TEMENOSNEWS

Issue 23 January 2011

Investing In Wealth

Lynne Landau on the impressive new capabilities Temenos can offer private wealth management customers following its acquisition of Odyssey

TEMENOS
The Banking Software Company

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Welcome

Issue 23 January 2011

Temenos has always been well equipped to serve the private wealth management market. Following our acquisition of private wealth management solution provider Odyssey in 2010, we can now offer portfolio managers even more sophisticated capabilities to help them serve their customers. In this issue Lynne Landau Temenos Product Manager for Private Banking, explains what portfolio managers and their customers stand to gain from access to solutions such as Triple'A Plus and WealthManager (pages 14 and 16). We also talk to Celent Research Director Isabella Fonseca about the changing face of private wealth management, as minimum wealth thresholds for private banking continue to drop (page 6).

Cloud solutions are moving into the financial mainstream as banks seek greater flexibility and cost savings. Microsoft's Joe Pagano and our own Mark Gunning look at what the cloud can offer banks, both now and in the future (pages 19 and 22).

As the first new UK bank to be established in well over a century, Metro Bank has attracted much attention for its novel approach to customer service. We talk to Metro's CEO, Craig Donaldson, about the bank's strategy (page 18).

Banks must prepare carefully for planned new regulatory requirements to ensure a smooth transition to the new rules. Basel III, with its tighter regulatory capital requirements, will affect financial institutions globally; we consider the implications on page 10. Likewise, risk management is a constant priority for banks worldwide, and the stakes are higher during tough economic times. Insight Risk Intelligence is a powerful Temenos product that gives a full, current picture of the market, enabling risk officers to calculate the required regulatory capital and exposure more accurately. Find out more on page 12.

Finally, I am delighted to note that 2010 was a spectacular year for recognition of Temenos in various industry awards. TEMENOS T24 was voted Best Core Banking Product for the fourth year running in *Banking Technology*'s Readers' Choice Awards, while the Aite Group report judged Temenos *Leader of the Pack* in global core banking solutions. And Forrester Research again gave Temenos and T24 top ranking in its recent report, *The Forrester Wave™ Global Banking Platforms.* The reputation of Temenos, as shown in these awards, owes much to its annual community forum. Turn to page 20 for a frank interview with Temenos founder, George Koukis, about the solid past and future plans of the Temenos Community Forum.

I would like to take this opportunity to wish you a prosperous 2011 and I hope you enjoy this issue of *Temenos News*.

Andreas Andreades
CEO, Temenos

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Accolades For Temenos

Temenos has been recognised in several prestigious industry awards ceremonies recently. In November, TEMENOS T24 (T24) won the Best Core Banking Product category for the fourth year running in *Banking Technology's* Readers' Choice Awards. The awards reflect excellence across a range of IT activities in banking and financial services.

At the awards gala dinner in London, attended by more than 300 guests from leading financial institutions and technology suppliers, David Bannister, editor of Banking Technology commented: "As Temenos expands into other parts of the market, I look forward to seeing the company replicate its success in other categories."

Accepting the award, Temenos Chairman George Koukis said, "We are proud that our products and services receive such validation from our customers and the market, which reflects our commitment to providing them with best-in-class solutions to support their businesses."

Temenos has also been honoured in an Aite Group report, winning the title Leader of the Pack in the independent research and advisory firm's latest report on global core banking systems. In the same report, which compared ten leading core banking vendors, T24 also won the award for Best User Interface.

The report, *Evaluating the Vendors of Global Core Banking Systems*, described Temenos as "a leader in the core space with a strong global brand". T24 was praised for its "proven scalability with multiple-tier one-bank deployments' and its' intuitive user interface".

Christine Barry, Research Director at Aite Group, commented: "T24 continues to be a leading global core solution in the market.

George Koukis, Chairman of Temenos, receives the Best Core Banking Product award from Banking Technology

Temenos is often selected for its proven track record, solution scalability, and leadership position in the core banking space."

Temenos CEO Andreas Andreades remarked: "Increasingly we are seeing banks turning to a single supplier for a highly integrated, best-of-breed solution, which offers a one-stop shop for all their operational needs to reduce cost and minimise risk. The success of our acquisition strategy, coupled with our cutting edge product roadmap and robust partner network, positions us at the forefront of the market to capitalise on this growing trend."

In another coup, Forrester Research again awarded Temenos and T24 top ranking in its December 2010 report, *The Forrester Wave Global Banking Platforms, Q4 2010*. Temenos has maintained its leadership position in the report since 2007. Vendors were evaluated against 80 criteria which assessed current offering, strategy and market presence. Amongst other aspects, the research praised T24's support for regulatory requirements and business services ecosystems. In the report, Jost Hoppermann, Vice President of Forrester, advised: "Consider Temenos for your vendor shortlist if you need a banking platform with broad functionality, strong platform agility, and strong service and support capabilities."

Credit Union Vancity Chooses T24

Canada's largest credit union, Vancity, is to replace its core banking systems with TEMENOS T24 (T24). The new system will improve the organisation's service capabilities and enhance the retail experience of the 414,000-strong member base in its 59 branches.

"Temenos' management consultancy services played a key role by providing guidance in aligning our business processes to those of T24 to achieve maximum value," said Catherine Aczel Boivie, CEO of Inventure Solutions and CIO and SVP of Information Technology and Facility Management at Vancity. "T24 model bank offers the scalability and closest functional fit for our requirements, making it the best solution to boost operational productivity and make a real difference to our member services."

Vancity joins a number of leading Canadian credit unions, including Coast Capital Savings, North Shore and Servus, that have partnered with Temenos. T24 model bank will enable Vancity to utilise all T24 membership functionality and interfaces for ease of integration with third-party systems.

T24 will be implemented for Vancity's retail and commercial banking operation systems. Key benefits expected are reduced complexity to minimise operational and technology risk and lessen the need for systems maintenance, along with enhanced system technology security and flexibility. T24's flexible product catalogue enables the re-use of components to broaden Vancity's product set in response to market and member changes.

"We are delighted to be strengthening our foothold in Canada with this new signing, which underscores Temenos' position as the technology partner of choice for large-scale core systems replacement in Canada," commented Andreas Andreades, CEO of Temenos. "We are excited to be playing an integral role in Vancity's goal of delivering best-in-class member services by offering a highly scalable, flexible and open system to bring wide-scale efficiency and reduce delivery costs of those services."

Launch Of T24 On Azure

Temenos has made TEMENOS T24 (T24) available on the Microsoft Windows Azure cloud platform, with the migration of the first T24 clients to the platform. This builds on Temenos' experience of core systems applications in hosted environments, most recently at Metro Bank in the UK, and will offer far reaching operational and financial gains to key banking markets across the globe.

The combination of T24 and the Azure platform allows banks to avoid the high data centre costs associated with running a multi-application environment by moving these operations to a consumption based pricing model. Banks will no longer need to spend time and budget on provisioning and operating hardware resources, as running T24 natively on the Azure platform enables them to scale resources effectively and increase volume according to customer demand.

As part of this launch, Temenos has embarked on a T24 Azure project to move a network of 12 Mexican financial institutions from a traditional hosted environment into the Windows Azure cloud. Five of these — Sofol Tepeyac, Grupo Agrifin, Findeca, Soficam, and C.Capital Global — are migrating in the first phase which is currently underway and is expected to be completed by Q2 2011. The remaining seven will migrate later in 2011.

"We are excited to see a market leader like Temenos actively taking its clients to cloud-based solutions on the Windows Azure platform. This will provide a differentiating edge to banks, helping them lower costs, enhance operations and build new, mission-critical business opportunities with flexibility and a rapid time to market," commented Karen Cone, General Manager, Worldwide Financial Services, Microsoft. "This is demonstrably a very natural progression for Temenos, whose T24 platform and its architecture offer a close fit to a cloud environment. It also enables the company to make a quick and smooth transition of its existing outsourced clients into the cloud."

Andreas Andreades, CEO of Temenos, remarked: "We are extremely pleased to be taking T24 into the cloud — a move which will offer an exciting future for specific banking markets and open up new opportunities for Temenos. As a key strategic technology partner, we are delighted to be leveraging our relationship with Microsoft, which not only reinforces T24's close compatibility with Microsoft technologies to offer banks a core platform that operates extremely effectively in the cloud, but also highlights our dedicated investment to evolve T24 in response to market and customer change."

"We are excited to see Temenos taking its clients to cloud-based solutions on the Windows Azure platform" Karen Cone, Microsoft

Boosting Bangladesh Banks' Efficiency

Two leading banks in Bangladesh have gone live on TEMENOS T24 (T24) with both Shariah-compliant and conventional service offerings.

EXIM and Prime Bank have both experienced rapid growth in terms of branch expansion and customer acquisition in recent years. This has spurred a need for increased technology investment to support their ambitious growth plans. Since going live, both banks have seen significant gains to their operations, with enhanced efficiency and complete integration driving innovation in service and product delivery, as well as boosting compliance capability.

