

PERSPECTIVE

Transform Your Core: Risk-managed Approach for Turbulent Times



Bankers are navigating stormy seas in a water-logged ship. Even as banks are engulfed by the credit crisis and market meltdown, bankers must continue to satisfy demanding customers with an array of innovative products in a highly competitive market facing rising costs and shrinking margins. To sail through the raging cross-currents, banks need a robust and sophisticated yet streamlined technological rudder.

However, despite core banking systems being mission critical, many banks continue to use ones designed decades ago, when business requirements were very different. These ageing, creaky systems lack the agility, cost-effectiveness, flexibility, and scalability needed to meet today's challenges and fail to provide a foundation for future growth. Banks are aware that they urgently need to transform their IT Infrastructure beginning with core banking transformation. But doing so is perceived as a risky proposition fraught with many challenges.

A bank can always find reasons not to take the plunge: From the enormous IT investments it must make to the business risks it faces in the eventuality of failure. A bank must manage the transformation's impact on all stakeholders – from its own staff and IT department to customers and partners. Most significantly, it must battle the adage 'If it ain't broke, don't fix it'. After all, decision-makers may say, "The bank is running very well with the current system, thank you very much. Why take the risk?"

But the fact is that core banking transformation is a matter of necessity, not choice. Research indicates that core banking replacements are on the rise, with a quarter of tier 1 banks surveyed indicating their intent to undertake the transformation journey in 2008. An equal number indicated that they would do the same between 2009 and 2010.

This corroborates the fact that if banks put off the core transformation decision, it will result in them losing their competitive edge. Banks inhabit a Darwinian world and only a core transformation will endow them with the fitness essential for survival. History has demonstrated that organizations that have worked harder during the downturn have emerged winners and leaders when there is a growth or turn around. Winning in the turn is what differentiates a leader in a group. Banks can also use this opportunity to re-align their business strategies and prepare to benefit when there is a turn around. Re-alignment

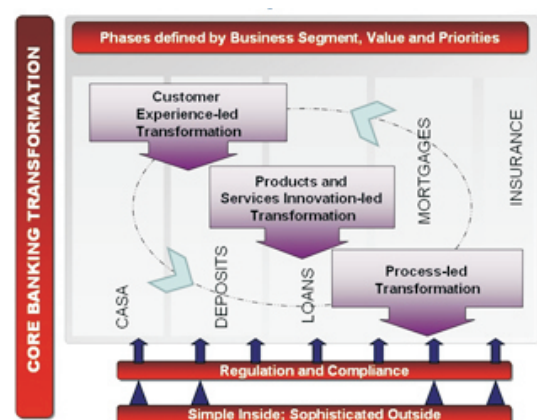
would include a critical analysis of core competencies, growth potentials, opportunity cost and value proposition based on objectivity and facts. This includes dropping non-profitable business lines, product lines, non-core activities that are not aligned with the business vision, mission, objectives and strategy.

Banks have taken varied approaches to transformation. Some have taken the 'big bang' approach, which encompasses enterprise-wide core transformation and is feasible only for banks with smaller and not-so-widespread operations. While it offers the obvious advantages of cost optimization, operational ease, and uniformity of experience, there are roadblocks in the shape of data migration, change management, and knowledge transfer.

The other approach is a phased roll-out along either the product or line of business routes. The bank tries a pilot project along a chosen route at a specified level – either one branch or several, and with or without a legacy operation running parallel – before a wider roll-out. This minimizes business continuity risks and eases transition management, but also entails its own risks.

So with core banking transformation being mandatory but risky, what are banks to do? They can adopt an approach that mitigates the inherent risks but maximizes the advantages of transformation.

Phased Approach to Risk-managed Transformation



Legacy core systems are inflexible, resource draining and limit a bank's ability to offer new services to customers. They hinder the bank's ability to respond to agile competitors. Banks require core systems that empower them to meet an ever-growing list of customer

expectations, substantially improve customer experience and in turn enhance customer delight and process high transaction volumes across multiple channels, all seamlessly, online, and in real-time. Core systems must support a range of customized products, reduce time-to-market, and offer a 360-degree customer view even as they lower costs and achieve operational efficiency.

Replacing a legacy core banking system is certainly a challenging task. But taking the right approach can make the difference between success and failure, between a time-consuming, costly and disruptive exercise and one which proceeds smoothly in accordance with plan.

This right approach is a phased roadmap to transformation, but it is not phased in the traditional sense we explored earlier. According to this approach (See figure above), transformation is broken up into a number of phases, defined by the bank according to its business volumes / segment, value and priorities. A bank may choose to transform earmarked low-impact areas of its core first; for instance it may opt to focus on its retail liabilities business first. Alternately, it may look at streamlining business in a particular focus geography that is a primary source of business.

