

Six of the best

Bethmann Bank, the third largest private bank in Germany, recently completed the integration of the German business of Credit Suisse. Here's how the project went.

Normally integration projects are seen as necessary but unpleasant tasks best gotten out of the way when a company merger makes them unavoidable. One bank which makes a virtue of these projects, however, is Bethmann Bank, a private bank in Germany which is well-versed in the business of integrating rivals. Under the hood of this bank is six former competitors, which have been digested one by one, as Bethmann became the third biggest private bank in Germany.

This process started more than a decade ago, when Netherlands-based ABN Amro bought what was then Delbrück & Co in 2002. The following year it announced the purchase of Bethmann Maffei, which could trace its roots back to Bavaria in 1748. The resultant merged entity was

to stay that way for a few years, until in 2011 ABN announced plans to acquire the German business of Liechtenstein-based LGT Bank, which was duly integrated by mid-2012. Then another acquisition was announced at the end of 2013, with Bethmann Bank, as it is now known, taking over the assets and customers of the German private banking operation of Credit Suisse.

There is likely to be more to come as well, feels Bethmann Bank's CIO, Jens Kramer. ABN has a strategy of investing in Germany and in Asia, so further transactions are possible. 'Bethmann Bank consists of six banks now and I am sure we are not at the end of that process. Next time there is an opportunity in the market, I think Bethmann will eye it,' he believes.

Opportunities are likely to come up

because the industry as a whole is struggling in Germany. Credit Suisse, for example, sold its German business as it was unprofitable. Private banks are still suffering from a general loss of trust, and their jobs are made harder by the likes of MiFID, piling form-filling onto private banking relationships. 'It's quite hard. I think at the moment we are one of the only private banks in Germany that is earning any money at all,' Kramer says.

As well as having the taste for integration projects, Bethmann Bank now has the reputation, having integrated the LGT and Credit Suisse businesses in the last couple of years. 'One of the reasons for Credit Suisse to sell the unit to us was our migration competency. It wasn't only pricing,' Kramer recalls.

In terms of the technology landscape underpinning Bethmann Bank, it has around 160 different systems, the biggest of which is the OBS core system from Die Software Peter Fitzon, a Bavaria-based core banking system supplier. OBS has been in use for many years at Bethmann Bank, and has survived each merger since ABN Amro acquired Delbrück. In the case of LGT, the system dropped was from Switzerland-based Avaloq, after a five-month project. 'I consider Die Software not so much as an IT software vendor. I consider it as a banking business company that is producing software as well. The most important part of that company is its understanding of our business,' Kramer states. Coincidentally, a customised version of the OBS system was also in use at Credit Suisse, which had bought the source code to it and start-



Bethmann Bank, Frankfurt
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ed customising it in the early 1990s, rolling it out at international subsidiaries under the name of Credit Suisse International Banking Package Plus.

Kramer, who has overseen the last two migrations, explains the strategy which has guided the bank. The first point is that the IT landscape of the acquisition target is always factored into the decision to acquire. 'They have to have a similar business, products and client structure,' Kramer states. Due diligence covers this aspect, looking at where there are new business areas which will require additional software development.

Reflecting the confidence Bethmann has in its current IT set-up, 'the strategy is to not take any systems from the acquired bank if possible'. Rather it just wants to focus on the data. 'There are some exceptions but 95 per cent of what we are doing is pure data migration into our system landscape,' says Kramer. This approach means that most of the focus of the integration is in working out how to extract and load data. 'There's no need to evaluate the systems they're running. I'm not interested,' he adds. 'I'm interested in how to do the mapping from their data models into mine.' The mapping methodology is based on a model from Switzerland, which has been used for most migration projects there, known as the ABC approach. 'It is well known and tested and it works,' says Kramer.

The repetitive nature of the mergers also supports another principle, which is speed. 'If you give a period of more than a year to the client to think about whether to go, maybe more will go looking for a new bank. If you do it fast, a lot of clients will say, it's only a few months so let's stay and see how the business relationship goes.'

The migration of Credit Suisse took eight months and ended in August this year. To manage this project, Kramer divided the IT department into a number of different teams. The biggest was for the

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migration itself, and it was divided into teams, with the main one being for the core banking system. Sub-teams of this were for areas such as portfolio management, plus regulatory reporting, CRM, and the archiving system. Separately, there was a specific team for managing reconciliation, making sure that everything which was migrated was complete and correct. There was a team dedicated to building a run book (which ended up with 1300 steps for the cutover weekend). And there was a team for managing German tax issues.

Outside of this, there were also teams for managing new business areas which came with Credit Suisse. The main one was for the independent asset manager business. Another team was mandated to ensure that there was enough hardware, in terms of providing desktops and other infrastructure for all the new (non-IT) employees from Credit Suisse, of which there were about 160.

