

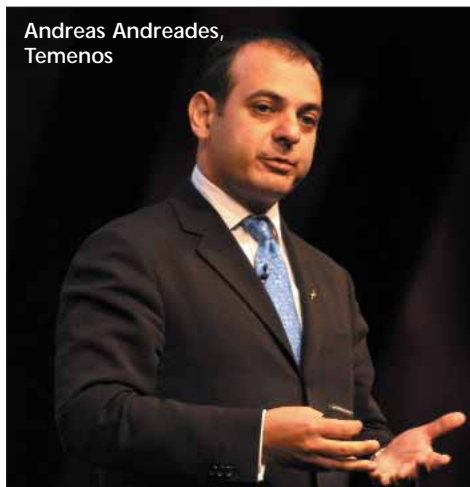
International BANKING SYSTEMS

THE JOURNAL OF BANKING OPERATIONS & SYSTEMS

JULY-AUGUST 2007 / ISSUE 16.10

Suppliers get cold feet for Java

Temenos and System Access latest to back off



Andreas Andreades,
Temenos

Core banking system suppliers seem to be edging away from Java for top-end processing. Temenos' move of its Temenos Corebanking (TCB) system to Java is now described as 'future-proofing' rather than for current top-end use. In the Sungard camp, System Access' intended full migration of its Symbols solution to Java has

changed tack, so that the batch engine will not now move off its current Oracle Developer platform. These shifts follow on from Fiserv's decision to focus on C rather than Java for its ICBS overhaul (IBS, March 2007), with this supplier's CTO, John Macaluso, saying at the time, 'Frankly, the performance of C significantly outpaced the performance of Java'.

TCB is Temenos' retail solution for tier one and tier two banks with ten million accounts or more. 'A ten million account bank would never go down to Java today because it could not support it,' says Temenos CEO, Andreas Andreades. 'IBM are confident of Java up to a couple of million accounts,' he explains. The important thing from his point of view is to have, 'a Java code set from the same set of rules that generate a Cobol code set'. This means that banks buying the Cobol solution today will have a roadmap for the future. 'It is this that gives the ten million account bank a route to Java and open technologies once they are updated',

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Sungard shows SaaS in action

Sungard has demonstrated the first cut of its Software as a Service (SaaS) Infinity strategy, showing this at its European user meeting in Lake Como last month. This used back office services from both its Apsys private banking system and System Access-derived Symbols.

The Infinity solution is an extension of Sungard's Common Services Architecture (CSA), its environment for developing and reusing components across its myriad applications (IBS, November 2006). CSA is effectively a collaborative network for Sungard's 90 or so product development teams, plus its 1300 staff in India (due to be 2000 by the end of the year). Infinity will be the commercial name for Sungard's SaaS-based delivery of those applications, with customers meant to be able to mix and match

components to build their own solutions.

Infinity will give, according to Sungard's CTO, Darren Wesemann, 'the ability to deliver solutions on demand'. At the centre is a registry of applications. In November last year, a number of partners were announced to provide equipment, software and services, linked to the establishment of a 'CSA Centre of Excellence'. These comprised BEA Systems, Dell, HP, IBM, Intel, Microsoft, Oracle, RedHat and Sun. A key facilitator is the Carnot Business Process Management (BPM) front-end, acquired in November of last year with Frankfurt-based Carnot AG.

The user group demonstration, which just about worked (internet connection problems were blamed), showed Apsys and Symbols,

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Wegelin & Co



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Mark Kirby,
Euroclear

Swimming against the tide

While most in the Swiss private banking market have struggled in the last decade, Wegelin & Co has gone from strength to strength, transforming from a small, traditional, low-growth entity to a highly innovative player. That innovation has taken a number of forms, from products, to back office systems, to outsourcing, to branches. How has it managed to prosper when all around it have been floundering?



Wegelin & Co has been around since 1741 but it is safe to say that the changes in the last decade have overshadowed anything that has gone before. From a sleepy, traditional Swiss private bank it has been transformed into an institution that is one of the most innovative in the Swiss market. That innovation is clear on a number of fronts, including a host of top ratings for its Active Indexing and, more tangibly, rapid growth in terms of employees (45 in 1996 to 268 in 2006), assets under management (an eight-fold increase in the same period), gross profit (a 27 times increase) and equity (twelve times growth), plus branches across Switzerland. The transformation has been achieved through a new management team, underpinned by a new platform, and it now claims the lowest cost/income ratio among Swiss private banks. The innovation also now extends to the provision of back office outsourcing for five other Swiss banks.