All of the two banks' business divisions, including Islamic and conventional banking, will be fully supported. Both banks chose T24 over offerings from Misys and Oracle, based on its functional breadth and the strength of Temenos' model bank methodology, which enriches T24 with best practice processes from more than 700 implementations across the globe. The Temenos local partner network and regional services capability were also attractive propositions for these banks, ensuring the right level of resource and expertise for each project in collaboration with local implementation partner Thesys Technologies.

Chris Longden, Regional Director, Temenos commented: "We are delighted to bring EXIM and Prime Bank onto T24 in projects which involved close collaboration between us, the banks and Thesys. We are making increased investment in this market to ensure we are able to replicate these successes as we embark on more projects. We are extremely pleased to see these two banks already reaping the benefits of T24 and I look forward to observing them build on this success moving forward."

National Islamic Bank Goes Live On T24

Temenos has delivered a successful implementation of T24 at National Islamic Bank (NIB) in Baghdad. T24, which includes Islamic modules, was the first core banking platform of its kind to be implemented in Iraq and is a key element in NIB's modernisation and automation drive, helping the bank to compete in the international market. T24 for Islamic banking is both Sharia-compliant and commercially flexible, enabling NIB to offer a competitive range of Islamic financial products.

NIB Managing Director Sadiq Shimmari commented: "T24's flexibility made it easy for consultancy firm Jacquard Systems to customise the software to suit the bank's requirements, including having the majority of the software interface in Arabic. With the help of this new system and the continued support of vendors, National Islamic Bank can become one of the leaders in the Islamic banking sector in Iraq and the region." The bank is now using T24 for its Morabah, Istesna and Ijarah Islamic banking as well as for its remittances, trade finance and retail banking.

Key Role For Product Development Strategist

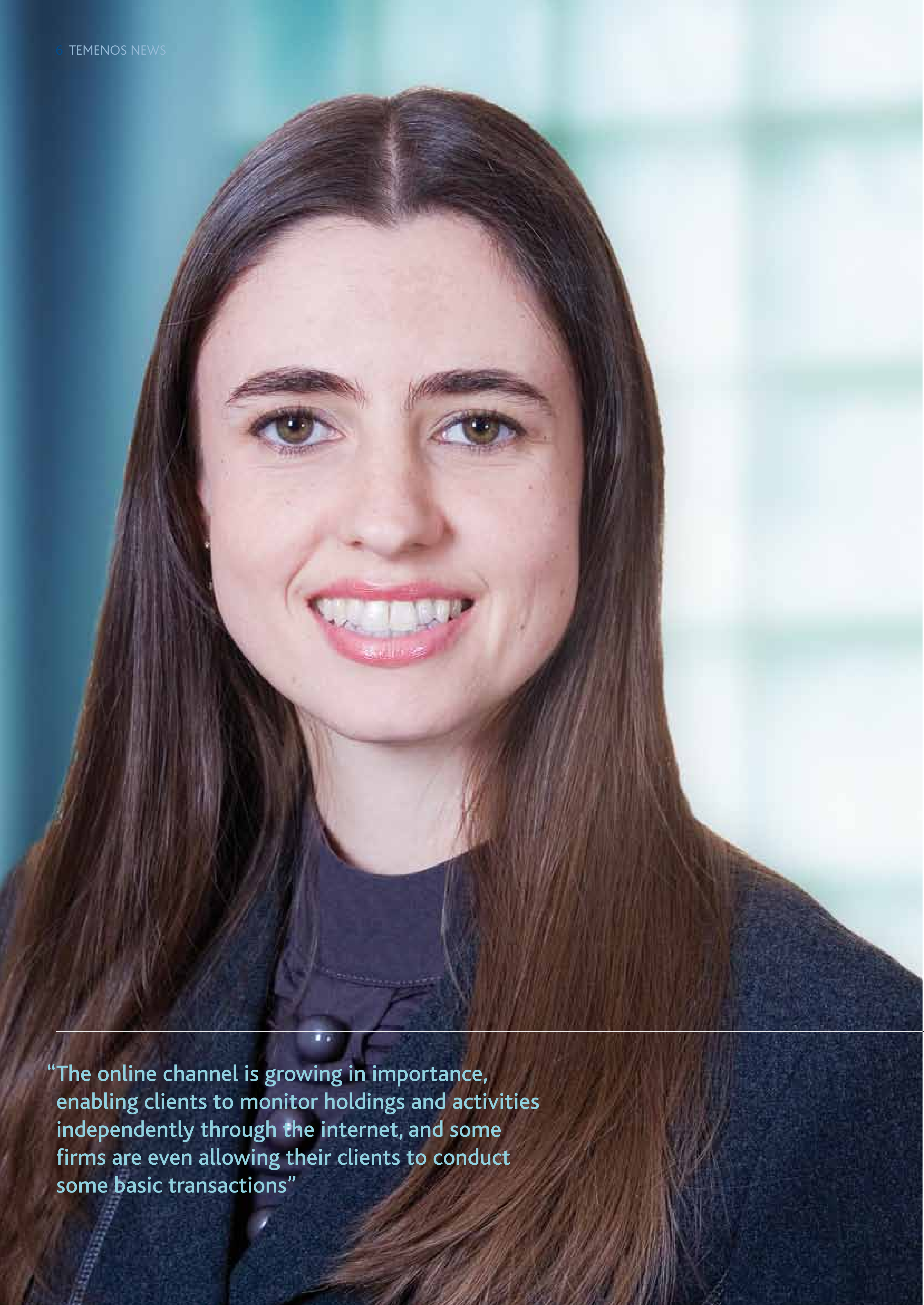
Temenos has appointed Mark Winterburn as Group Product Director, with responsibility for leading the strategic management of the company's banking solutions. With a portfolio including product definition, product strategy and market analysis, he will oversee a dedicated team of product managers.

Based in the London offices, Winterburn, who has more than 30 years' experience across a variety of IT disciplines, joins Temenos from Misys, where he held the position of VP Solutions Management and Product Development of the company's Banking and Treasury Capital Markets division. In that role, he was responsible for creating and implementing new solution strategies for the business, bringing a number of solutions to market, including Misys BankFusion. He has also held senior level positions at Lloyds TSB Group spanning more than fifteen years.

"This role will give me the opportunity to join the clear market leader in core banking solutions, which has the budget, capacity and geographical reach to set the overall technology direction for the market," said Winterburn. "T24 has a reputation as the most functionally rich, technologically advanced platform available. We will now focus on leveraging the platform even further through unprecedented investment over the next five years to address new markets and support Temenos' growth plans."

Andreas Andreades, CEO of Temenos, said he was delighted that Mark would be joining Temenos. "The core banking replacement market is undoubtedly returning to growth as banks strategically look to technology as the key differentiator to their long-term success. I am confident that Mark will make a significant contribution in taking T24 from strength to strength as the core platform of choice across the worldwide banking industry."

Mark Winterburn
Group Product Director, Temenos



Isabella Fonseca
Research Director, Celent

"The online channel is growing in importance, enabling clients to monitor holdings and activities independently through the internet, and some firms are even allowing their clients to conduct some basic transactions"

The Future Of Wealth

Private wealth management is changing. *Temenos News* spoke to Celent Research Director Isabella Fonseca about important new trends in the sector

The private wealth management (PWM) market has always been a highly demanding environment for banks. Now the demands are shifting, as the sector experiences significant change. Once the preserve of the super-wealthy, it has broadened considerably in recent years to include new tiers of moderately wealthy individuals. Firms are reducing asset thresholds, or at least displaying greater flexibility regarding acceptable entry levels for their services. And in keeping with the move away from providing only bespoke solutions for a niche, high-net-worth customer base, firms are increasingly embracing ready-to-use solutions — and vendors are re-evaluating their value propositions. To deal with the scenarios arising from these developments, banks need to be ready to adapt and tackle new challenges.

Isabella Fonseca, Research Director within Celent's Private Wealth Management group, writes extensively on the private wealth management sector in Europe and North America. Specialising in wealth management trends, retail brokerage, financial planning and advisor platforms, Fonseca advises global banks, retail brokerages and asset management firms. She talked to *Temenos News* about market trends and developments likely to affect the sector in the short to medium term.

One of the most striking recent changes in private wealth management is the considerable widening of target markets. "The market crisis has prompted some wealth management firms to re-evaluate the way that they're targeting and servicing their clients across more segments," remarks Fonseca. "Customer groups targeted by financial institutions vary but, where possible, firms are trying to address all customer segments from the mass affluent to the ultra-high net worth."

The widespread adoption of lower asset thresholds is stimulating growth in new business acquisition, says Fonseca. "Although the sweet spot in terms of thresholds varies greatly across the industry, there's now a focus on individuals with investable assets of between €250,000 and €10 million — ranging from mass affluent to high net worth."

