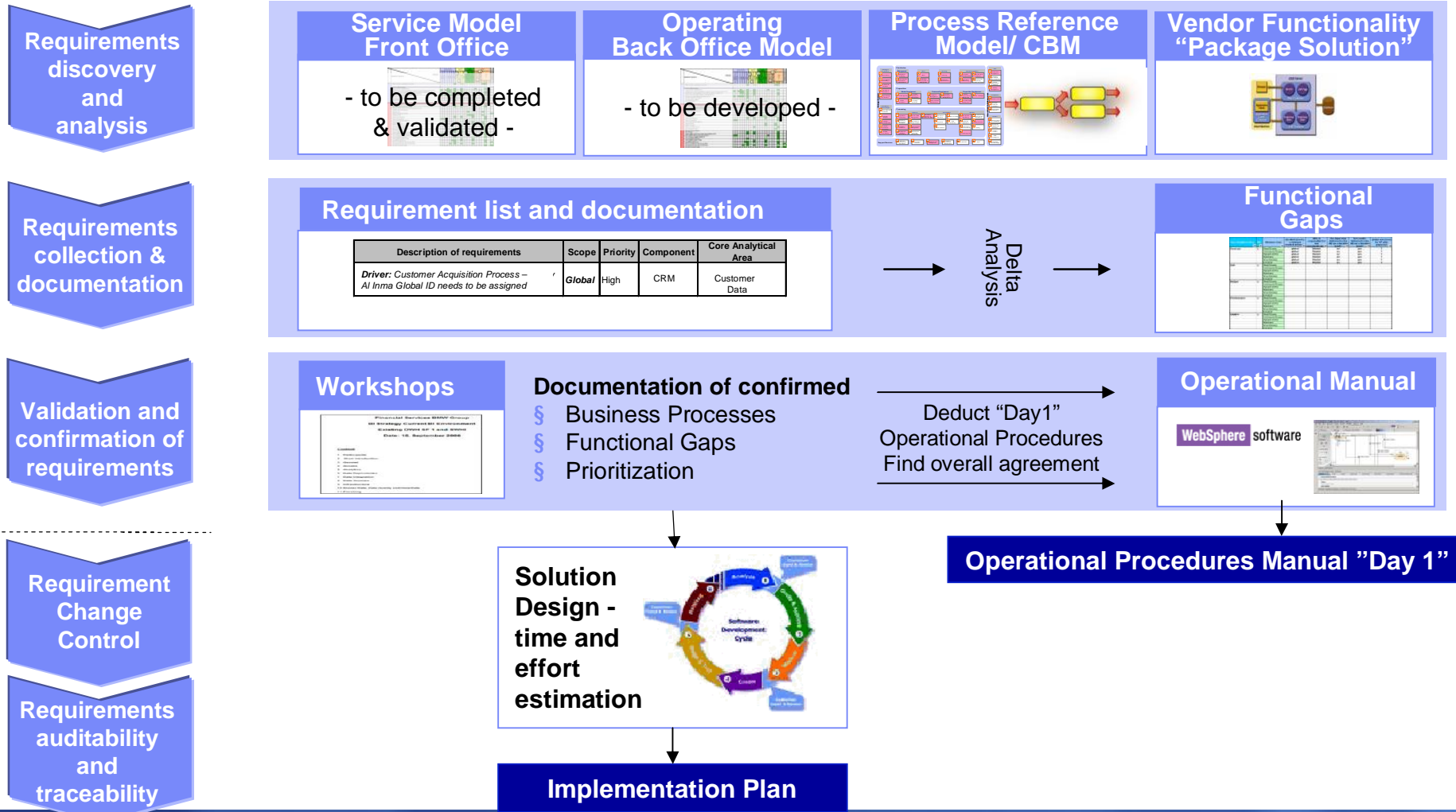
Challenging Objectives for the 'System Integration'



