

# Achieving High Performance in Banking

The Need for Core Banking Transformation

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# A Landscape in Upheaval

Seismic forces are reshaping the banking landscape. The fallout from the credit crisis is limiting discretionary spending. Consolidation and globalization are diminishing once-safe regional or national franchises. The rapid growth of emerging markets and the rise of players in other industries pose new competitive threats. In addition, new regulations are requiring greater transparency. And, with ready access to a world of information, goods and services, customer expectations are rising (Figure 1).

In this dynamic environment, banks are at risk of being unable to meet future business needs because of the constraints imposed by the core of their operating model. The processes, procedures and IT that form the foundation

layer of banks' operations have become riddled with complexity in recent years.

## Achieving high performance

That is why Accenture believes the time is ripe for an end-to-end step change in banks' operating models to enable greater efficiencies and future growth. We call this "core banking transformation". In our view, banks that are able to disentangle and simplify the legacy patchwork approach to technology and processes will be well positioned to achieve high performance.

This brochure explores how banks can respond to the changing landscape through core banking transformation and how, with the right approach, they can deliver sizable rewards.

**Figure 1:**  
Forces reshaping the banking landscape



# The Case for Transformation

Banks today are at a crossroads. In this difficult economic environment, they are under pressure to aggressively cut costs while at the same time, position themselves for competitive advantage when the economic cycle shifts towards growth.

Many banks, however, have reached the limits of their ability to realize either of these goals. Multiple, disparate, aging legacy systems are expensive to run and inhibit the timely launching of new products. Silos hinder an enterprise-wide view of customers, resulting in poor customer experiences.

Improving cost income ratios is a high priority. But banks' recent efficiency efforts have yielded only marginal improvements since they are limited by the inflexibility of their core. With their high fixed cost structures, banks find it uneconomical to make changes to processes and technology.

Human capital is another concern, as workers with knowledge of old legacy systems are retiring. In Accenture's view, banks need to move beyond tweaking their unit costs and adopt a total cost reduction approach.

To grow profitably, banks should innovate to enhance the customer experience, while driving the next wave of radical cost income ratio improvements.

## The imperative to change: the need for a radical rethink

Core banking transformation is a two-track process: streamlining and innovating products and services to drive revenue growth, while also reducing total costs. Making this transformational leap is critical to making a step-change improvement in operating efficiency, increasing scalability, meeting evolving customer needs and enhancing risk management.

We believe that core banking transformation is the next stage in achieving competitive advantage. Because core banking systems form the backbone of a bank's operating model and IT infrastructure, transformation must be at the top of their strategic and operational agendas.

Efficiency gains obviously generate cost savings, but more importantly, they create the platform for high performance. By simplifying internal systems and processes, banks are better equipped to deliver differentiated products and services to customers more effectively, thus maximizing organic and nonorganic growth.

## Achieving competitive advantage

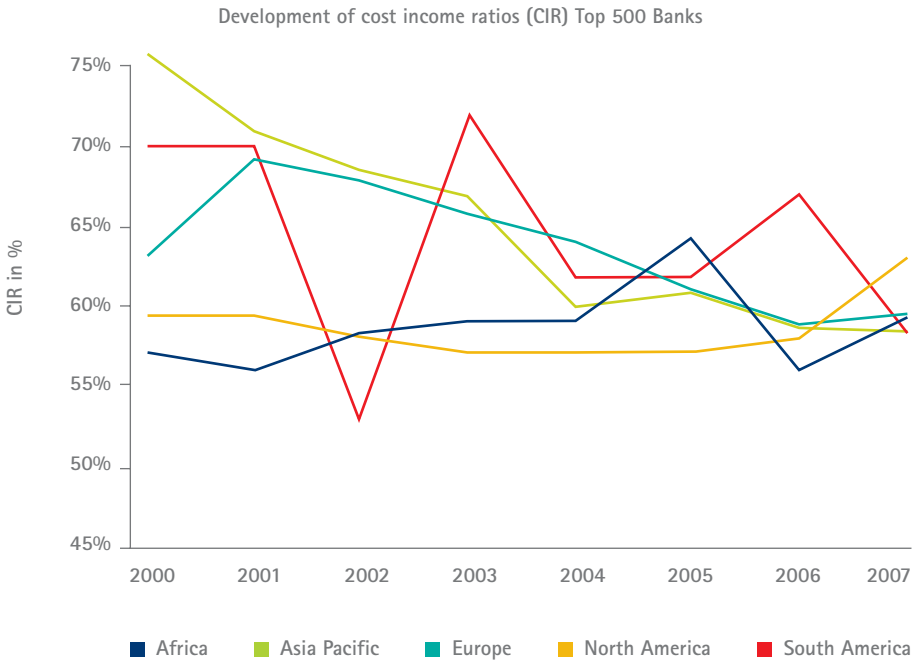
Until recently, many banks thought they could achieve greater competitive advantage solely by reorganizing their IT systems or relying on labor arbitrage. We believe, however, the challenges are more systemic. Indeed, the key drivers of complexity are outdated technology platforms, inappropriate organizational structures and duplicate business processes. The organization itself, along with its business processes, must be transformed (Figure 2).