One of the reasons for this shift in focus of private wealth management is the shrinking size of the extremely wealthy market segment since the financial crisis, says Fonseca. Also, as regulatory pressures on private banks and financial institutions serving the high end of the market continue, lower-end customer groups have become more attractive in contrast. To remain competitive, PWM firms are considering hitherto unexplored options such as providing 'one-stop shops' for a much wider range of clients, to provide their end users with a full range of financial solutions at all levels. "Firms are widening their offerings to provide services including retirement planning, mortgages, loans and savings accounts."

The growing trend towards addressing a wider range of customer segments is prompting providers to think outside the box in other ways too. In addition to broadening their reach, wealth managers are focusing more on enhancing front-office efficiencies and are becoming aware of the gains to be had from improving integration.

Of course, targeted service delivery is crucial to ensure the successful rollout of wealth management services to new customer groups. Effective use of integrated technology is the key to achieving this, says Fonseca. "Technology is an enabler as firms target additional client segments. In particular, we are seeing adoption of adviser technology, self-directed technology and client-facing tools."

So what are the main areas of investment required to keep abreast of developments? "Firms need to invest most in technology around front- and back-office requirements: adviser platforms, compliance,

reporting, self-service and integration," explains Fonseca. "There's a focus on the trend to work off a single platform across the enterprise, so wealth management firms are focusing on process and data integration. In general, we are seeing a focus on back-office efficiencies and data integration across the board."

The nature of client holdings in the private wealth management space — with assets often spread across different institutions and geographical locations — certainly necessitates a high level of integration on the part of PWM firms. And proper integration is essential if advisers are to have a single view of each client, says Fonseca. "This really helps the adviser to manage the wealth of the client."

Another issue of concern to wealth managers today is the need to keep up with compliance and regulatory demands, says Fonseca. "There is a requirement for more document provision and higher risk management capabilities."

So what role does customer service play in this changing environment? In the traditional private banking milieu, a high level of personal service was understood to be part of the package. As wealth management extends to different and much larger markets, there is a greater need for planning to ensure appropriate customer service levels are established and maintained. Fonseca remarks: "There is a focus on client service and client communications aspects, especially amongst those large private banks that have a global presence across the board."

One way in which private wealth managers are coping with vastly increased potential target markets resulting from the lowered asset threshold is by offering self-directed technologies for their customers. There is a general trend towards reaching out to lower net worth clients with more self-service focused models, explains Fonseca. "Firms are enhancing self-directed service for their end clients, and they are also providing a comprehensive set of educational and decision support resources designed specifically for advisers to use with their end clients. Firms are investing in upgrades to their adviser workstations so that they are able to know everything about customer holdings, leading to a clearer view and better advice to the end client."

Wealth managers are increasingly using teasers or lead generation tools to attract customers, with a view to engaging them in an advice-based relationship. Strategies may include anything from offering basic financial planning tools to providing research information of particular interest to a particular group of customers. "The end customer is then able to connect with the adviser for further evaluation of their financials, and to establish a relationship."

Although this trend has been prevalent in North American markets for a while, Fonseca notes that geographical differences in approaches to wealth management are becoming less pronounced. "While the North American wealth management market has seen a wider range of different systems to address specific needs, Europe and Asia Pacific are catching up with trends in this regard."

This move towards giving end customers insights into financial planning has seen many firms using tools that allow them to provide customers with the ability to monitor their plans and positions on an ongoing basis online. "Although this does not extend to the ability to do any transactions online, it enables customers to communicate with their advisors on an ongoing basis other than just through phone calls."

These changes in the services offered by wealth managers are not happening in isolation, of course. As Fonseca points out, developments in the way the end customer experiences wealth management products are occurring in counterpoint to significant shifts in customer expectations across the financial services sector, with clients expecting to have more control over their investments and greater transparency of their portfolios.

"Compliance functions need to be embedded into the key processes of account opening, financial planning and portfolio monitoring. This is a very important aspect both for firms and for technology providers"

Isabella Fonseca
Research Director, Celent

Today, wealth managers can choose from a range of technology solutions to help them meet their clients' expectations. In many cases, PWM companies are looking to vendors to supply ready-to-use solutions such as Microsoft ASP.NET-based packages. The cost savings available by going down this route mean that these types of out-of-the-box options are being seen as credible alternatives to in-house deployments.

"In general, technology is a facilitator for helping wealth managers to serve their clientele. Firms are focusing on solutions that help improve front-office efficiencies. They are investing in adviser workstations, customer communication tools and investor decision support tools, but there is also a focus on integration," says Fonseca.

Certain channels are taking on new significance as the PWM space adapts to all of these new elements. "The online channel is growing in importance, enabling clients to monitor holdings and activities independently through the internet, and some firms are even allowing their clients to conduct some basic transactions," argues Fonseca. "The mobile channel is also important, in particular for its ability to allow clients and advisers to profile information and holdings and communicate in real time." She adds that new platforms such as the iPad are presenting enticing new opportunities for the presentation of financial plans to end clients. "We are seeing a lot of apps on the brokerage side, with the ability to trade and to receive research about client holdings."

At the heart of all of these trends is a renewed focus on the customer. "It's all about client communication today, so any technology or tools that can support that will enhance customer relationship management (CRM)," says Fonseca. "We are seeing CRM features adapted for wealth management, allowing for contact management, document storage and alerts. On the investor side, there are more investor support tools for research or training, or to provide information about new products, and customer tools like online chat and document storage online."

Just as the typical private banking customer is changing, there have been some significant shifts in the types of investments being made — and, in turn, being offered. Fonseca comments: "The significant decline in market value of equity investments has forced investors to allocate a greater proportion of their investments to low-margin asset classes like fixed-income instruments and cash equivalents. We're seeing this trend mainly in North America where the amount of high net worth assets has declined, but in Europe too, investors have held back in their equity holdings."

Certainly, the financial crisis has led investors at all levels to consider investment choices that would previously not have been part of their portfolio options. "Retail investors in general are demanding access to more diverse types of products, including fixed income, options trading and foreign exchange. Very high net wealth investors in particular are becoming more knowledgeable, so there is more of a tendency to switch in this market. Certain investments will remain the same, although perhaps the percentage allocation of some investments might change."

Clearly, technology vendors need to be ready for all of these changes in order to align their solutions with the changes in the industry. "The first requirement is the ability to deliver an integrated platform, with many vendors now offering front to back-office functionality," says Fonseca. "Some vendors that have historically focused on the back-office have developed or are partnering with front-office providers to be able to offer a full service themselves."

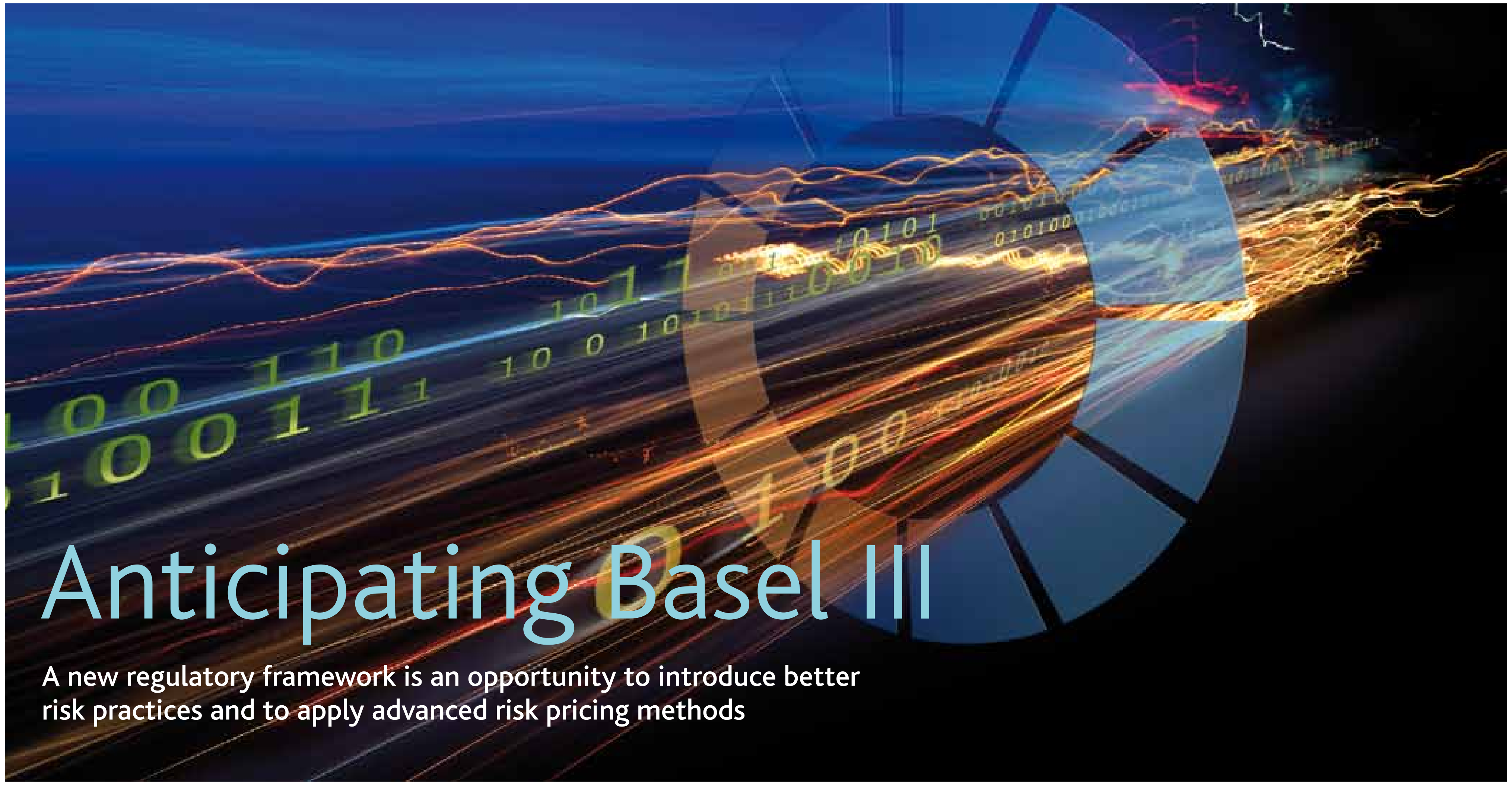
So where does all this leave vendors of wealth management products? Crucially, vendors need to focus on providing quick client upgrades and the ability to change processes and adapt rapidly to rules, says Fonseca. "While in the past, it was not uncommon to have to wait weeks and months to change some of the rules and items within systems, today vendors need to address changes more quickly."