Two partners joined from UBS (Otto Bruderer and Konrad Hummler), followed by another from Morgan Stanley and Dr Magne Orgland, now a managing partner, who was ex-McKinsey. The head office was in St Gallen and all of its activities were focused on that region, in the north east of the country. 'Low growth and a loyal customer base,' is how Orgland sums up the situation. The challenge was 'how to change into something bigger and more exciting'. One of the first decisions was to partner with the University of St Gallen and it is from this relationship that much of the subsequent product innovation has come.

The first structured product was

launched in 1991, one of the first in Switzerland. Today, as well as a range of structured products and investments, it has two specialist offerings that have brought much of its success. First, there is WegeLean, which is meant to give private investors access to an asset management strategy that was previously only available to large institutional investors, implemented with index products and selected active strategies.

The second, called Active Indexing, is centred on methodologically-based investments in various equity markets according to value or momentum criteria. Three years after their launch, they represent more than CHF4 billion in managed assets. Orgland, the main driver behind the Active Indexing, says Wegelin & Co 'tries to implement the latest financial theory in practice'. The theory of Active Indexing is based on a highly diversified model around bear and bull markets based on eight to ten indices around the world, centred on theses from Stamford University. A recent reading had Wegelin's Active Indexing showing 77.2 per cent growth since January 2004, compared with MSCI World at 48 per cent.

The innovation and subsequent increase in volumes fairly quickly stretched the bank's existing technology. After taking a couple of years to put the bank in order, in 1996 the new team carried out a formal, detailed selection for a back office system, says Orgland. It came out in favour of Apsys, which had recently been acquired by Sungard. The system had been developed a couple of years earlier by a start-up, formed by a number of Swiss employees of

French company, GSI, and it had then been taken up by Digital Equipment, as a replacement for a flat file and Cobol-based offering. It was very new at that time, says Orgland, and quite risky. However, the more modern design was an attraction. It was felt to have the flexibility and openness to support the intended growth. He admits it was probably a 'make or break decision'.

The system duly went live and Wegelin has been a key development partner for Apsys as well as building a number of applications around the core platform. With Sungard, one of the first areas of focus was multi-company and multi-site support. The bank has opened a succession of branches in Switzerland so that it now has eight sites, starting with a branch in Zurich in 1998, with all of these supported from Apsys in St Gallen. The latest, opened this year, have been in Geneva and Locarno. While its direct presence is limited to Switzerland, around half its business is institutional asset management and it has pension fund clients in the UK, Germany, and Scandinavia. It is rated in the top five per cent for global equities. It has just won a large mandate from a UK pension fund – as yet unannounced – with the deal gained in competition with 70 asset managers.

The multi-company support was needed because the bank had decided to offer outsourcing services. It was seen as a 'smart way to split fixed costs', says Orgland, and it was also felt to be a good means to improve the service of the bank's back office staff. They would develop a service culture, would gain experience from dealing with other banks, and would be

working for a revenue generating unit, not a cost centre. The fact that the bank would be providing services to potential rivals was not felt to be an issue. For a start, even with its impressive growth, Wegelin still has less than 0.5 per cent market share, so there is plenty of room for growth. Secondly, the competitive advantage really comes from the techniques and systems around the core and from the way an institution services its customers.

Orgland claims that there are banks 'queuing up' to become outsource customers but Wegelin is only interested in taking on banks with a similar business model, so that they can be brought onto the bank's systems without any major enhancements. The banks retain the customer relationship but Wegelin handles the entire back office. Wegelin sees only the customer number, not any other details, and there are the necessary 'Chinese walls' within Apsys to ensure that confidentiality is maintained. A couple of the outsource customers have been start-ups, but another is 'a subsidiary of a very large bank'.

The latest customer to cut over to Wegelin's service is Zurich-based LBBW Schweiz AG, a subsidiary of Germany-based LBBW. The transition went 'very smoothly', according to LBBW Schweiz CEO, Christian Siegfried, and the bank is looking at reducing costs by up to 15 per cent. The solution has replaced a

legacy system for which support was being discontinued. According to Siegfried, Apsys is easier and faster to access for information on individual stocks and brings more sophisticated and efficient portfolio reporting. The experience of both Wegelin and Sungard are cited as reasons for the selection, which came after a 'thorough due diligence process'.