Understandably, many banks have been unwilling to replace their core systems because of the risks, costs and complexity involved. Others have simply been reluctant to change the status quo.

Now, however, core transformation journeys are facilitated by:

- Software providers offering integrated next-generation platforms that facilitate a smoother transformation.
- Technological innovations such as Service-Oriented Architecture (SOA) and Business Process Management (BPM) that hasten the process.
- Innovative delivery and migration strategies that can reduce the costs and risks.

**Figure 2:**  
**Piecemeal actions to cope with dynamic banking environment have led to increased complexity and stagnating efficiency metrics**



Source: Bloomberg; Accenture Research

### Core Banking Transformation Includes:

- Operating model modularization to facilitate flexible sourcing options
- Process automation and simplification to reduce service response times
- Standardization of products and processes to reduce operational risk
- Flexible product characteristics to facilitate rapid product innovation and bundling
- Next-generation architecture to facilitate multi-channel support
- System scalability and ease of configuration to facilitate mergers and rapid growth
- Multiple countries, currencies and language capabilities to enable geographic expansion
- Product and process standardization to minimize redundant resources

# Transformation—Responding to the New Banking Landscape

We believe that banks need to transform all aspects of their core banking—processes, IT and people—in alignment with their strategic positioning. They will need to focus on particular segments of their value chain (such as multi-branded distribution or new product innovation) where they already possess or desire to achieve competitive advantage. This may also drive them to leverage other partners in delivering services that are commoditized or are not competitive advantages (such as servicing certain product families or the enterprise procurement function).

Core banking transformation leverages core replacement as a catalyst in this competitive restructuring to deliver higher levels of cost reduction and revenue uplift compared with software replacement or business process re-engineering programs alone, as illustrated in Figure 3. It enables banks to become more competitive and reduce focus on non-core capabilities.

## Differentiate. Simplify. Execute Brilliantly.

Core banking transformation enables industrialization which, we believe, is the path to high performance. Industrialized banks will be well-positioned to be high-performance businesses—the competitive winners—in the future worldwide markets for banking products and services. While these banks will have widely differing strategies, they will each share three essential characteristics.

First, they will be more differentiated than their competitors in the eyes of their customers. Second, they will be more efficient or "simplified on the inside" in terms of their operating model. Third, they will be outstanding at execution, demonstrating not only superior operational performance but also excellence in the delivery of complex business change. These three attributes are illustrated in Figure 4, an overview of Accenture's value approach to industrialization.

### Market differentiation

High-performance banks can set themselves apart through the customer experience they deliver via their various distribution channels. The main distinction among banks' product manufacturing models is the extent to which they standardize the product design and development process and centralize its management.

Core banking transformation involves moving from a product-centric to a customer-centric architecture. It enables greater differentiation primarily by providing flexibility to rapidly tailor offerings to diverse customer segments through multiple channels. Flexibility also speeds innovation to meet evolving customer demands.

### Simplification inside the bank

At its essence, core banking transformation means simplifying the operating model—standardizing products, processes and systems across the bank—enabling improved cost efficiency and flexibility.