Vendors are also affected by an increased focus on risk management and are working more closely with partners to offer risk statistics such as information on expected losses, as well as risk and return analysis. "There is also a focus on developing international capabilities, to enable vendors that are servicing clients in multiple countries to cope with different currencies, languages and tax laws. And vendors need to be able to sell integration between front and back-office systems."

The current intense focus on compliance means that all wealth management firms need to be ready to implement new rules for reviewing clients' profiles and to evaluate the risks associated with their investment strategies. "Compliance functions need to be embedded into the key processes of account opening, financial planning and portfolio monitoring," remarks Fonseca. "This is a very important aspect both for firms and for technology providers."

All of the complex developments in the wealth management sector are occurring against a backdrop of mounting pressure on firms to cut costs and the need to trim expenditure is often the stimulus that prompts wealth managers to consider new ways of operating. "Many firms are opting to manage the integration of third party solutions into their own systems in order to manage cost and risk reduction while still providing the highest quality service," comments Fonseca. "The challenge for banks will be to choose the right mix of services, products and channels — and technology — to address the different clientele. In this regard, hitherto unexploited options such as Software as a Service (SaaS) solutions are gaining in popularity, says Fonseca. "The SaaS model reduces the maintenance and administrative costs for wealth management firms. This model allows firms to provide new features at reduced cost."

So, while the picture for private wealth management is one of increasing complexity and added layers of responsibility, it also presents many new opportunities for brokers and vendors alike to leverage unprecedented levels of take-up of PWM products and services. And if the focus on service continues to deepen alongside these new perspectives, the winner in all of this looks set to be the end customer, at whichever end of the wealth spectrum they are.



Anticipating Basel III

A new regulatory framework is an opportunity to introduce better risk practices and to apply advanced risk pricing methods

The Basel regulatory framework, familiar to banks all over the world, is changing and banks are responding by reconfiguring their technology and internal teams to tackle the implications of the new regulations.

Basel III, with its reinforced liquidity requirements, is changing the way banks deal with internal and regulatory risk compliance. Temenos has been working to anticipate the new regulatory requirements and to provide banks with the advanced analytics they need to optimise their management of credit, market, operation and liquidity risk.

Supervisor banks, such as national central banks, apply Basel I and II to help banks manage Tier 1 capital requirements, ensuring they have enough capital set aside to cover the various risks they face, such as payment default.

The tightened regulatory requirements of Basel III mean banks now have to keep a minimum capital reserve of 9 per cent (Basel II 6-9 per cent). When required by regulation to tie up more capital to cover liquidity needs, it becomes more important than ever to accurately assess these requirements and technology can play a critical part in achieving this.

Basel II provides the framework for banks to calculate their on- and off-balance sheet assets and liabilities when working out what capital must be set aside. Within this calculation are formulas to apply to credit risk, market risk and operational risk. Since the introduction of Basel II, these tests have been fortified by more advanced techniques, including stress testing scenarios and reporting the results to supervisor banks.

One of the problems banks faced in the past was a lack of the market standards to validate many of the off-balance sheet items pricing models, leading to a flawed estimate of banks' portfolio risks and market exposures. The Basel II framework failed to accurately show exposure to, for example, derivative products.

Supervisor banks have concluded that Basel II is not capable of helping banks to set aside the necessary capital to cover their liquidity needs. Basel III therefore addresses how banks must calculate their assets and liabilities to get a more accurate picture of their liquidity. The objective is to enforce the setting aside of appropriate regulatory capital for banks in all sectors — retail, commercial, corporate and investment.

Basel III will change how banks deal with derivatives portfolios, non-performing loans and, in general, securitised product portfolios. New standards in terms of loss absorbing capital are part of the new accord, designed to help banks survive in stressed economic or financial times.

The amount of core capital required has been increased and the concept of a 'non-viability' point, changes the way banks will calculate their risk-weighted assets and estimate minimum capital requirements.

To meet these new requirements and comply with both regulators and market demand, banks need to rethink their risk and business processes.

Until now, banks have used internal pricing models to validate off-balance sheet assets and liabilities but more precision is now required. Basel III is an opportunity for banks to introduce better risk practices and to apply advanced risk pricing methods and run extended risk adjusted return on capital (RAROC) strategies.

"Providing both a strong regulatory and liquidity framework to banks is our target at Temenos"

Shawn Doumy
Insight Risk Intelligence Product Director, Temenos

Temenos has partnered with banks to develop its Basel II solution to meet new challenges and integrated the concept of buffer capital estimation in our scenario-based stress testing engine as far back as 2007.

A concentration on liquidity risk requires advanced balance sheet modelling tools so that banks can view their regulatory capital requirement across time periods — termed 'buckets'. The modelling needs to be flexible enough to cover plain transactions and more exotic financial instruments such as derivatives.

Banks are also migrating to using the advanced approach, to calculate loss given default (LGD), as already allowed in Basel II, which puts the onus on banks to prove to supervisory bodies that they have robust data and analysis in place.

Based on an accurate measurement of their liquidity, banks can efficiently borrow or lend in the marketplace to cover their liquidity needs. The more advanced the modelling, the more accurate the prediction of a bank's liquidity situation over time.

Basel II enforced a standardised approach to credit risk and banks found it convenient to use external rating agencies' risk assessments as part of the calculations from which they derived the minimum capital charge. As it transpired, these agencies were not close enough to the businesses whose assets and liabilities they were rating. Consequently they were late to see the financial crisis of 2008.

Banks are moving towards having their own internal credit risk assessment teams and technology. RBS, for example, has built its own internal rating system to calculate counterparty risk. The internal rating need not be used in isolation but can be combined with an external rating to reflect the sentiment of the markets. Banks can gain significant advantage over the next few years by moving to an internal rating system.

A technology platform on which to design and build an internal rating system needs to allow the integration of quantative and qualitative data – i.e. age, income, family circumstances, how they run current accounts, their average balance, percentage of income used as overdraft, use of cards — to complete the picture of the customer. The combination of all available information creates a store of 'behavioural intelligence' about customers, which can contribute to the assessment of credit risk.

Banks are also migrating to more advanced analysis of market risk. Under the standard approach, a supervisory weighting (as a percentage) is applied, depending on the class of asset. Calculations of value at risk (VaR) benefit from the accuracy derived from more advanced analytics, including modelling of assets over time, for example the value of bonds when they are due to be repaid. Banks using these techniques can work with their regulator to gain control over the subtleties of the calculations that result in the setting aside of regulatory capital.

When it comes to operational risk, there is a similar choice of using basic indicators, standard analytical models or a more advanced operational risk framework. Basel II follows basic indicators for the calculation of a minimum capital charge for operational risk. Although regulators don't enforce management of business operational risk, banks want to cover all the bases, including the prevention of individuals manipulating figures.

As banks migrate from standardised indicators to a more advanced approach, they can introduce controls related to business operational risk, including business process. Examples of these are workflow monitoring, validation rules and the 'minimum of four eyes' principle — at least two people must validate transactions.

