



Turning Challenges into Opportunities for the Future

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1. One of the main topics of the 8th banking forum, organized by IDG Bulgaria, was the Basel II criteria and the Bulgarian banking system readiness in this respect. How do you assess the region's ability to implement them in time?

Risk management indeed constitutes one of the main challenges for Bulgarian banks as they are standing on the verge of the European Union. Banks are called to align themselves with new regulations for capital adequacy, credit risk and operational risk. There are multiple implications concerning the financial impact of complying with Basel II requirements and the need to re-organize procedures and information systems in order to establish an efficient environment for risk analysis and processing.

Many banks in the region have already taken measures to prepare themselves in accordance with respective implementation time frames. In some cases, they are able to cover mandatory requirements through in-house developed applications.

However, there are modern specialized risk management solutions available that assist banks not only to comply, but also to improve the quality of their investment portfolio, to effectively manage various risk types and to secure electronic transactions and payments. Compliance challenges offer a unique opportunity to banks, to re-assess their IT architecture and to invest into data integration for achieving a total view of customer profitability and performance of their investment portfolio. Giving internal users and financial analysts the right tools for analyzing customer activity, as well as enhanced applications for assessing customer solvency, banks can achieve better financial results and maximize profitability.

2. Which in your opinion are the "hottest" IT solutions for the banking sector? And can you prognosticate on the next wave of IT implementations in this area?

The priority list of IT investments for financial institutions worldwide includes replacement of core banking systems, multi-channel banking, Basel II compliance, information security, integration technologies, branch transformation and business process management.

Future strategic directions also include service-oriented architecture as the new standard in banking systems. In addition, virtualization is a key trend for the future, constantly gaining ground at the international level, as IP technology allows easy integration of human and technical resources in a cost-efficient manner. Virtualization means that *"every branch employee becomes part of a virtual call center and every call center employee becomes part of a virtual branch"*. This is achievable through