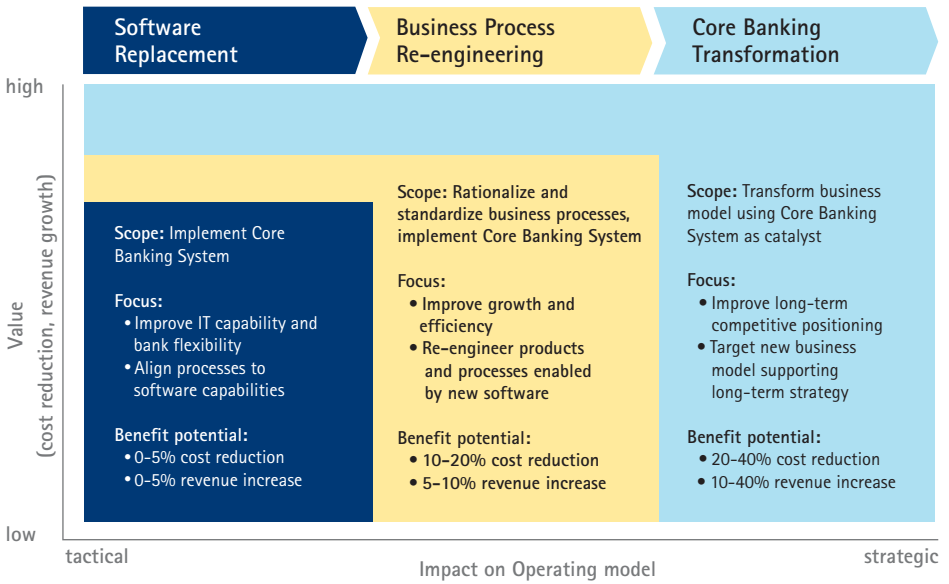
This involves some degree of functional specialization, for example, separating product distribution from back office processes and enabling consolidation of related product manufacturing operations into a single group-wide platform.

Simplification also generates economies of scale, by eliminating work and optimizing processes. This drives total cost lower by affecting all components of cost, instead of single levers such as labor or infrastructure.

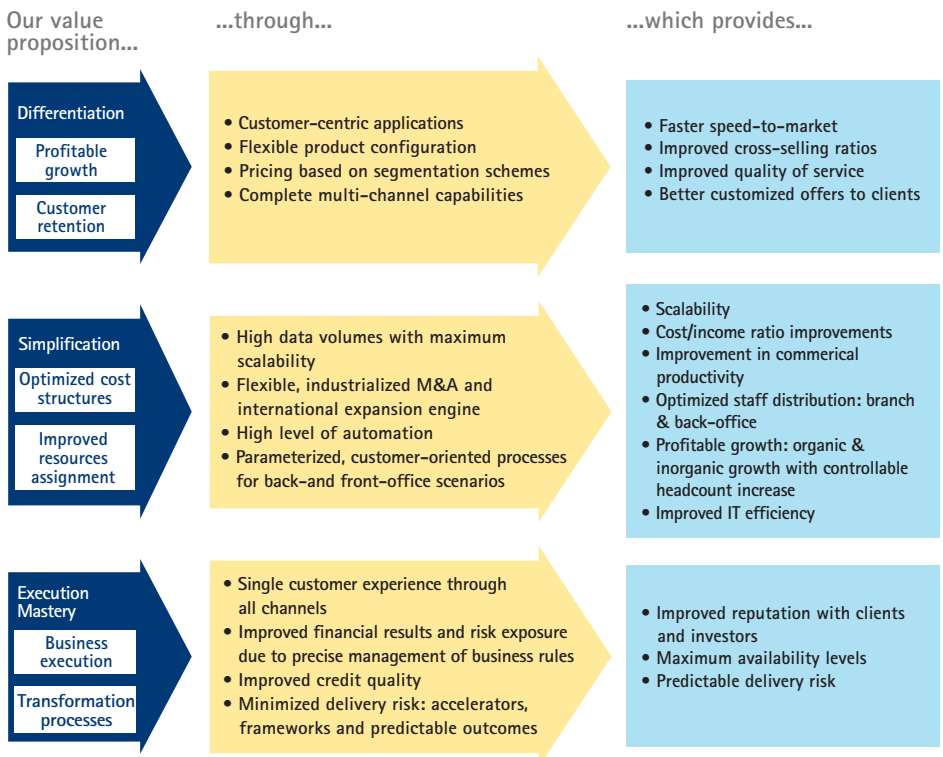
### Execution mastery

While differentiation and simplification reinforce and drive an embedded culture of strategic change, operational and program execution excellence are focused around continuous improvement. Industrialized organizations can deliver the initial transformation and also operationalize execution as a core competence to continue meeting changes to their transformed model.