Irrespective of the phase-defining parameters a bank chooses, the transformation can be approached from three interwoven perspectives:

- Customer Experience-led Transformation
- Product and Services Innovation-led Transformation
- Process-led Transformation

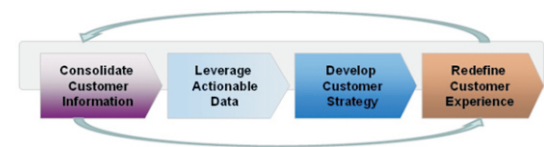
These perspectives are not independent routes to resurrecting core banking but judicious focus areas adopted by the bank during the transformation process. As transformation progresses, the bank must concentrate on each of these at different points in time without entirely losing sight of the other two. At all times, the bank enjoys an integrated view into what it is doing and what it hopes to achieve, from the transformation journey.

At the same time, the bank in throes of transformation needs to remember two fundamental imperatives:

- Stringent focus on adherence to regulation and compliance norms
- Ensure pervasive simplicity inside and sophistication in communication and presentation on the outside

Let us take a closer look at this approach.

Customer Experience-led Transformation



Customers always ask for more: personalized products, greater responsiveness, convenience, and transparency. Satisfying their desires is paramount in an era of hyper-competition and low margins.

If banks understand customers, they can plan appropriate products and sell the right product to the right customer at the right time – thus meeting their stringent requirements. A core banking system can help a bank accomplish this by allowing banks to:

- Consolidate customer information
- Leverage actionable data
- Develop customer strategy
- Redefine customer experience

When embarking on customer experience-led transformation, a bank must realize that managing customer information effectively allows it to delight customers. When focusing on this transformation perspective, a bank must build a knowledge repository by consolidating customer information to furnish it with an integrated, 360-degree view of the customer. The information must be standardized across functions and entities and duplication must be avoided. Moreover, the transformation effort must facilitate ease of compliance management and internal and external reporting.

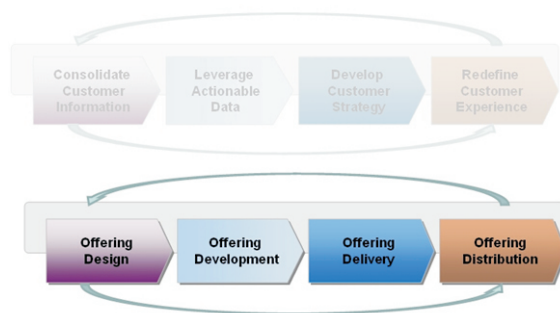
Such a knowledge repository is intellectual capital, helping a bank enjoy significant returns when deployed to aid right-selling. Thus, it must be leveraged to segment customers and mine

customer data to tailor financial offerings. The transformation will enable a bank to capture dynamic information based on tacit customer interactions.

The bank would then be empowered to develop a customer strategy that lays out preferential pricing frameworks and segment-based prioritization of customers. The customized products ensure that customers are presented with offerings best suited to their profile even as it helps fulfill their financial needs and better channel access. The resulting customer delight and financial empowerment helps banks forge a strong bond.

with customers, thus helping redefine customer experience positively. This also positively impacts customer advocacy in favor of the bank.

Product and Services Innovation-led Transformation



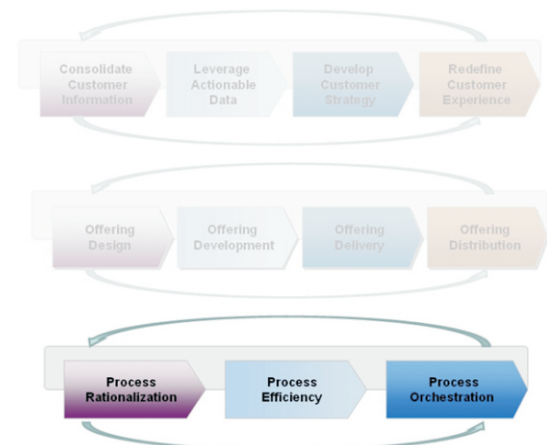
Customer satisfaction holds the key to profitability. Thus, banks have moved from a product-centric approach to considering customer-specific needs and tacit requests. Today, banks need to mould products and services to meet the need of each individual customer and transform their offerings management to address this critical requirement. In adopting this perspective to transformation, a bank ensures transformation in:

- Designing flexible solutions customized to the needs of specific customer segments and individualized to the tastes of particular customers. These must be available to the customer across all channels and at all times according to her convenience
- Developing products focused on the customer and offering niche products and services. Thus, a bank may offer custom-bundled offerings, relationship and preferential pricing, and rewards to customers

