IBM

SEB strengthens its global banking credentials with a world-class SOA payments solution.

Overview

■ **Business Challenge**
    With globalization and new regulations continuing to reshape banking, regional giant SEB needed to strengthen its global banking capabilities by making itself more agile and adaptable.

■ **Solution**
    SEB engaged IBM to help it redesign its core payments architecture around SOA principles for SWIFT transactions. SEB is using IBM's new enterprise payments solution for the rapid and cost-effective delivery of world-class banking services and capabilities.

■ **Key Benefits**
• Expected reduction in integration-related IT costs
• Expected decrease in time required to deploy new services and capabilities
• Improved ability to offer truly global banking services
• Increased revenue opportunities and competitive differentiation through new payment-related services

The SEB Group is a North European financial group for 400,000 corporate customers and institutions, and five million private customers. SEB has local presence in the Nordic and Baltic countries, Germany, Poland, the Ukraine and Russia and has a global presence through its international network in another 10 countries. The Group has about 20,000 employees

For all the competing definitions of globalization, the common thread running through all of them is the notion that changes in technology, regulation and business practices have a way of diminishing the importance of boundaries. Nowhere is this more in evidence than the global banking industry. One of the most fundamental reasons for the rise in global banking activity is the increasingly global nature of their customers' operations and the corresponding rise in their overseas banking requirements, such as payments, cash management and transaction processing.

> *"The IBM solution provides a flexible framework to orchestrate different messaging flows, allowing us to put the focus on our business processes."*
>
> – Anders P. Hansson, SWIFT system owner, SEB

Meeting the challenges of global banking through flexible service delivery

To maintain strong relationships with their corporate customers, banks need to ensure they have the capabilities to deliver on these expanding requirements and thereby support their customers' overseas business activities.

Fading boundaries

In global banking, the metaphor of falling boundaries also extends to the structure and dynamics of the industry. At one time, the line between global banks and regional banks – those with a stronghold in a particular geographic region – was well defined and stable. However, as the market has evolved and competition has intensified, this distinction has blurred. The impact of the change has been particularly significant for regional banks, whose strong focus on local services has traditionally provided a sustainable source of differentiation. While local market strength and knowledge is more important than ever to their success, it is no longer enough. To keep from losing their corporate customers to global banks, regional banks need to provide them with access to a full range of global banking services that supports their customers' growing overseas activities. With global banks encroaching on their local markets, regional banks need the capability to act locally and globally. The case of Skandinaviska Enskilda Banken (www.sebgroup.com), a leading Northern European banking group based in Stockholm, provides important insights on the challenges banks face in achieving this goal – and how IBM can help banks directly address these challenges.

Like many banks, SEB faced an increasingly dynamic industry environment with a reliance on systems and processes developed in – and for – a more stable era. This was especially true in the area of payments processing, which, while always an important source of revenue and profitability, had for a long time seen little change. But that time seems a distant memory. Payments processing has now become one of the most dynamic parts of the banking business, both at the marketplace and regulatory level. At the same time the volume of electronic payments is exploding, banks are subjected to an increasing number of demands on their payment systems – a trend especially pronounced in Europe. The need to comply with Single Euro Payments Area (SEPA), a regulatory effort designed to standardize payments in Europe, as well as the requirement that European banks have the ability to identify and intercept payments associated with known terrorists, are among the more prominent examples. Both demanded a level of flexibility and data accessibility the system did not have.

Leveraging new SWIFT services

Although these mandates played heavily into SEB's thinking, its more immediate challenge came from the business side. Like its peers, SEB relies on the SWIFTNet system to conduct transaction related messaging with other banks and institutions. Under its traditional architecture, SEB connected its backend

applications to the SWIFTNet network using a series of customized messaging flows that relied on point-to-point integration. Then SWIFT introduced a pair of new messaging services – known as SWIFTNet FileAct and SWIFTNet Interact – which represent a "must have" for any bank that seeks to participate in the global banking marketplace. While SEB knew it had to integrate these new services into its payments infrastructure, doing so within its existing point-to-point framework would be slow to deploy and costly to maintain, and would make the system even more complex. Moreover, because this method of integration would involve modifications to core routing logic, it represented a potential – and unacceptable – threat to the stability and integrity of the bank's SWIFTNet platform. SEB realized it needed a more open and flexible approach to integration, so it turned to IBM.