**Figure 3:**  
**From Software Replacement to Core Banking Transformation—the degree of change provides different levels of benefits**



**Figure 4:**  
**Examples of Core Banking Transformation Value Propositions and Benefits Delivered**



## Aligning the business and operating models

Alignment of the business and operating models is the foundation for any core banking transformation. Prior to the transformation journey, the bank must articulate its strategic objectives for the next three to five years. What will its business model be? It should consider strategy for:

- Products
- Customers
- Markets
- Brand
- Pricing and Risk

The business model, of course, helps define the operating model which, in turn, must be fully supported by the application architecture.

## Core banking transformation

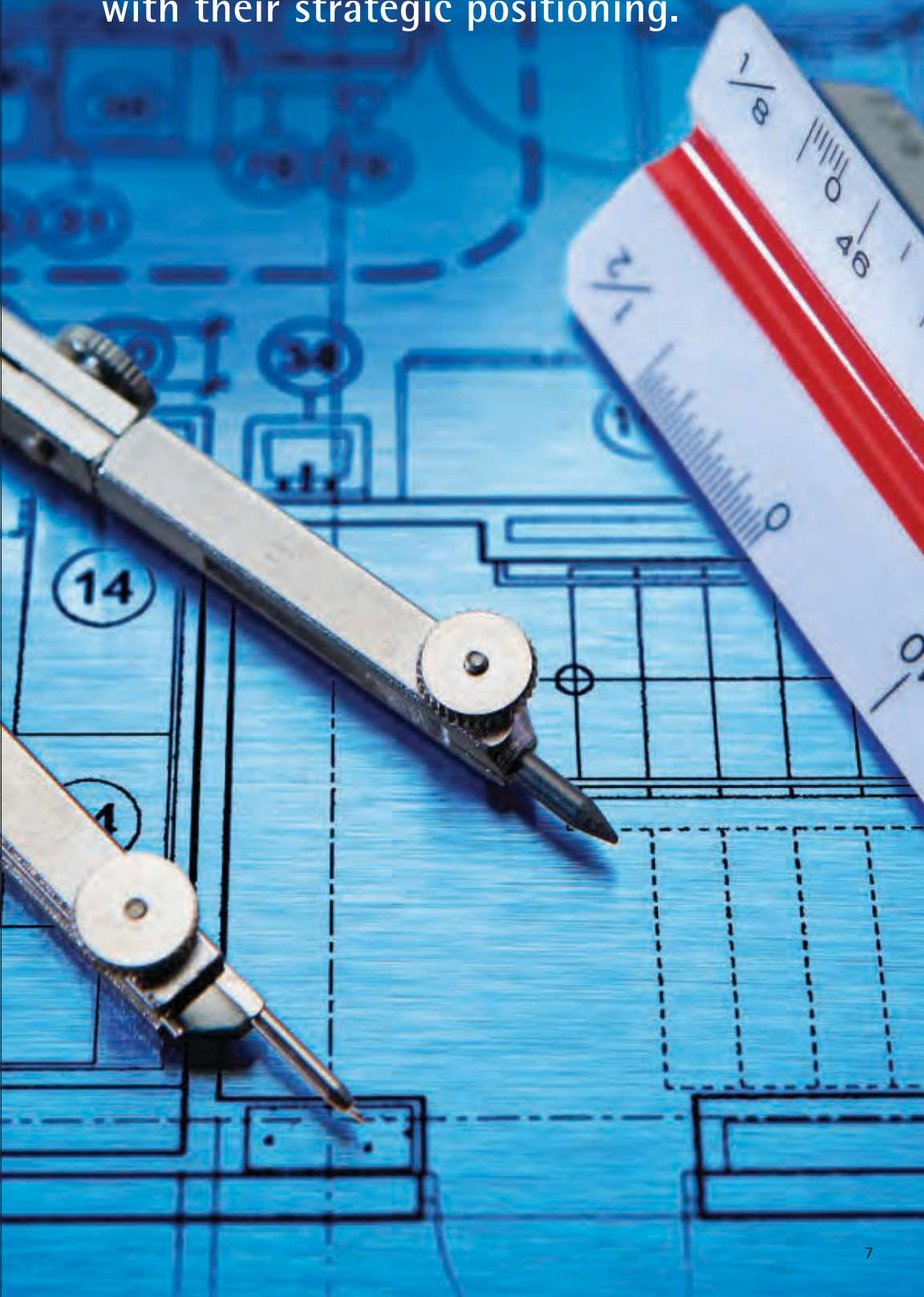
Core banking transformation is a comprehensive undertaking, involving: next-generation architecture to facilitate multi-channel support; operating model modularization to enable flexible sourcing options; product flexibility to facilitate rapid product innovation and bundling; product and process standardization; automation and simplification to reduce service response times.