- Delivering solutions ensuring consistent service levels, innovation and value-adds
- Distributing offerings to a wide range of customers through a multi-channel strategy. Moreover, the bank needs to give customers greater autonomy by allowing them to control their own finances through self-service and assisted service. A streamlined partner ecosystem can also be created and leveraged to play a pivotal role in facilitating effective and efficient distribution

Banks must also leverage the opportunity to re-look at their current product lines, re-align these to meet their business objectives and strategies, rationalize product offering either by down-sizing or consolidating, with the objective of achieving product profitability, relevance, differentiation and increased customer convenience.

Process-led Transformation



A core banking solution must streamline and optimize processes across channels and entities to increase agility and lower costs. Thus, it must re-engineer processes to ensure their:

- Efficiency
- Standardization and Rationalization
- Orchestration

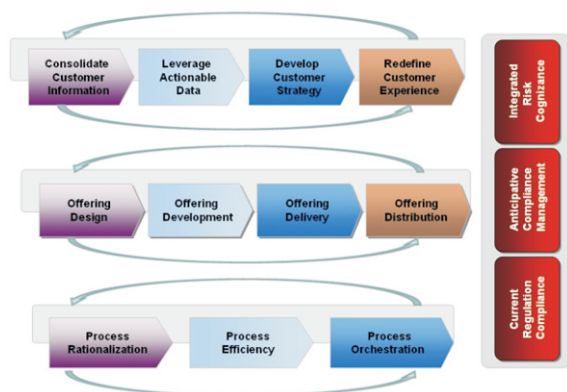
Efficiency may be addressed from the point of view of the customer and the bank's employees. Thus, the transformation exercise must result in reducing clicks and manual intervention and standardizing the user interface, navigation and user experience. Moreover, call center

operations and front-office operations need to be streamlined to meet these parameters. These enhance employee productivity and customer satisfaction, in turn positively impacting profitability.

Processes must be rationalized to allow bankers to reuse template and resources. The knowledge repository must be managed in accordance with structured and streamlined processes to ensure relevance and effectiveness. Since providing customers a rich and unified experience across channels is critical to gaining and retaining customers, an integrated IT landscape must be leveraged to this end, thus creating compelling customer experience.

Technology is a partner in realizing business strategies and the two need to align with each other to drive a bank's transformation and give it the competitive edge. Processes need to be laid out to enhance synergies between business and IT.

Regulation and Compliance



The rapid pace of regulatory change demands that a bank has strategies and solutions to enhance its responsiveness to evolving regulatory requirements and mitigate compliance risks. Adherence to the ever-growing set of regulations, as well as adjusting to changes in regulations, has become a challenging task. Thus, a core banking system needs to effectively meet regulatory reporting mandates and the bank must not lose sight of this imperative through the transformation journey.

The core transformation must cover present compliance concerns by making room for a stringent due diligence process and customer screening. It must also enable product bundling for risk mitigation. In addition, it must facilitate the addressing of future regulatory concerns by ensuring customer, process, product, and service

compliance with emerging regulations. Above all, it must manage response to emerging compliance mandates with agility and minimal business disruptions.

Regulation and Compliance

- Allowing effective data mining for improved compliance environment
- Improving compliance management at product development stage
- Enabling increased holistic visibility into customer transactions
- Managing reputation risk

Simplicity Inside; Sophistication Outside

Transformation truly shakes up the organization from the core. However, the risk-mitigated path to transformation entails that the bank does not lose touch with the basics of the business. The overriding principle is to keep things simple and not change the tenets of delivery radically. At the same time, the bank must adopt sophistication in its communication with the world outside, so that positive changes are articulated effectively to stakeholders. This helps a bank differentiate itself in the marketplace but remain simple and transparent inside.

Such a strategy includes improved cost structure management, consolidated visibility and better management of operational complexities and risk. Not only must customers be informed about risk, but their feedback must be taken into account to build a more responsive organization. Products must be simple and risk-managed, both for the customer and the bank. A bank must make concentrated efforts to empower partners and customers with informed sales pitches and proactive communication.

What's in it for the bank?

Core transformation enhances a bank's business prowess by empowering it with flexibility and scalability, ease of IT management and an enhanced customer experience. It lowers costs and makes the business future-ready by laying a solid foundation for effective opportunity management in a changed environment and driving growth.

However, to realize these benefits, banks must transform by adopting best practices and partnering with a proven transformation partner to guide them through the challenging process.

After all, if you are changing your Boeing's engine mid-air, you need the best pilot and technician in the business.

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