COMPUTERWORLD

CIO

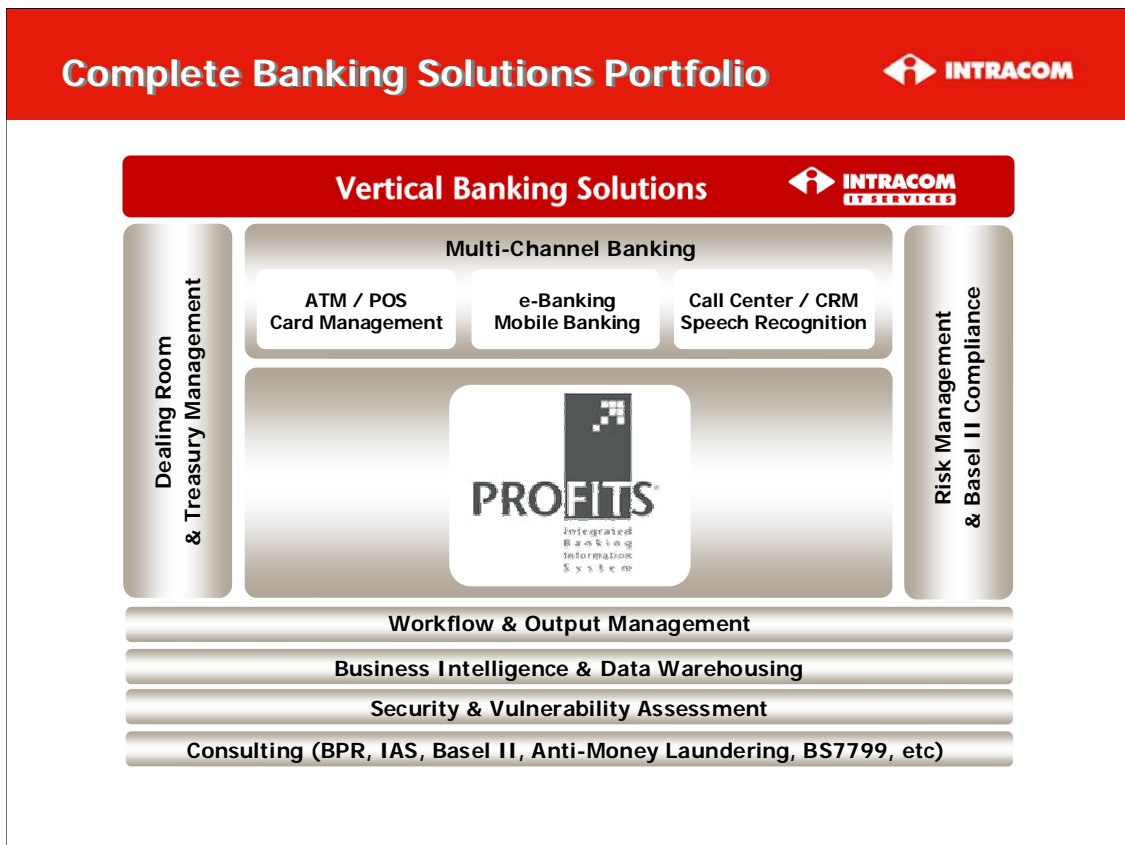
PC WORLD

NETWORKWORLD



IP-enabled networks and the use of Managed Network Services which offers strategic benefits and cost savings to banking institutions, especially in retail banking.

With more than 15 years of activity and experience in implementing large banking projects in the region, INTRACOM IT SERVICES offers a complete Portfolio of Solutions including all above areas, on an end-to-end basis, i.e. **Core Banking Systems, Treasury & Risk Management Systems, Multi-Channel Banking Systems** (ATM/POS & Card Management, Internet Banking, Phone/Mobile Banking, CRM, Portals), **Voice Processing Systems** (IVR, Speech Recognition, Contact Center Technologies), **Insurance Systems, Workflow/Output Management Systems, Business Intelligence Systems** (Data Warehousing/Mining, Data Cleansing, ETL Tools), **Information Security Services, IP Technology, etc.**



In addition, **INTRACOM IT SERVICES** also offers full implementation services (project management, adaptation/integration, training and support), as well as specialized consulting for banking organizations, i.e. **Information Strategy Planning, Banking Process Reengineering, IAS Standards, Basle II Compliance, Security Certification BS7799, etc.**

With direct presence in Bulgaria since 1995, **INTRACOM Bulgaria** is ready to provide all above solutions and technologies, as well as full support services to the local financial services market.

3. Risk Management, including vulnerability assessment, is certainly the “talk of the day”. What is its place in the modern banking?

Risk management, and especially operational risk, is closely related to assessing vulnerability of systems throughout the entire banking organization. Modern techniques such as penetration testing for software applications and infrastructure are becoming more and more popular and can greatly help to achieve the desired level of security in the bank.

However, success practices from the international industry indicate that security tends to be more an **organizational** issue and less a technical issue, as the majority of hackers usually originate internally from the organization. Therefore, establishing internal security policies and guidelines is absolutely critical. Such policies, in combination with continuous monitoring and control processes are the only way to ensure that the desired level of security is achieved.

The most critical success factor is the awareness and training of personnel since security cannot be achieved without the contribution of the human factor. In this direction, it is necessary to establish and strengthen the role of the Security Officer and to certify such role in accordance with international standards (i.e. BS7799).

4. There is constant debate on the security issues surrounding e-banking. What are the main problems and most adequate solutions in this area?

Investments in electronic banking are critical and of priority, however they bring multiple challenges as banks need an integrated IT strategy approach, combined with the implementation of the necessary security mechanisms.

For example, web sites attract many visitors but rarely, they result into new product sales. Research shows that internet banking users explore new offerings, but few of them actually buy/order a new service without first speaking to a bank representative or advisor. So, the internet participates in the sales process, but its value is not immediately visible to the bank.

Electronic channels should not only facilitate aggressive market penetration strategies, but they should also provide continuity and the same level of quality throughout customer contacts, in a secure manner. A customer transaction originating from one electronic channel should be completed in manner transparent and safe for the customer, through other channels or through the branch itself, with the same quality.

Security in executing electronic transactions and accessing applications, remains the key factor that needs to be addressed in order to avoid catastrophic consequences (such as “phishing” attacks, card fraud, etc) that may cause severe reputation damage. Today, there are advanced technology mechanisms available, like Identity Management, Access Control & Event Logging, Smart Cards, Secure Messaging, Encryption, Intrusion Detection and Prevention systems.