In our opinion, core banking transformation is more practical and cost-efficient than ever before, thanks to technological innovations such as SOA and BPM.

SOA enables fast, low-cost, low-risk, platform-neutral system integration. Business processes are decoupled from technology, so a bank's focus is on the business services or processes rather than the underlying technology. The loose coupling means that control is handed back to the business because application creation and configuration can more easily be aligned with business needs with fewer IT constraints.

This approach provides cheaper, easier, faster and more reliable integration with third party solutions, and easier reusability of the IT systems. It also facilitates process and people changes, which in turn, makes competitive repositioning attainable.

Banks need to transform all aspects of their core banking—processes, IT and people—in alignment with their strategic positioning.



# Delivering Upon the Promise of Transformation

Becoming a high-performance bank requires the skills to diagnose, plan, design, schedule and implement an appropriate core banking transformation program. There are two keys to delivering upon the promise of transformation:

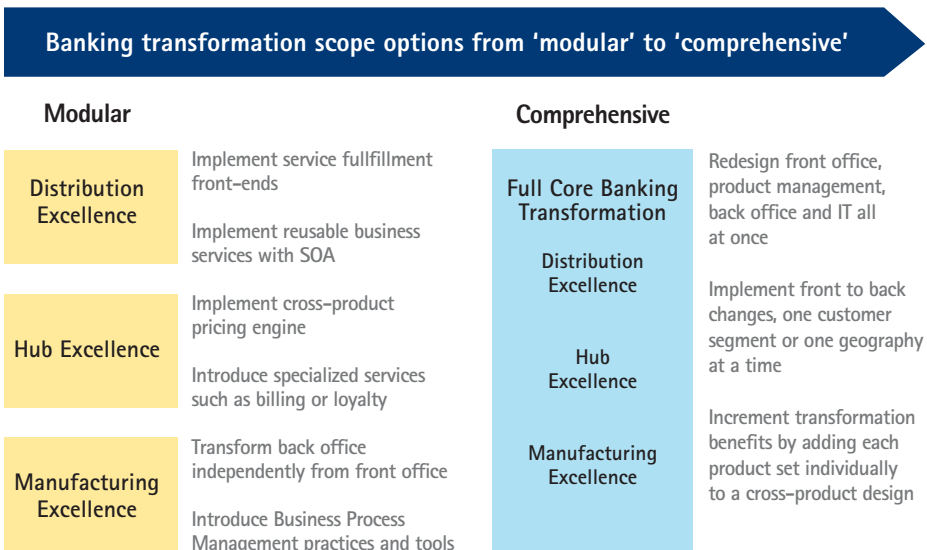
1. Scope: Modular or Comprehensive – What challenges does the organization face based on its competitive positioning?
2. Approach: Evolutionary or Revolutionary – What approaches maximize the response to these issues?

The right options for any given bank will depend on several factors, including: mid- and long-term business goals, operating model and IT starting points, and appetite for change.