Providing both a strong regulatory and liquidity framework to banks is our target at Temenos. We have developed strong market risk analytics to deal with derivatives products, a strong regulatory capital engine to cover, with maximum accuracy, banks capital requirements and a strong advanced liability management (ALM) engine to provide mismatch reports, maturity patterns, cumulative gap and liquidity ratios. We provide the market with tools to deal with illiquid products portfolio, and advanced products modelling capabilities to better estimate liquidity need and manage assets and liabilities. This enables banks to fully address their Basel III compliance in term of market, credit, operational and liquidity regulatory requirements.

Temenos Insight Risk Intelligence provides a global risk view of market, credit, operational and liquidity risks. We see correlation in all aspects of risk in banks' operations. The global framework incorporates each element of these risks to determine the intrinsic risk driven by banks' financial operations.

Shawn Doumy is Insight Risk Intelligence Product Director at Temenos

PRODUCT PROFILE: INSIGHT RISK INTELLIGENCE

Making Risk A Priority

Enhancing risk management in all parts of banks' activities is a current priority, with an increased pressure on credit and liquidity risk, including adoption of the new formulas in the Basel III regulatory framework. By understanding customers, credit and market risk, and the nature of assets and liabilities on the balance sheet, banks can ensure they have enough liquidity. This is vital, both to meet regulations and also so that banks can lend competitively.

As they become subject to new regulations, it's important that individual financial institutions take ownership of the process and do more than just react to a need to comply. If a bank invests in more advanced risk analysis technology and a team of risk specialists, its regulator may allow it to keep less regulatory capital, which frees up working capital and provides a business advantage.

Success requires an enterprise risk management solution, which Temenos provides as part of its Insight business intelligence (BI). Insight is based on Microsoft SQL Server and therefore provides a flexible platform, which is able to integrate with different systems and draw together all the relevant information, store it and visualise it to support decision-making.

Within Insight, Insight Risk Intelligence provides built-in risk management, enabling risk officers to calculate required regulatory capital and exposure to the market.
One module manages regulatory capital calculations, to manage credit, market, and operational risk. It analyses exposures and calculates regulatory capital (Basel II and III). A second module manages market analytics, using the bank's trading book. A third module, asset liability management (ALM), enables analysis of the balance sheet to assess and understand liquidity risk. As it is part of the Insight BI suite, Insight Risk Intelligence is fully integrated with T24, which means existing T24 users can deploy the system in just 90 days at a fixed low consultancy cost.

With the full and current financial picture available, a bank can make low risk investments, remain compliant and spot opportunities. Different senior managers, such as CEOs, CFOs and CROs, judge risk in different ways but all can use BI to aid objective decision making. Dashboards can indicate clearly to managers where risk of non-compliance is occurring.

Different banks have their own risk management strategies and their own ways of doing business. As a company that is 100 per cent focused on financial services, Temenos works with more than 1100 banks across the globe and constantly strives to understand what banks want. Through its daily contact with banking staff, such as risk specialists and CFOs, Temenos is in a strong position to design the right kind of dashboard for the relevant job functions.

Different regions and countries have different supervisor or central banks but many of these regulators use Basel regulations to limit bank exposures to credit, market and operational risk. Banks must set aside some capital in case customers default and must continuously quantify their exposure and the balancing amount of capital to set aside.

"If a bank invests in more advanced risk analysis technology, its regulator may allow it to keep less regulatory capital, which frees up working capital and provides a business advantage"

Cedric Le Rouzo
Insight Risk Intelligence Commercial Director, Temenos

The Basel regulations acknowledge the different approaches to risk in different types of banking, such as retail, corporate or private. These different parameters and calculations are incorporated into Insight Risk Intelligence during installation.

As the whole industry learns from the migration from Basel I and II to Basel III,

Temenos helps banks achieve integration and continuity with Insight Risk Intelligence. Banks can move from the standard to the advanced level of Basel II reporting and to Basel III. Risk departments can use the out-of-the-box reporting or can build their own reports based on the formulas, with support from Temenos if required. This capability, together with centralised management of user rights, results in low-cost IT implementation and operation.

By interfacing Insight Risk Intelligence's ALM module with the general ledger, risk managers can get a picture of cash out — loans and other liabilities — and revenue in. Bank executives can quickly get an understanding of the bank's liability in terms of liquidity over specific time periods.

Because assets and liabilities are sensitive to fluctuations in interest rates, the analysis can be adjusted by applying an interest rate curve, and risk experts can run simulations with different interest rate curves so that management is aware of possible scenarios.

Insight Risk Intelligence is immediately available to T24 users in the familiar Temenos plug and play manner, guaranteeing immediate value from the pre-created calculations and logic. Its flexible framework enables banks to comply with ever-changing regulatory requirements.

Cedric Le Rouzo is Insight Risk Intelligence Commercial Director at Temenos

VIEWPOINT

A Recipe For Excellence

Temenos' roots are in private banking. In fact, the T24 system was originally developed for Swiss private banks. So it should come as no surprise that the company is seeking to expand its footprint in the private banking sphere, with the recent acquisition of Odyssey Financial Technologies.

We feel that the private wealth market is poised for quite rapid and significant growth — up to 25 per cent over each of the next three years. Notwithstanding this growth potential, private banks are facing some serious business challenges. Pressures on the offshore model, increased competition, heavier regulation, difficult financial markets and customer demands for greater transparency, simpler products and higher added value services have negatively impacted margins and forced private wealth management firms to revisit their business models. In this space, there is no clear market leading supplier — the market is quite fragmented. So there is an opportunity for a player to become quite dominant and that is the background to the Odyssey acquisition. The combined Temenos and Odyssey product lines will form the largest business in the private banking space, which gives us the scale to better service clients in the private wealth sector, to the benefit of both our current and future clients.

Odyssey's Triple'A Plus product is the world's leading front-office system for private banking, with sophisticated modelling capabilities and comprehensive instrument coverage, and combined with T24, which offers class-leading back-office functionality, will give Temenos a unique set of tools to offer clients. In addition, Odyssey's WealthManager advisor desktop provides an integrated suite of components covering client management, advice, sales, portfolio management, compliance and client reporting. WealthManager was originally developed for the North American market, and it is uniquely placed to address the specific needs of that market. Putting together Odyssey's solutions with our existing offerings gives us therefore a very strong solution portfolio to take to banks worldwide.

Odyssey customers should be reassured as to Temenos' commitment to the Odyssey product suite. Temenos recognises Odyssey's strength in the private banking sphere, which was a key part of its appeal to Temenos. We see each of the wealth products supporting different market needs and are fully committed to a clear roadmap for each of the products. Over time we will see the products becoming more integrated, starting in Q2 2011 with the launch of an interface enabling customers to connect a Triple'A Plus front end with a T24 back end. This will provide customers the best of breed Portfolio Management Capabilities of Triple'A Plus with the broad functionality and back end capabilities of T24, thus giving an unmatched front- and back- office solution for private banking clients.

In the medium to long term, the development path will see all three products (T24, Triple'A Plus and WealthManager) increasingly converge onto a common infrastructure based on service-oriented architecture principles. This is consistent with Temenos' move to a component-based architecture.

The best of breed component architecture will allow customers to easily implement components from our various wealth products in a single solution. For example, the best of breed Triple'A Plus components of advanced portfolio modelling, performance and portfolio risk can pair with the T24 back-office functionality to provide a seamless front to back private banking solution.

We will of course provide a full upgrade path for clients of all three existing products. All our customers will benefit from being part of this exciting development programme, which will help them run their businesses more efficiently and accelerate their systems development strategies.

This is an exciting time for all of us at Temenos as we welcome both Odyssey employees and their customers to the Temenos community. Our customers will now have the opportunity to leverage T24's market-leading back-office functionality with the similarly best of breed portfolio management and wealth workbench functionality that Triple'A Plus and WealthManager provides. We look forward to sharing more details about our plans for the development of our private banking products with you in the near future.

Lynne Landau is Temenos' Product Manager for Private Banking

"Putting together Odyssey's solutions with our existing offerings gives us a very strong solution portfolio to take to banks worldwide"

Lynne Landau
Product Manager for Private Banking, Temenos

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Empowering Portfolio Managers

Powerful new tools for private wealth management

Private and institutional banking are growth businesses with impressive returns on investment that are considerably higher than those of comparable banking sectors. Challenging markets, rising competition, increased regulation and customer sophistication are some of the most important trends influencing how business is carried out. To keep ahead of the competition while maintaining high profit levels, private banking businesses need to provide an increased level of personalised services, above average returns and competitive conditions to retain and attract customers.

High net worth individuals' sophistication is growing in parallel with the widespread mistrust of financial institutions. This is forcing private banks to redefine their service value propositions in order to protect their most profitable sources of revenue such as discretionary and fee-based advisory mandates.

Wealthy clients are also demanding a wider range of sophisticated investment products and diversifying their asset allocation more broadly across geographies and asset classes.

In order to address these challenges, private and institutional banks need to become more systematic in knowing and understanding their customers and upgrade the quality and sophistication of their management information capabilities.