Across the five outsource customers and Wegelin's own staff, Apsys now supports around 400 end-users. Each outsource customer has its own Apsys licence but their software and IT infrastructures are run and maintained by Wegelin.

In terms of the surrounding systems, all products are controlled by an in-house developed solution called RiskSys, a reporting and risk monitoring solution. All struc-

tured products are broken down into their component parts. There is also an online system and portfolio management systems (on the fund management side, it selected Advent's Axys in 2005).

There have been two spin-offs from Wegelin, headed by two of the first three PhD recruits from the university (the third recruit is now a partner at the bank). One resulted in a company called Almafin and another a company called Jaeger & Partners. Sungard bought the latter in 1998, one year after it was established, and subsequently added the former, merging them to become AlmafinJaeger, with this today sitting within the company's Bancware risk business. In addition, Wegelin & Co partner, Steffen Tolle, and three other employees have published a book on structured products in asset management. And Wegelin & Co features at the top of the lists from ratings agencies such as Standard & Poor's, MorningStar, Lipper and Citywire.

There is even innovation in a couple of Wegelin's branches, in Geneva and St Gallen, where local regulations ruled that

referrals from existing clients. On the efficiency side, its cost/income ratio stands at 50.8 per cent, with most competitors coming in at between 57 and 70 per cent, says Orgland. In 1998, Wegelin was the first private bank in Switzerland to gain ISO 9001 quality certification. It now has 320 staff, with an average age of 35. Around 20 to 25 of the staff are in IT, with a significant reduction in IT staff as a percentage of overall staff over time.

While Orgland describes Apsys as mainly of importance for the private banking side of the business, the bank has proved to be a valuable customer for Sungard. Not surprisingly, Sungard's head of the Apsys business, Daniel Bardini, is fulsome in his praise of the bank. Among the 70 or so Apsys users, there is what he calls a 'club of innovators' in which he lists Wegelin alongside JO Hambro in the UK, IHag Bank in Switzerland, and one or two others. Although competing in a tough market with well-entrenched rivals, the Apsys business itself has prospered, with a healthy uptake since it was acquired, no doubt on occasion helped by having Wegelin as a reference site.

The achievements of Wegelin would be impressive whatever the market but they are even more so when compared with the performance of Swiss private banks as a whole in the last decade. Wegelin has very much swum against the tide. Much of the success has come from the



The challenge was 'how to change into something bigger and more exciting'.

Dr Magne Orgland,
Managing partner, Wegelin & Co

the bank's new premises had to remain as retail outlets, so the banking services are now offered within business-oriented coffee bars, where customers can sip their cappuccinos while watching Bloomberg.

Orgland feels Wegelin has gained from upheaval within the market, in terms of mergers and acquisitions (starting with the fall-out from the coming together of the original UBS and Swiss Banking Corporation) and reorganisations. Based on an IBM Business Consulting Services survey on the European Wealth and Private Banking Industry, published in 2005, Wegelin gained an 83 per cent rating for quality of customer service, 75 per cent for confidentiality and security, 67 per cent for quality of investment advice, 64 per cent for image and reputation, and 56 per cent

innovative approaches of its management team and strong recruitment, but the systems aspect should not be underestimated, both in terms of its core platform as well as the innovative software built around this.

It shows what can be achieved by forging a niche and becoming very good in that specialist area. And there is no sign of a let-up – if anything, the growth has accelerated on just about all fronts of late. With all due respect, when looking for an innovator, the Swiss private banking market might not be the obvious place to turn, but Wegelin is clearly an interesting anomaly. **6**

The IBS Journal
is also available online at:
www.ibspublishing.com

Publication: International Banking Systems Journal.

Editor: Martin Whybrow.

This article has been extracted from the International Banking Systems Journal. July–August 2007 issue 16.10
The International Banking Systems Journal is dedicated to the wholesale, retail and private back office banking systems and operations market, and related topics.

IBS Publishing Limited.

Publishing office: IBS Publishing Limited, 8 Stade Street,
Hythe, Kent, CT21 6BE, UK.

Registered in England and Wales No. 5365737

Tel. +44 1303 262 636 Fax. +44 1303 262 646

Email. enquiries@ibspublishing.com Website. www.ibspublishing.com

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