## Scope: Modular or comprehensive?

Selecting a modular or comprehensive transformation approach will depend upon which aspects of the operating model the bank chooses to focus. For example, a bank may have top quartile efficiency but need to improve distribution of multiple products across new channels. Another institution may produce top-tier results in cross-selling but need to radically lower the costs of manufacturing their consumer lending or treasury services products. Figure 5 shows the choices available, from modular to comprehensive transformation.

**Figure 5:**  
Choose a suitable scope to core banking transformation



## Approach: Evolutionary or Revolutionary?

Banks must also choose different implementation approaches depending on whether they decide to replace their existing processes and systems, or reuse as much as possible.

### **Evolutionary.**

The evolutionary option is most applicable when the scope is limited, such as to a single product or segment of the operating model. The delivery path is gradual, reusing many existing systems and processes. For example, banks may employ a combination of new customized systems and legacy systems, with best-of-breed third party solutions, supported by SOA and BPM capabilities.

It also applies to organizations seeking transformational change, but deploying it in a staged manner over time. This may involve wrapping legacy systems for short-term initiatives while building a new generation of systems which may include some legacy platforms, as well as integrating market solutions one component at a time.

### **Revolutionary.**

The revolutionary approach involves a comprehensive scope of transformation. It is often pursued when seeking maximum impact from a core banking transformation. The goal is to introduce radical change across all components of the operating model, often pursuant to an aggressive timeframe. The result is the delivery of new end-to-end capabilities, often supported by next generation core banking platforms such as Alnova Financial Solutions™, SAP Banking Services, Oracle Financial Services, Finacle (Infosys) or T24 or TCB (Temenos), and others.

# Measurable and Sustainable Results

Accenture aligns these different transformation approaches with each client's desired financial outcomes. Our industry experience enables us to identify the specific value levers that drive revenue growth and cost reduction to maximize the results of the transformation (Figure 6). Pulling these levers in concert drives powerful results.

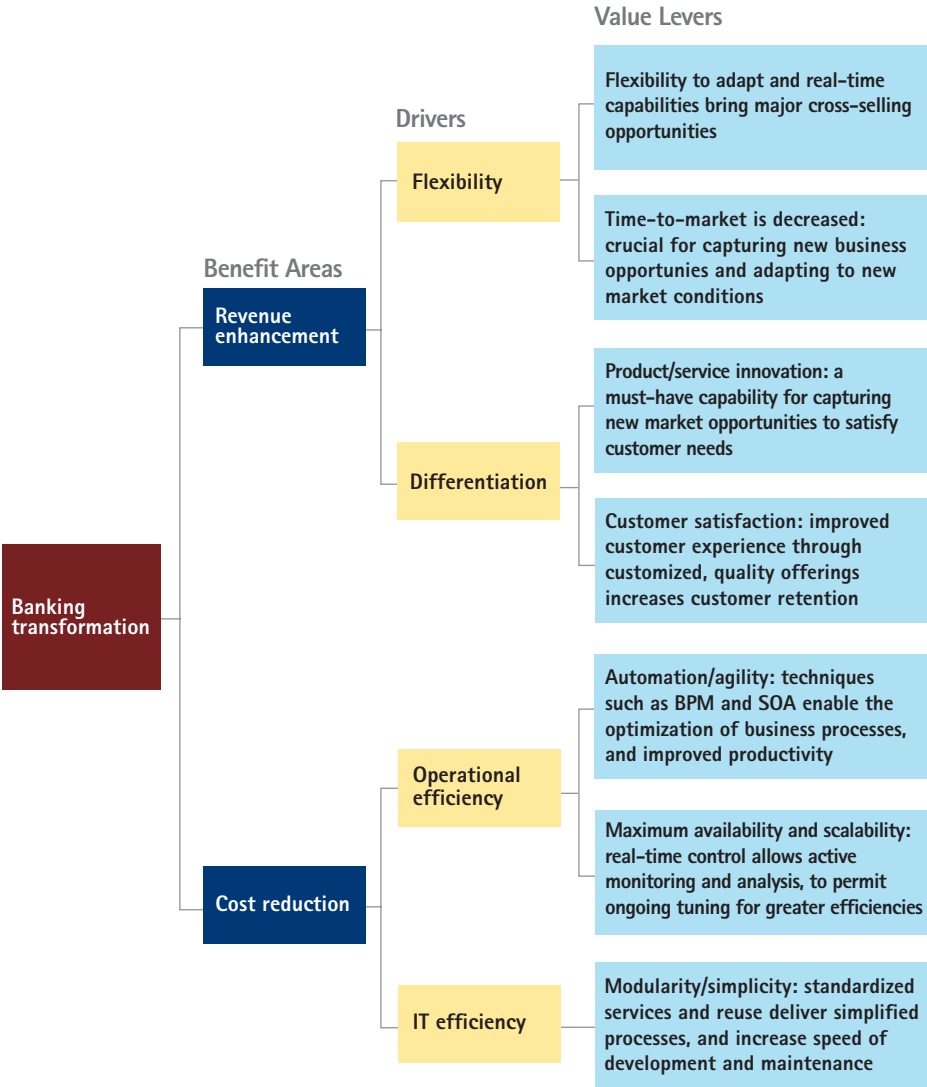
Revenue enhancement benefits are supported by newly created flexibility and capabilities to drive cross-selling. Additionally, time-to-market is reduced, permitting banks to quickly adapt to changing market conditions.