Triple'A Plus helps to address these challenges. As a leading private banking portfolio management solution, it is specifically designed to optimise wealth management functions for the high and ultra-high net worth market. It features built-in best practices adopted by leading international wealth management institutions that specialise in servicing this demanding clientele. The system's unique configurability, comprehensive instrument coverage and flexible portfolio modelling capabilities efficiently support discretionary portfolio management, investment advisory and execution-only service models. It empowers portfolio and relationship managers to increase assets under management, improve customer service and generate higher investment performance.

Triple'A Plus is composed of a suite of modules, offering packaged product solutions for both portfolio and relationship managers. Each solution is composed of modules to fully meet the requirements of specific business roles. Other solutions can be built in, such as the full web-enabled solution for independent financial advisors (third-party external managers). Modules include:

- *Portfolio Analysis*: Driven by a powerful portfolio modelling engine, this module provides comprehensive investment strategy maintenance facilities, allowing complex multi-level and dynamic asset class allocations. Valuation calculations can be performed at any time, with the ability to conduct 'what if' analysis, evaluate risk and effectively 'slice and dice' data. The module features a compliance checking function, available for both pre- and post-trade suitability and appropriateness checks, enforcing flexible advanced constraints. A performance analysis tool provides performance decomposition into realised and unrealised, capital/currency, income, fees and tax effects. Portfolio and relationship managers' productivity is also increased with an order entry and order lifecycle monitoring tool that can be integrated with trading or back-office systems.

- *Portfolio Rebalancing*: This module is specifically designed to cover the most advanced multi-portfolio management needs by generating bulk orders that realign portfolios with instrument strategies, taking into account client-specific constraints, and providing trade blotter capability such as order grouping and order allocation.

> "Triple'A Plus is composed of a suite of modules, offering packaged product solutions for both portfolio and relationship managers"

Thibaut Jacquet-Lagrèze
Product Marketing Director, Temenos

- *Portfolio Risk*: This module offers comprehensive risk computations, portfolio risk optimisation, risk contribution, what-if analysis and stress and back-testing.

- *Advanced Performance Analysis*: Providing an extra level of sophistication to further enable portfolio managers to evaluate and demonstrate investment performance, this module empowers managers to understand the performance contribution of market segments (class, sector etc) and instruments to the total portfolio performance rate. Portfolio performance can be benchmarked to measure the effectiveness and impact of investment decisions.

Triple'A Plus also contains modules which are specifically designed to support the role of the wealth management relationship manager and boost the customer experience. These include investment profiling and proposal generator modules, which enable the creation of tailored and structured investment proposals. This equips relationship managers to provide personalised advice in response to each client's individual needs, whilst being able to maintain a level of standardisation in the advisory process and automate certain compliance procedures. The highly secure Client Data Management module enables comprehensive knowledge of the customer (KYC) and helps with the enforcement of anti-money laundering (AML) legislation.

All Triple'A Plus modules are available through a standard, flexible web user interface that can be easily configured and customised with Temenos Design Studio, a powerful visual application modelling tool.

Thibaut Jacquet-Lagrèze is a Product Marketing Director at Temenos.

Case Study: Triple'A Plus Is A Perfect Fit For SG Hambros

SG Hambros Bank Limited, part of Societé Générale Private Banking, provides comprehensive wealth management services to around 8,000 clients throughout Europe. In 2001, the bank decided to optimise and enhance its discretionary and advisory portfolio management to improve efficiency and service quality for its private banking customers.

The bank required a solution that would provide a platform accessible from different locations to ensure a consistent investment policy. Portfolio managers wanted a tool that would allow them to manage a large number of portfolios with numerous client, legal and investment constraints. Finally, there was a need to improve client reporting.

The Triple'A Plus solution (developed by Odyssey Financial Technologies, which was recently acquired by Temenos) proved to be the perfect fit. SG Hambros chose modules for portfolio management and analysis, portfolio modelling and rebalancing, and implemented a foundation module for its securities database, including a reporting platform to enhance client and analytical reporting. The implementation project went live in various locations including Jersey, the UK, Guernsey, Gibraltar and the Bahamas.

In order to ensure a more efficient investment management process, the bank decided to build a single integrated technical platform, using SG Hambros' data centre in Jersey as a hub, to serve its private banking subsidiaries. The hub solution was rolled out simultaneously to all subsidiaries and went live in July 2003, with the exception of the Bahamas, where it was first implemented locally. The implementation included development of an interface to the Olympic back-office system of the bank.

SG Hambros acquired the private banking business of ABN AMRO in London in 2007 and in Gibraltar in 2008. The bank successfully integrated the new private clients resulting from these acquisitions into its IT framework, transferring the client and portfolio information to the Triple'A Plus platform.

Recently the bank has confirmed Triple'A Plus as its strategic choice for portfolio management and client reporting. The bank has interfaced its order routing system to Triple'A Plus and increased the number of users from 25 to 150.

In 2007, SG Hambros enhanced its client reporting service so that all information on both cash and investments is now stored centrally within Triple'A Plus. Private clients with cash and investment portfolios now receive a single, comprehensive report.

The flexibility of the solution allows the bank to provide bespoke investment management services to its private banking clients with sophisticated portfolio management and analysis functionalities and straight-through order management.

Triple'A Plus facilitates automated rebalancing of portfolios against complex and flexible strategies using model portfolios. It enables automated, event-driven and push-oriented compliance checking with client investment constraints, market regulations and internal guidelines. Portfolio managers can choose between 30 investment strategies. Composite benchmarks are used as part of compliance with global investment performance standards.

The sophisticated functions allow the bank to manage a larger number of portfolios with numerous client, legal and investment constraints, and portfolio managers can easily access all the relevant information in one place. The modular and flexible architecture of Triple'A Plus allows banks to easily add new clients and to use the system in different business models, time zones and currencies. Advanced functionalities can be integrated without the need for further migration.

In cooperation with SG Private Banking (Switzerland), SG Hambros automated its order management workflow to increase efficiency.

Due to the straight-through order workflow, SG Hambros is able to significantly reduce manual input, saving on resource-intensive work and avoiding the data entry errors arising from manual data input. The order cycle duration is also shorter.

Seamless Integration

WealthManager goes to the heart of PWM challenges

"Wealth management clients need to receive detailed information on the value and performance of their investments in real time"

Thibaut Jacquet-Lagrèze
Product Marketing Director, Temenos

Wealth management clients are becoming increasingly demanding. The execution-only service is now a simple commodity and margins are under pressure. This is driving rapid transition from a transaction-based to a fee-based business. All too frequently, financial institutions try to piece together partial solutions where integration is limited and very expensive. This reduces the effectiveness of front-office users, leaving them with no other choice than to use multiple applications that are not particularly well integrated.

A holistic approach to wealth management is near impossible. Information is siloed and too often there is a gap between back-office account-centricity and front-office client-centricity that makes it hard to achieve a single customer view. This results in very low adoption rates of front-office systems and a lowering of service levels. Such approaches make it unnecessarily difficult and expensive to implement new fee-based business models, which are more profitable and generate more stable revenues than commission-based business frameworks. Services such as Unified Managed Accounts or Structured Investment Advisory are being rolled out but still lack the level of automation required to make them truly scalable.

Wealth management clients need to receive detailed information on the value and performance of their investments in real time. They also want an exact, up-to-date picture of the risks linked to their investments and access to advice and investment proposals that suit their objectives and risk profiles, or tailor-made financial planning services. In particular, they expect proactive monitoring by the wealth manager so he or she can react rapidly to changes in the levels of risk on their investments.

As a comprehensive, client-centric wealth management desktop, WealthManager provides solutions to these challenges, by simplifying and improving the daily work of professionals who manage and advise on individuals' wealth.

It features a suite of modules that can be combined flexibly to create leading business solutions for client management, 360-degree client view, proposal generation, sales support, consolidated performance, aggregated client reporting and a client portal.

For example, the aggregated client reporting module provides consolidated reporting with detailed performance computation. This enables wealth managers to acquire a consolidated view of all client assets, identifying and reconciling transactions and tax lots from multiple back-office and external sources, to calculate account and portfolio level rates of return.

WealthManager integrates seamlessly with external systems using sophisticated, scalable middleware. Its unique data model has been designed to merge all private wealth management business functions. As a result, client advisors have a single, easy-to-use application to access and aggregate information with a client-centric view.

WealthManager incorporates best practices from leading international financial institutions that provide sophisticated wealth management and private banking expertise to affluent and high-net-worth individuals. The platform efficiently supports many types of discretionary portfolio management, investment advisory and execution-only service models including support for separately managed accounts (SMAs) and unified managed accounts (UMAs).

WealthManager integrates client and portfolio data and automates front-office processes to give wealth management professionals all relevant information at their fingertips, enabling them to deliver a fast and efficient service to their clients. This increases productivity, allowing them to focus on delivering value-added services and substantially improve service levels, to secure a greater 'share of wallet' and increase levels of assets under management (AUM). Finally, it gives management the means to efficiently monitor and manage the business, reduce costs and retain/attract advisors. It supports the full client lifecycle workflow, from prospect acquisition to profiling, investment proposals, trading generation, review, monitoring and reporting.