Another team, which turned out to be of critical importance, was that of in charge of testing the host platform for scalability. Scaling the nightly batch-run of OBS was 'a crucial point for us, because we had the biggest installation of OBS in the world. So there were no references we could copy, and we had to check that this application would scale ourselves,' Kramer recalls. Finally, there was a special team from IBM, to manage the provision of mid-range servers, and a team to engage in testing and quality management.

As the number of teams suggests, the project management was complex. And while Bethmann Bank was practiced in migration projects generally, there were some substantial differences between the LGT migration and the Credit Suisse one. The LGT deal included the actual legal entity, meaning that Bethmann became the legal successor to LGT. This was not the case with Credit Suisse, where the transaction only included the assets, liabilities and clients from Credit Suisse. 'If you buy the whole legal entity you are allowed to see the client data of the company you have bought. If you have only the asset purchase situation, you are running under two different banking licences. This means you are not allowed to see the client data until the very end of the migration,' Kramer states.

What this meant in practice was that the entire migration had to be carried out with encrypted data. 'This was a real headache for us, and a big difference from the LGT migration,' Kramer laments. The testing in particular was 'endangered and made very complex' by the necessity to encrypt everything for the whole eight months of the project. Reconciliation with encrypted data was also a pain point in the project. While accepting that this had been 'underestimated,' Kramer still feels that there was no alternative. However, 'a lot of our business departments were unhappy with that phase of the migration,' he says.

Die Software was also involved in this part of the project, and provided a five-



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‘We could not take them over against the contract of IBM as IBM would say, “what are you doing here, this is our area”.

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strong team to handle the actual migration of data in the final week of the project. Once the mapping engine had been designed by Bethmann’s teams, they delivered the mapped data to the Die Software team, which had the job of loading it into OBS. Kramer is happy with how this arrangement worked. ‘The Die Software team had clear responsibilities and worked closely with our migration engine,’ he says. And OBS did scale successfully in the event, although Kramer cautions that ‘nobody knows if the scalability is unlimited if we buy a bigger bank than Credit Suisse’.

The integration of the two IT departments was a much more clear-cut story. Bethmann Bank has a strong outsourcing culture, meaning it has existing arrangements in place with TCS, IBM and Verizon. IBM provided most of the employees whilst Verizon provided telephony services. Credit Suisse, however, was different. ‘They were doing everything more or less on their own,’ Kramer explains. ‘They have an IT department with lots of computing people. But for me there was no chance to take over such people because my IT people are from IBM. We could not take them over against the contract of IBM as IBM would say, “what are you doing here, this is our area”.’ So even though Bethmann Bank took on an extra 65 people to help cope with the migration, only two people from the Credit Suisse IT department moved over to Bethmann Bank.

This had been anticipated from the start, and was an upside of not buying the

legal entity so much as the bits that Bethmann actually wanted. Along with the two IT staff, 130 relationship managers from Credit Suisse were brought over, plus 30 non-sales people (including the two IT staff).

Keeping the relationship managers had been seen as helpful to the goal of ensuring continuity for Credit Suisse’s customer base, which was one of the main aims of the overall project.

Considering the original transaction with Credit Suisse had been based on the number of customers and assets moving over, it was important that the migration went smoothly so as not to undermine the deal itself. Bethmann had factored in a loss of around 15 per cent of customers. As Kramer points out, ‘you cannot force them to stay, and clients could cancel their relationship any day’. As mentioned, speed of migration was seen as one guarantor against an exodus of customers.

Bethmann tried to keep requirements of former Credit Suisse customers to a minimum. ‘There was a clear request from our sales people to, if possible, avoid any kind of re-papery. My clients would not be interested in giving 20 signatures again. That was a very important point,’ Kramer states. The mobile phone numbers of relationship managers were carried over, so any customers in the habit of using these could continue doing so. It wasn’t possible to avoid all upheaval though. Credit Suisse customers were issued with new account numbers and

also new cards.

Also in this area, ‘there was a huge communication machine driven by the marketing department’, Kramer remembers. In the end, fewer than ten per cent of customers left during the migration, meaning Bethmann could declare it a success. ‘We were happy with the migration and it gives us a good reputation as a bank with good migration competency, which might be useful in the coming years,’ he concludes.

The future priorities of the Bethmann Bank IT team depend on whether there is another acquisition or not. If there is, Kramer’s main concern is to convince the board of the bank to make sure it is a wholesale acquisition including the legal entity of the target, to avoid the complications of having two banking licences. If there is not, Kramer wants to focus on reducing complexity in the overall IT set-up. ‘We are doing a review of our complete IT landscape to reduce complexity and risk,’ he says. It is recognised that 160 is more systems than would be ideal. Meanwhile, improving co-operation with ABN Amro in Amsterdam is also planned over the next six to nine months, aimed at sharing more IT and services between the two entities. ‘95 per cent of the local IT landscape is under our control. There are many reasons for that to do with tax and regulation, but it’s still not something you would expect. But there should be a lot of synergy if we can co-operate more closely with the head office,’ Kramer says. 

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