The potential for cost reduction benefits are increased by evolving core banking solutions that leverage SOA and BPM to provide the automation and agility necessary to optimize business processes. By controlling these processes in real-time, they can be actively monitored, analyzed and fine-tuned for greater efficiency. IT also benefits from standardized services, the reuse of simplified processes, and faster development and maintenance.

One major European savings bank used Accenture's Alnova Financial Solutions™ as the engine for the replacement of its core banking system and for the migration to a new operating model involving product and process transformation, as well as a back office re-engineering project that reduced business back-office operation staff to four percent of total headcount. As a result, over six years, the cost income ratio plunged from 72.2 percent to 42.6 percent.

Another leading international bank implemented a market standard solution as its single, multi-country platform to support international expansion, with a single operating model for Latin American countries and new product development capabilities that reduced time-to-market by 75 percent to 80 percent. Its six year cost income ratio fell from 60.7 percent to 37.9 percent.

**Figure 6:**  
**Core banking transformation value tree**



# Accenture Core Banking Transformation Services Offering

## The Offering

Transformation journeys can be complex and risky, so they require a partner who is able to provide know-how and play a pivotal role in the journey. Accenture has a reservoir of global consulting, technology and out-sourcing services to help clients execute their transformations (Figure 7).

The Accenture Core Banking Transformation Services offering leverages both innovative thinking and industrialized delivery to transform a bank's operating model, thereby reducing the cost base and enabling the pursuit of revenue enhancement opportunities.

The offering leverages Accenture's knowledge, capabilities and accelerators gained from our deep banking industry and transformation experience. Clients receive end-to-end coverage starting with initial strategy—innovation and planning—to delivery of results—design, development, test and implementation, and deployment. This solu-

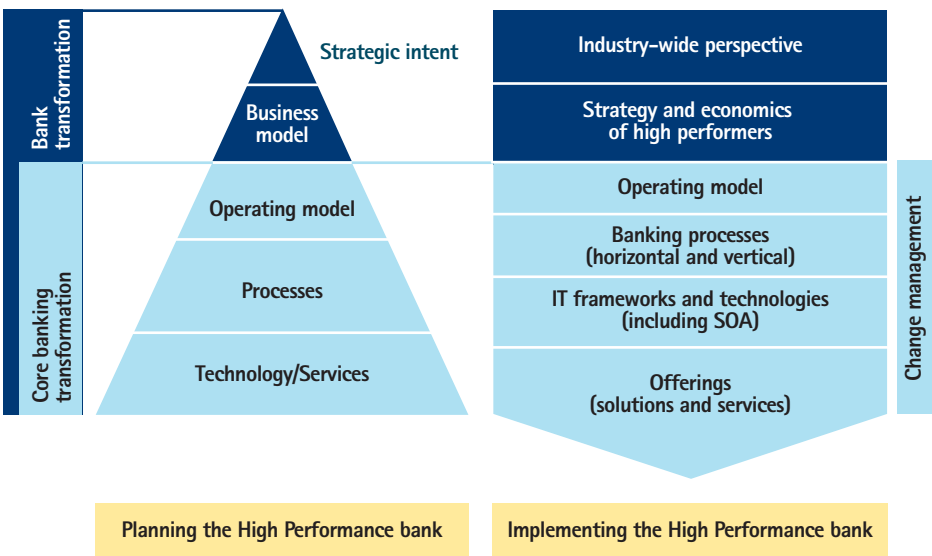
tion is broader than technology or industry knowledge. Since transformation programs affect the way people work, Accenture also provides change and cultural integration management to drive the necessary workforce transformation.