Client advisors, independent financial advisors, money managers and overlay managers are at the heart of the private wealth management value chain. Revenue and profit growth largely depend on the ability of these individuals to acquire new clients and keep existing clients loyal through outstanding advice and service quality. Financial institutions must attract and retain this key human capital by offering a competitive, modern and efficient work environment.

WealthManager enhances all aspects of front-office wealth management by integrating with multiple applications to provide a single, integrated end-user experience. It offers advanced aggregation capabilities and is highly scalable, multilingual and multi-currency. Most importantly, it provides the technology that allows firms to increase their client service capabilities, reduce costs and generate additional revenue.

Thibaut Jacquet-Lagrèze is a Product Marketing Director at Temenos

Case Study: Better Client Service With WealthManager

RBC Financial Group, part of Canada's largest bank, has signed a long-term licensing agreement for WealthManager, a software system integrating contact management with portfolio management, financial planning and analysis and reporting tools.

Employing over 4,000 wealth management professionals, including 1,400 investment advisors, the firm decided that a new wealth management platform was required to meet its client retention, cross-selling and growth objectives.

The company was looking for an integrated portfolio management and contact management solution to help its advisors manage clients more effectively. The objective was to give RBC investment advisors a 360-degree view of customers and to enable them to deliver holistic wealth management services without having to toggle between different applications. The solution chosen needed to have a wide array of embedded wealth management capabilities, which could scale to more than 10,000 users.

With the help of Accenture, RBC selected WealthManager after a rigorous analysis of its wealth management requirements and a comprehensive evaluation of other technology solutions. During the selection process, RBC eliminated a number of generic CRM systems on cost and functional grounds.

WealthManager (developed by Odyssey, which was recently acquired by Temenos) stood out from its competitors because its customer relationship management functions were closely integrated with comprehensive portfolio management capabilities. Another key driver that led to the selection of the solution was its capacity to enhance productivity at the advisor level, along with the cost reductions derived from the decommissioning of pre-existing non-integrated point solutions, each of which required its own infrastructure and support teams. The result was an integrated solution that satisfied the firm's contact management requirements with reduced complexity and at a fraction of the cost.

WealthManager simplifies wealth managers' technology requirements by creating a client-centric wealth management platform. Wealth management teams can coordinate, execute and track interactions with clients, prospects, referral sources, third-party advisors and other related contacts. It also provides comprehensive wealth management capabilities, including rates of return, capital gains, investment objectives, other assets and liabilities and sophisticated portfolio management, as well as tracking positions and transactions.

RBC licensed WealthManager's portfolio management, contact management and portfolio modelling tools. To ensure that the solution met the firm's scalability requirements, quantitative scalability tests were conducted in September 2001 at the Sun Customer Benchmark Center in Newark, California.

RBC installed WealthManager in two phases, starting with the rollout of 2,500 seats for advisors and their support teams. The second phase added 1,500 seats together with sophisticated modelling capabilities. The project was completed in October 2004.

As timely access to high-quality data is crucial for financial projections and reporting, data integration between back-office and front-office systems was a key success factor for the project. Considerable effort went into data cleansing, data management and mapping to supply the right data to the end solution.

Because RBC has many different sources of information for clients, integration of all the data feeds was challenging, especially historical data and feeds from third parties. For fixed income alone, the project involved aggregating data from over 180,000 different products. The interface between front-office systems and a Broadridge/ADP back-office system was developed in-house. Employees participated in hands-on, customised training courses and a comprehensive knowledge transfer programme.

Since the successful completion of the project, WealthManager has been used at more than 120 sites. The group's private client and wealth management company, RBC Dominion Securities (RBC DS), has seen significant gains from the solution, which is also used in varying capacities within the group's internal advisory, discount brokerage, investment counsel, and estate and trust businesses.

Within RBC DS, WealthManager has become the foremost mission-critical front-office application with a user adoption rate of over 80 per cent, handling over 1,000,000 accounts. It is used on a daily basis to view positions and transactions, model portfolios, monitor asset allocations, record client interactions, analyse performance and create mailings.

More recently, RBC has improved client reporting by using the WealthManager database to build an integrated, customisable client reporting solution. In addition, the bank has integrated it with its financial planning application, allowing advisors to pull updated account, position and asset allocation into the client's financial plan.

INTERVIEW: CRAIG DONALDSON, METRO BANK

The People's Bank

As the first new bank in the UK in more than 150 years, Metro Bank is changing the face of retail banking by offering unprecedented customer service and easy-to-use products. The bank, which opened its first branch in London in July 2010, runs the integrated TEMENOS T24 software platform. The bank is running T24 on a hosted basis, which has enabled it to dramatically reduce IT investment costs and thus lower entry barriers into the UK market. In its first month of operation, Metro exceeded its target for the whole of 2010 in terms of account openings and plans to open 200 branches by the end of its first decade in business. Metro's CEO, Craig Donaldson spoke to Temenos about the bank's strategy.

Why did you choose the UK for the Metro Bank venture?
When Metro Bank co-founder Vernon Hill visited the UK at the prompting of other co-founder Anthony Thomson in 2007, he was shocked at the poor service being offered in the banking industry here. In his view, the differential between service levels in UK banks and those offered by his banking model was wider than between US banks and that model. He concluded that the contrast was so significant that it was worth setting up a bank here.

Has the recession made the UK an easier market for Metro to enter?
Metro Bank's launch planning started well before the financial crisis. Service and convenience are what the bank is all about. Customers are more dissatisfied with their banks than ever before and we want to be a credible alternative on the high street.

How do you measure success?
It's not about silver bullets. My son and I go to the stores on Saturdays and Sundays and we watch as kids pour out their coins from their 'M Banks'. Which part of that should we measure? It's about engaging with customers so they feel welcome – taking the pain out of banking.

Tell us about your store strategy, which is central to Metro Bank's proposition.
Many banks see stores as expensive, whereas we see them as what customers want. We recently raised a further £50 million in equity to accelerate our store rollout from 12 in the first 2 years to 18 in the first 2 years, a 50 per cent increase. At the moment, we are focussing on the greater London area. Later on, we will build our brand beyond London. The worst thing for us would be to open where we can't deliver on our brand promise.

Who is the typical Metro customer?
There is no socio-demographic profile of the typical Metro customer. It is a bank for people who value service and convenience and want to have a great experience in store, on the telephone or on the net.

What is the future of mobile in banking?
It is a very important channel and customers are starting to ask for it. We currently incorporate SMS transactions and we're talking to Temenos about their mobile banking solutions.

Several UK retailers have launched financial services recently. Does this represent a challenge for Metro Bank?
No, we offer a mass market service and convenience proposition for both retail and commercial customers, whereas retailers only do retail banking. Also, we offer a current account and all the services that go with that. We believe that, to be a true bank, you have to have someone's current account.

How will you ensure that Metro Bank sustains its service proposition as it grows?
Some people say we have a niche proposition, but service is not niche. Vernon Hill built 500 stores that delivered unparalleled service and convenience in every store and we can do likewise.

What will the UK banking scene look like in 2020?
Technology will create change and new channels will continue to arrive and grow, but banking will be built on the same core values as it was 100 years ago and we will be surprising and delighting over 1 million customers in the UK.

Will Metro Bank enter other banking segments, such as private banking?
There is a market for Metro Bank wherever people value service and convenience. Our model is built on great premises, platform and people. When you get the right combination, you create a great culture. I am sure that it is a culture that can enter other banking segments.

"Some people say we have a niche proposition, but service is not niche"

Craig Donaldson
Chief Executive Officer, Metro Bank

VIEWPOINT: JOE PAGANO, MICROSOFT

Moving To The Cloud

What is cloud computing? When I was an IT Manager years ago 'cloud' meant that thing in the middle, the Visio graphic that connected the endpoints in a systems architecture drawing. The cloud graphic represented a simple conduit or basic routing capability to pipe data files from one place to another.

I have been a fan of business computers since 1983 and had an early view of global networks when my university provided me with a bitnet logon account. The possibilities seemed endless but I quickly learned that the value of the system was a function of how many people and devices were connected in a way that resulted in productive human engagement. Bob Metcalfe, the inventor of Ethernet and whom I once worked for, articulates this well in Metcalfe's Law that states the value of a telecommunications network is proportional to the square of the number of connected users.

When the internet was commercialised in the mid 1990s there were about 16 million people connected together. There was no concept of instant loan approvals, online banking, electronic paychecks, or the need for real-time risk management across multiple asset classes. A mobile phone was just a phone, a single purpose device. Today there are more than 1.8 billion internet users and growing. Facebook has more than 500 million users and Microsoft has more than 700 million unique visitors across the various internet properties each month. Many teenagers and Millennials use text messaging as their primary means of communication.