SEB's discussions with IBM revealed a deep commonality of architectural vision, the crux of which was the value of incorporating SOA technologies and practices to give the bank more flexibility to integrate new services and applications into its payment platform. Implicitly forward thinking, a move to SOA was seen as accommodating not only the need to integrate the SWIFTNet services, but any other new services or capabilities that the marketplace – or European regulators – would demand down the road. To address the technology requirements, IBM proposed a comprehensive solution comprised of two main parts. The first was a new enterprise payment platform, recently developed by its IBM Dublin Software Lab, that will be used to create a separate integration layer through which services like Interact can be plugged into the core payment system, while at the same time keeping it separate – and thereby insulated – from other applications. At the heart of the integration layer is IBM WebSphere® Message Broker, which in its capacity as an enterprise service bus, orchestrates the routing and transformation of transactional messages between applications and the SWIFTNet platform. The solution also employs IBM WebSphere MQ as the messaging backbone for SOA to deliver transactional messages between SWIFT and SEB's multiple backend systems.

By acting to replace its rigid, point-to-point financial messaging infrastructure with a flexible, hub-based architecture, SEB is in sync with broader trends in the banking industry. SEB is setting itself apart in the degree to which the bank is using SOA in general, and IBM's solution in particular, to make itself one of the more agile players in the banking industry. SEB's ability to offer the latest SWIFTNet services – and thereby establish its place among the ranks of truly global banks – will greatly enhance its ability to serve its corporate customers around the world, where more and more of its business activity is taking place. By the same token, these new capabilities strengthen its ability to participate in correspondent relationships with major banks around the world, an important foundation of any bank's global strategy.

Transformation at a glance

By redesigning its core transaction messaging infrastructure around SOA principles, regional banking powerhouse SEB is strengthening its ability to meet the challenges of global competition. A more flexible architecture gives SEB the agility needed to adapt faster to changes in the global banking marketplace and lays the groundwork for a new business model built on value-added services.

A better view of payments

In addition to broadening its participation in the global market, SEB's new capabilities also give it the means to create a richer set of value-added services, thus expanding its potential to generate new revenue. A key example is SEB's real-time visibility into access to routing and status information – enabled by IBM's enterprise payments solution – which serves as the foundation for such advanced services as liquidity management and least cost routing. These same attributes also give SEB a major advantage in deploying mandated services, such as terrorist asset tracking and monitoring, and give the bank a major boost in efforts to comply with the requirements of SEPA.

SEB's embrace of SOA is also expected to deliver strong benefits on the bank's bottom line, with the biggest driver being a reduction in integration complexity. Indeed, by reducing its reliance on point-to-point interfaces within its payments infrastructure, SEB expects to cut its IT costs associated with integration significantly. A major part of the savings will come from the reduced need to support custom interfaces, as well as an expected reduction in the time required to deploy new services. On another level, SEB expects its SOA strategy to make it much easier to optimize the efficiency of its back-end processing flow. One of the common traits of the disparate, siloed payments systems that banks have long relied on is a tendency to accumulate a clutter of redundant functions, which lengthen cycles, reduce processing efficiency and raise costs. Anders P. Hansson, SWIFT system owner within SEB, believes that the solution ultimately strengthens SEB's ability to compete in the global banking marketplace. "The IBM solution provides a flexible framework to orchestrate different messaging flows, allowing us to put the focus on our business processes, rather than on developing base functionality," says Hansson. "PMP/EPP eases the monitoring of states in our messaging flows and provides vital real-time feedback about where the financial transactions are in their lifecycles."

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