We aim to help our clients achieve high performance through:

- Lower operating and IT costs
- Increased efficiency, effectiveness and flexibility
- Reduced time-to-market
- Improved customer experience and retention
- Support for growth engine generation

Accenture's Core Banking Transformation Services offering covers modular and comprehensive transformations, leveraging evolutionary and revolutionary approaches. This includes operational efficiency programs to transform back offices and shared services, support of geographic expansion and merger consolidation.

**Figure 7:**  
Accenture's Banking Transformation framework—from planning strategy to implementation



## The people, the power, the technology

Accenture offers clients a broad set of experience, capabilities, software and alliances, tools, and methodologies.

### 1. Knowledge

Accenture brings deep industry, architectural and delivery knowledge to help our clients deliver core banking transformation. This knowledge is anchored in our experience delivering over 200 core banking transformations across multiple types of operating models, geographies and software solutions. It is based on all aspects of our business, including Accenture's High Performance Bank framework, our SOA frameworks and industrialized Accenture Delivery Methods.

### 2. People and capabilities

More than 15,000 Accenture professionals work with our financial services clients globally. Of this total, approximately 2,500 have experience in core banking and asset-related implementations.

Accenture has a network of more than 50 delivery centers globally, including IT centers and Business Process Outsourcing (BPO) centers, with a range of core application skills to manage, build and implement complex, large-scale core banking systems integration projects.

In addition, Accenture Centers of Excellence for Assets & Software specialize in all phases of the banking transformation process, including the Madrid Center of Excellence for Alnova Financial Solutions™, the Delivery Centers for SAP in Bangalore and Malaga, and the Bangalore Center of Excellence for Oracle Financial Services.

### 3. Software and alliances

Accenture has both its own core banking solution and a set of strong alliances which help accelerate the core banking transformation process.

Accenture's Alnova Financial Solutions™, an integrated core banking system, is a proven means of introducing new operating models. It provides process design and functionality

to deliver defined business goals, while helping remove cultural barriers around legacy systems. Alnova Financial Solutions™ has been used by over 100 banking clients.

Accenture's global alliances in the core banking market include SAP, Oracle, Hewlett-Packard, Microsoft and IBM. In addition, we have extensive experience with regional software solutions that support our client's business.

### 4. Tools

Accenture's Core Banking Offering is underpinned by a proven set of global delivery tools that are customized around core banking solutions. They include accelerators, estimators, configuration utilities, testing tools, integration methods, and conversion approaches that are customized or applied to standard packages (Alnova, SAP, Oracle).

## Credentials: a history of proven success

BAWAG P.S.K. (Austria), Commonwealth Bank of Australia (Australia), PKO Bank Polski (Poland), and Standard Bank (South Africa) are just a few of the many financial institutions where Accenture has implemented core banking solutions.

International expansion strategy clients include Bank of Ireland, DBS Development Bank of Singapore, Banco Bilbao Vizcaya Argentaria (BBVA) and Banco Santander. We are also engaged in operational efficiency projects with several clients, including major United States banks.

Accenture has extensive experience implementing Alnova Financial Solutions™ as a core banking system platform and other leading core banking solutions, including SAP Banking Services, Oracle Financial Services, Finacle and Temenos. Where appropriate, Accenture develops and delivers custom implementations.

Accenture's industry knowledge, business know-how, technological skills and extensive experience makes it ideally positioned to help banks transform core banking and achieve high performance in the years ahead.

### About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. With more than 186,000 people serving clients in over 120 countries, the company generated net revenues of US\$23.39 billion for the fiscal year ended August 31, 2008. Its home page is [www.accenture.com](http://www.accenture.com)

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