Enhancing the Value of Core Banking Transformations

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Introduction

Core banking replacement is the single biggest project that banks undertake in terms of cost, time to execute and associated risks. Renewal/refresh/replacement of the core banking architectures is becoming unavoidable for a variety of reasons with the result that banks today are spending millions of dollars (in some cases 100s of millions of dollars) in trying to upgrade their core banking architectures. The question however remains - Is this large spend on the core banking architectures justifiable? Almost 75% of IT mega projects in banking (which of course includes core-banking projects) do not reach their goals, out of which 25% of them are totally unsuccessful and scrapped. Is it worth the risk and the time?

The Approach

The rationale

Banks look to change their core banking architectures for a variety of reasons. Given below is a list of some of the important reasons:

- Current legacy architectures are dated (in some cases from the 1960s!) and are becoming increasingly difficult and costly to maintain
- Rigid, siloed architectures are making it difficult for banks to look at customers holistically, impacting service and affecting customer retention
- Introduction of new services and products/ offers is very time consuming and costly putting banks at a serious competitive disadvantage and putting customer service at a risk
- Technological obsolescence and the associated problems including lack of support, loss of skills, etc
- Mergers and acquisitions and rapid growth into other areas of banking make the current capability no longer viable Governance, risk and compliance issues

While all the reasons stated above are important in their own right, some of the reasons make the core banking upgrade much more urgent and inevitable – a good example is when a bank can no longer run its core banking system due to vendors withdrawing support for the technology, making it absolutely necessary to replace the systems. Core banking renewals continue to be a 'Over my Dead Body' program for most CIOs and technical executives with the risk of a failed project looming large. What makes these programs the stuff of nightmares for banks is the multiple facets of risk that must be dealt with while executing the program and at the same time continuing business as usual. Some facets of risk are outlined below:

- Risk of disruption in customer service, serious enough to cause brand and reputation damage. Decreasing loyalty and increasing expectations from customers make this risk very real and in extreme cases would lead to questions of survival
- Risks of extreme spend in very tight times without the conceived benefits being realized. Most of the discretionary budgets of banks would need to be diverted towards the core banking upgrade program, giving no leeway for additional spend on smaller programs that would deliver benefits much more rapidly
- These programs are inevitably multi-year having to solve very complex problems. Changing needs could render the program less than useful as the original objectives and targets are no longer valid. The accelerating pace of change in today's world means that this remains a serious risk that banks have to consider

Some recent examples of large bank core banking upgrades have produced mixed results. While some (example a large tier 1 bank in Australia) have deemed to be successful, the overall cost of the program has been astronomical leading some to question whether the program was indeed beneficial. Another Bank in Australia is already more than 5 years into this program with no tangible objectives or benefits being realized. One mid tier bank's program in the UK failed completely with the result that the bank decided to shelve the program and return to its original systems, after having spent far in excess of £100 million. The benefits of core banking replacement tend to be operational - improvement in operational efficiency, reduced operational cost and better processes. While none of the reasons are trivial, this do not completely justify the enormous spend and the concomitant risks. Some other points that tend to take away the sheen from core banking programs include:

- Most are core banking replacements – technological refresh rather than being transformational
- Core banking programs today are only for a part of the overall organization and even within that division/part cover only cover a portion of the products /services being offered
- Business models in banking are changing rapidly with banks offering many more services/products to customers when compared to traditional business models. Many of these are sourced from third parties with banks only acting as customer agents. Core banking replacements do not cover this part of the business

In spite of all the inherent costs and risks associated with core banking renewals, more and more banks would be forced to invest in large scale core banking replacement programs due to a combination of reasons mentioned earlier.

Enhancing the value of core renewals

To be truly beneficial, transformation programs must go beyond being mere core banking renewal projects. Fundamental to any bank's success is the delivery of a superior & holistic customer experience that would then automatically drive all aspects that make a bank successful – customer loyalty, increased breadth and depth of relationships with customers, superior growth and a very profitable bottom line. Superior customer experience could go beyond the delivery of services that customers want, where they want, when they want and how they want - in an easy and simple manner and include the entire experience the customer has in engaging with the bank.

A successful business case for a core banking transformation should include both top line and bottom line outcomes. Revenue growth is a natural outcome of customer retention, attracting new customers and increased depth of customer relationships – all natural outcomes of a superior customer experience. This when combined with objectives of operational efficiencies that drive down cost (increasing profit) and time to service would result in a case of transformation that cannot be denied. To achieve a superior customer experience, banks must build an organization that is truly customer centric. While there are many facets to the challenges that a bank must overcome to achieve this (including customer centric business process, organization structures that are not product centric, etc), from a system landscape perspective, this necessitates planning for and implementing a solution that would:

- Orchestrate end to end customer experience from the identification of needs and creation of

personalized offers to fulfillment during the entire life cycle
- Provide real time, analytical and holistic customer data that drive real time decision making

Provide a competitive edge by enabling quick and efficient innovation and delivery - keeping pace with changing demands
Provide an isolation layer in between front end customer solutions (which by nature have to be dynamic and agile) and the core banking solutions (which are driven by stability and efficiency) – reducing disruption due to changes in any one layer. Such a solution would result in driving benefits that go beyond operational benefits, when put in place as an integral part of a transformation. While the benefits associated with delivering a superior customer experience are obvious, this also allows:

- A single source of truth for all customer relationship data – real time, analytical and holistic
- Quick implementation of a customer experience centric program at a fraction of the cost substantially reducing the risk of disruption
- Data driven decision making that would allow transformation to be driven in a way that maximizes benefits and reduces risk (e.g. focus on phasing by segment of customers)

Conclusion

Core banking renewal projects, apart from being expensive, are very risky for any bank to undertake. However, core banking renewals are increasingly becoming necessary due to a variety of reasons and banks can no longer put them off. The business case for such a program can be strengthened if the renewal is converted to a true transformation program. This could then lead to both top line and bottom line outcomes that could make the undertaking of the transformation program worthwhile. This journey has to consider as its central objective the delivery of a superior customer experience that would in turn as the true driver of success. Such a customer experience can be delivered through solutions that orchestrate the end to end experience and provide real time, holistic, operationally actionable and predictive data about customers.

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About SunTec

At SunTec Business Solutions, we help our clients increase the lifetime value of their customer relationships through effective revenue management and real-time customer experience orchestration. With a legacy of deployment in over 45+ countries, SunTec is a trusted partner to some of the world's leading banks and digital and communication service providers. Headquartered in India, we have our offices in the USA, UK, Germany, UAE and Singapore.

With a team of highly skilled individuals and our innovative product development models, we help our clients remain at the forefront of cutting edge technology. A stable, mature and flexible product suite, Xelerate continues to develop with the market. With insights from our industry experts, a robust future-ready roadmap and seamless integration with any ecosystem, it is one of the most effective products to leverage.

For more information, please visit us at www.suntecgroup.com

If you wish to explore further on how SunTec can bring value to your core banking transformation efforts, please drop us a mail at contactus@suntecgroup.com and we will get in touch with you

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