5. In the same line of thought, do you agree modern banks should have effective and working CRM? How do you define “effective CRM”?

Based on international trends and operational standards in retail banking, modern banks applying “effective CRM”, are the banks that have abandoned the mentality and rigid procedures of the past and have embraced a new mindset of adapting in a flexible manner to the specialized needs of their customer base, to the extent that they can maximize the customer relationship.

Best practices from successful banks demonstrate that they are investing in IT solutions that allow them to design Value-Added banking services (cross-selling, up-selling, “packaged” products, individualized pricing policies, etc). It is also very important to align the bank’s business model with the customer’s life-cycle, that is, to offer products and services that match the needs of different stages throughout the entire spectrum of the customer’s personal/family life and professional activity.

Therefore, effective CRM cannot be achieved without the existence of a core banking system that allows flexible and quick design of new products, real-time monitoring of the entire customer relationship and dynamic pricing of banking services according to the particular needs and profitability of each individual customer.

6. A great number of banks are outsourcing part of its activities to external companies. Which do you think are the spheres to be obligatory outsourced? How must the security of these activities be guaranteed?

Banks are frontiers in outsourcing IT processes, as shown by the large outsourcing deals in Europe and the US. The size of outsourcing contracts in the international banking market is significantly large (example: Bank of America signed a 8-yr contract of \$1.1 billion for outsourcing its telecommunications network to a large Managed Network Services Provider).

According to a recent research conducted by the European Central Bank (ECB) in 82 banks throughout European Union countries, it was concluded that 40% of European banks’ supporting procedures are outsourced (mostly hardware installation and maintenance, card processing, and software development). These are the most common processes currently being outsourced, as they contribute to cost savings and economies of scale.

However, there are multiple factors to be considered carefully by a banking institution, before taking decisions to outsource critical parts of their business. Confidentiality, data security and protection of intellectual rights are only few of the various types of risks engaged in outsourcing and lead banks to an extremely careful evaluation and assessment of outsourcing strategies. A solid Service Level Agreement with clearly quantifiable metrics and the right exit strategy is the critical prerequisite for successful outsourcing.

7. There is a strong tendency of bank consolidation in Bulgaria now. In this respect, how do you think will the business of production and integration of IT solutions for the banks develop in the following years? What will be the role of the local producers of banking software? Will they survive? How?



