

## Bank Mandiri: Aligning IT with Key Business Objectives

**Asia/Pacific: Retail Financial Services**

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### Situation Overview

In markets all across the world, modern banks increasingly find themselves caught between two opposing forces. On one hand, management demands for improved revenues and profit margins mean increased pressure to reduce operating costs. On the other, customers are demanding better service and more flexible banking options. These twin challenges are causing many banks to examine the role their IT systems play in daily business processes.

This short case study will explore some of the challenges faced and benefits realized by Bank Mandiri, when it undertook a massive, multi-year, bank-wide transformation initiative.

### The Challenge

Faced with challenges on various fronts, Indonesian-based Bank Mandiri recognized it had to change the way it was using IT to support its business. Formed following the merger of four institutions, Bank Mandiri was saddled with numerous redundant systems. With nearly seven million accounts across 687 branches, the bank needed to consolidate and restructure fundamental parts of its infrastructure or risk its ability to compete going forward.

The bank concluded that the most effective means by which to achieve its business objectives in the shortest possible time and with minimum implementation risk was to implement a common interim platform bank-wide; in essence, to replace the infrastructure with a single, universal banking system.

In 1999, the bank had nine core banking systems: a legacy of its four parents. Merging these became an immediate priority and a consolidated, interim solution was

fully implemented in March 2001. However, it was only a stepping-stone toward a broader business transformation. In August 2001, Bank Mandiri embarked on its Enterprise Mandiri Advanced System (eMAS) transformation project. Comprising 32 different projects under one eMAS Program, the transformation spanned an enormous range of tasks from crucial core banking solutions to various parts of the network and communications infrastructure.

To assist in this ambitious undertaking, the bank began the search for a vendor, which could help it evolve its existing systems and achieve its vision for the future.

## The Solution

The bank elected to continue using the proven and scalable IBM AS/400 computing platform, for reasons such as familiarity, trust and comfort level. Once this decision was made, the search for suitable solution providers began.

After four months of technical evaluation and negotiation, Bank Mandiri awarded a contract to IBM partner Silverlake, as the systems integrator to undertake a complete migration to a single core banking system that would underpin crucial activities within the organization.

As well as complex system changes, the project involved comprehensive training for some 14,000 staff. New technologies and processes were brought into the institution and 18 major system interfaces had to be undertaken. This was a massive exercise involving core banking, general ledger, cards, Internet banking, mobile banking, call center, payments and the data warehouse, in addition to added functionalities to ATMs. As part of the program, ATMs were increased from an initial base of 500 machines to 2,000 machines by the end of 2003, for which Mandiri management had planned.

From a technical perspective, other elements used to create the single core system included a high-performance relational database; OS400 operating system with simplified systems management and security, and an open network based on TCP/IP protocol.

Now in operation, the bank's new IT infrastructure includes a central data center, disaster recovery center with mirroring, branch hardware, an intelligent new network, command center and a company-wide help desk.

## The Benefits

From a broader perspective, the project has allowed Bank Mandiri to closely align its IT systems with its key business objectives. One of these objectives is to improve the funding mix by moving from higher cost term deposits to lower cost savings and current accounts. In early 2002, 31% of funding was through the lower cost savings and current accounts. By end 2003, it had increased to 44.5%. The bank also managed to reduce customer-servicing costs by encouraging the use of new, lower cost delivery channels, such as ATM, phone and Internet. There has been a significant improvement in Branch and ATM transaction times despite an almost

doubling in ATM and branch transaction volumes between 2001 and late 2003. Such growth would not have been possible without the support of integrated IT systems.

A second objective was to reduce the percentage of loans from corporate customers and increase the share derived from consumers and commercial entities. In 2002, commercial and consumer customers represented 37% of loans, but in 2003, they grew to 47.8%, and the bank expects to reach 50% of all loans during 2004.

In addition, the bank's competitive cost-to-income ratio did not increase measurably over the 2001 level of 40%. This figure remained at 40% through 2002 and 2003, despite the considerable investments made during this period. This proved that its investments were paying for themselves and ensured top management support.

Perhaps most impressive is the fact that the eMAS project ended up 16% under budget and delivered ahead of schedule, having been completed in August rather than December 2003 as planned.

## The Future

The bank's objective of transactional integration has now been achieved and work has begun on interaction integration. As part of this process, plans are in place to implement new CRM and ERP systems. Together they will form a critical part of the new infrastructure.

Bank Mandiri is also looking at adding more business intelligence capabilities, balanced scorecards and improved risk management capabilities.

As the bank continues its transformation, it is looking to tightly integrate its business and IT organizations. This will ensure that the goals of all groups complement each other and provide a solid foundation for future growth.