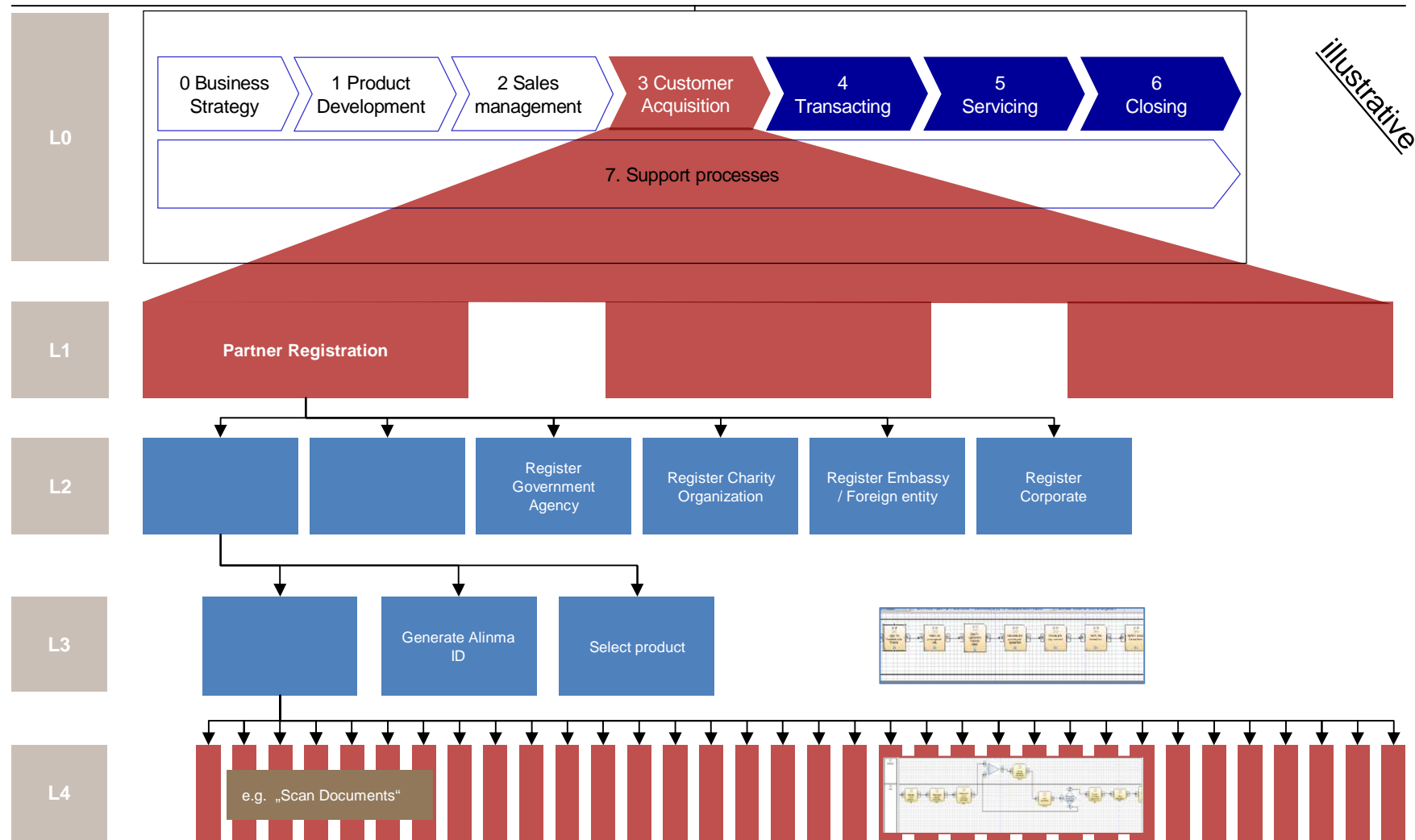
In addition to the business driven verticals and the PMO we need to run horizontal projects to ensure quality and compliance with the bank's business and architectural requirements



Goal Directed Approach in Business Process and Operational Procedures Modeling



Starting from Bank's value chain, we structured and modeled business processes end to end 1/2



Agenda

1. The Saudi Banking Market

§ **Islamic Banking – a dynamic growth play**

2. Foundation of a new bank

§ **Strategy**

§ **Products & Services**

§ **Operating Model**

3. IBM Engagement

§ **Business Model Framework & Process Reference Model**

§ **System Integration**

 **4. Lessons Learnt**

Lessons Learnt

- § Active involvement of Shari'ah board
- § Shari'ah approvals can be time consuming
- § Contract driven vs. conventional (product driven) thinking

- § Be very clear in Program Governance from Day 1
- § Don't expect easy deliverables sign-off

- § Precise management of scope is essential
- § Plan plenty of contingency

- § Don't underestimate hierarchies
- § Communicate, Communicate & Communicate
- § Expect dramatic slow down during Ramadan
- § Staffing & VISA processes can be a challenge





Questions ●

Contacts



Dr. Paul-Gerhard Haase
Senior Managing Consultant

IBM Global Business Services
Integrated Banking Team NE IOT

IBM Deutschland GmbH
Laatzener Str. 1
30539 Hannover

Phone : +49 (0) 171-558 1638
Paul.Haase@de.ibm.com



Christopher Kalbhenn
Senior Managing Consultant

IBM Global Business Services
Financial Services – Banking
Finance & Risk Management

IBM Deutschland GmbH
Beim Strohause 17
20097 Hamburg

Phone : +49 (0) 160-886 7177
Christopher.Kalbhenn@de.ibm.com

Backup

Proposed Application Architecture for Day 1