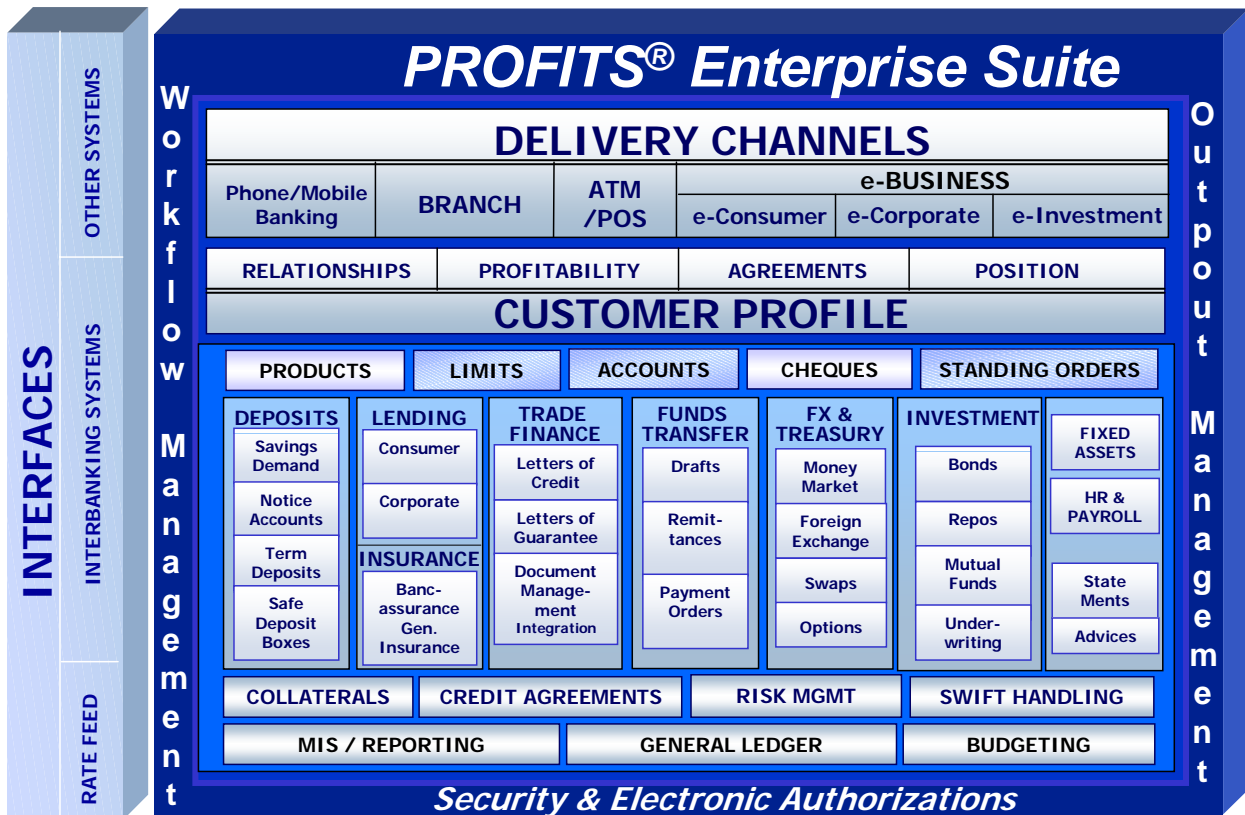
The consolidation, mergers and acquisitions observed in the region over the past few years is accompanied by technology investments for securing a modern and uniform operational IT environment. Regional data centers for centralizing IT operations are one of the main strategies followed by large banking groups.

However, the selection of technology investments is fragmented in many cases, resulting to overlaps or lack of alignment or “static” solutions that cannot adapt to the organization’s growth and evolution. Therefore, banking software producers need to adapt accordingly to the dynamically changing needs of their client banks and upgrade their solutions, both functionally and technically, according to international standards and industry trends (i.e. business-rule software engines, multi-platform operation, etc). This requires multi-level technical specialization of resources in analysis and programming and a deep understanding of business needs of the banking industry, and is one of the key factors that have contributed to INTRACOM IT SERVICES’ success for the past 15 years.

8. Could you tell us more about the PROFITS® Universal Banking System and its implementation in banking institutions?

PROFITS®, INTRACOM IT SERVICES’ Universal Banking System, is a 24x7 real-time, multi-currency, multi-lingual and multi-channel processing system, ready to meet the most complex functional and operational needs of modern Banking Institutions worldwide.

Its **Customer-Centered** and **Product-Oriented Design** offers a unique combination of rich and comprehensive functionality for all banking operations, allowing reduced time to market for new banking services and effective customer relationship management.



PROFITS® enables Banks to leverage on cross-selling and up-selling opportunities and enhance customer satisfaction, through advanced analysis of the customer's transaction history and financial position at the level of the entire institution. It is a unique proposition that can improve return-on-investment through new business generation and improved customer loyalty.

Designed with the highest security specifications, international quality standards (ISO9001) and the use of modern and proven technologies adopted by leading organizations worldwide, **PROFITS®** ensures advanced technology, scalability and portability in multiple platforms including IBM mainframes, Unix, Microsoft or J2EE environments). The product has been **technically certified by Computer Associates (ca smart™ certification)** which proves the reliability and integrity of its technical structure and design.





PROFITS[®] has been the strategic choice of leading financial institutions in the core banking field, in European and Middle Eastern markets. It has offered rich and comprehensive functionality based on state-of-the-art technology to multiple banks in the region (Societe Generale Geniki Bank, Post Savings Bank, Post Office Organization, Agricultural Bank, APS Bank, Bank of Valletta, etc.). With **PROFITS**[®] our clients have been able to implement a uniform front and back-office environment for branches, central departments and electronic banking channels, ensuring continuous real-time financial operations on a 24-hour basis.