Banks across the world are looking to integrate services and marketing into the social network and mobile computing fabric in order to survive. More than ever, banks require agile systems and data architecture as the industry moves from a transaction centric services model to a customer centric services model. banks, capital markets, and insurance firms need highly scalable systems in order to calculate risks and potential liabilities, model markets, and to meet the ever changing regulatory requirements.

This is where the cloud comes in. For the financial services industry, the cloud provides customer reach, cost savings, a faster time to market, dynamic scale, and a platform for innovating and differentiating the cross-channel customer experience. But how do you define cloud? The IT industry has defined cloud delivery models in three parts: Infrastructure as a Service (IAAS), Software as a Services (SAAS), and Platform as a Service (PAAS).

IAAS is about efficiencies and agility gained via serving up dynamic provisioning, virtualised hardware, and systems management. SAAS, such as Microsoft Office 365 or Dynamics CRM Online is about serving up 'packaged applications' as a service in a secure way from a utility, or 'services' context. PAAS is where the future and true value in cloud lies for the financial services industry. PAAS is about the use of intelligent software infrastructure and programming capabilities to enable the convergence of applications, structured and unstructured data, dynamic processing power, and connectivity with intelligent devices. Metcalfe's Law cannot reach its full potential without PAAS. It is PAAS that enables customer centric innovation that results in new and differentiated connected customer experiences.

Speaking to an audience at the London School of Economics in the UK in October last year, Microsoft's CEO Steve Ballmer described the cloud as an industry code word for talking about using the Internet and smart devices in new and different ways. "It reflects the transformation that's going on in the computing world from things which are either in a corporate data set or in the Internet, to things that are in both; from things that may be isolated, like the TV, to things that can span literally your entire digital life," he said.

For Microsoft, Windows Azure puts this concept into practice. Serving as the foundation for developing and running enterprise applications in the cloud, this platform lies at the heart of the company's Platform as a Service strategy.

Based on direct input from our financial services customers Microsoft continues to deliver innovation not only in the cloud but across the front-office, back-office, and middle tiers with self-service business intelligence (BI) in the form of PowerPivot to connect any database to a rich graphical representation in Microsoft Excel, support for 256 processors native in SQL Server and Windows Server, Complex Events Processing and StreamInsight in SQL Server 2008 R2 that can enable for example algorithmic trading scenarios, and Parallel Extensions for .NET that allow financial services developers to achieve linear scale from multi-core hardware.

In fact, taking advantage of the mission-critical capabilities in the Microsoft platform, Microsoft, Temenos, and Intel recently produced a high-performance benchmark that measured the high-end scalability of TEMENOS T24 on Microsoft SQL Server 2008 R2 and Windows Server 2008 R2 Datacenter. The system was able to process 25 million accounts in close of day processing within a 2 hour period, achieving 5203 interest accruals and capitalisations per second.

The financial industry is fast driving innovation, new levels of operational efficiency, and delivering platform solutions that enable new and differentiated customer experiences. Microsoft with our industry partners has never delivered more platform capabilities that help address the current and future needs of the financial industry.

Microsoft is working hand in hand with the world's leading financial services ISV's such as Temenos in the areas of engineering, thought leadership, and joint solution delivery. Together we have a unique opportunity to benefit our mutual customers by providing the world's leading financial services firms with industry solutions that differentiate on customer experience, economics and performance.

"More than ever, banks require agile systems and data architecture as the industry moves from a transaction centric services model to a customer centric services model"

Joe Pagano
Managing Director
Banking & Capital Markets,
Microsoft

George Koukis
Chairman, Temenos

Building A Community

Temenos has always had a passion for sharing best practice with its clients in the global banking community. George Koukis, the founder of Temenos is well known in the industry for sharing that passion in his spirited addresses at the annual Temenos Community Forum (TCF), formerly known as the Temenos Client Forum.

Koukis is a man who is not afraid to speak frankly or take a stand on the big issues. He is fond of making what he describes as 'integrity-driven philosophical statements', often laced with his signature dry humour. The forum is his brainchild and over its 11-year history has become an event of growing importance to the global banking world.

Attracting more than 500 attendees last year, TCF has evolved to become an international platform of engagement for the Temenos community, including its banking clients, business partners and investors, as well as industry analysts and journalists. From its origins as a purely client-centric event, it has grown to become an international industry forum, taking on new relevance during the financial crisis. Koukis sees it as a way to find solutions to problems shared by banks so that they can avoid repeating the mistakes of the past.

One of the first things he did when taking over the company in 1993 was to invite all his clients to come and talk to him. "We only exist because someone buys our products. The very heart of the Temenos philosophy is the client." He wanted to share his vision and plans for the new company and find out what the banks wanted from its products and services.

"We only exist because someone buys our products. The very heart of the Temenos philosophy is the client"

The initial forum, held in 1994, was called the Global User Group. This eventually became TCF, which Koukis envisaged as a platform that would allow clients to talk directly to Temenos about their concerns. There were beneficial effects for the company, too, as the banks shared valuable market intelligence. Temenos' core banking product, T24, has seen enormous gains from feedback coming out of TCF. Koukis describes the forum as "probably the best R&D function that a company could have. Through it, our clients tell us what is important to them for the future and we develop new features accordingly."

The TCF event leverages a working relationship based on trust, says Koukis. This trust is backed up by the solid performance of the company, reflected in 2010 by a number of industry accolades including T24 receiving the award for Best Core Banking Product at the 11th annual Banking Technology Awards in London.

Koukis believes that TCF is a major contributor to this success, thanks to the industry collaboration and sharing of best practice that it facilitates. "We have been listening to what our clients tell us and we have continued to deliver important improvements to our offerings. TCF is a forum for bringing the community together to share ideas, talk about alternatives and deliver efficiencies that are vital to our banking clients."

With banks facing increasingly complex regulation, it has become harder to interpret new legislation and requirements. Industry trends, too, are often difficult to predict. These issues and many others are discussed in depth at TCF.

"TCF enables our clients and prospective clients to get value from a variety of sources that they could not otherwise access directly unless they spent weeks researching each subject and then had individual meetings with the various suppliers," says Koukis. "It is the most efficient way to exchange ideas, listen to experts, see new products and services and predict what will happen in the future."

So how has TCF reflected changes in the industry culture in terms of client and community participation over the years? The forum has grown up, says Koukis, developing from its largely technical origins to incorporate discussion and debate on relevant business issues. "Our clients can see the features of our new releases and share their solutions to business problems, our partners exhibit their latest products and services and industry experts share their views and experiences on market specific trends."

In 2010 Temenos opened up the forum to the wider banking community of non-Temenos clients. This has allowed it to become a platform for the discussion of critical businesses issues, with sector breakout sessions that actively engage industry players in roundtable discussions to create a more three-dimensional, dynamic format than the product presentations of earlier years. "If Temenos is to maintain its leadership position and develop the right systems for the future, then we need to bring everyone together and use the forum to set standards at an international level," says Koukis. "It is a tool that helps us with positioning for the future, leading to a better proposition for our clients."

George Koukis is Chairman of Temenos

Banking On The Cloud

There is a growing appetite for cloud computing in certain areas of the banking world and as cloud solutions begin to attract increasing interest, Temenos is uniquely placed to meet this demand. Mark Gunning, Global Director, Banking Solutions at Temenos looks at the challenges and opportunities that lie ahead.

Temenos has committed to a significant investment in the cloud with our partner Microsoft, which is set to yield a host of exciting new capabilities for many of the banking segments that we serve. The launch of T24 on the Microsoft Windows Azure platform heralds many powerful new benefits for banks – not least the optimisation of data centre costs traditionally associated with running a core system, as services in the cloud are offered on a consumption-based pricing model. We are already working with several banks to provide hosted solutions with T24 in the cloud and this is opening up compelling possibilities for certain key segments of our client base.

The banking industry will be slower than others to develop trust to the cloud. This is understandable, given the very high security requirements that apply to banking solutions coupled with the simple but compelling fact that banks are in the business of trust. We understand the importance of balancing our very real enthusiasm for the new capabilities cloud technology offers with the caution and thoroughness our clients and their customers expect of us.

While in some business sectors, cloud solutions may be adopted early and on the basis of the cost savings they offer, banks need to be certain that such benefits are coupled with data security at the very highest level before moving forward with new technologies that exploit the various cloud options available.

Temenos is well placed to securely leverage the benefits of cloud-based solutions, given our long experience of successful work with cloud-like environments that bear many of the hallmarks of the cloud as it is being utilised today. The technology and architecture of T24 and, in particular, its capacity to support multi-tenant environments, make it fundamentally suitable for cloud implementations. For us, this has facilitated a natural transition to the way that the cloud operates and scales for connectivity and scalability.

Our approach to the cloud is focused on flexibility and tailor-made solutions, drawing on the expertise and experience we have built up, both through our history of collaboration in cloud-like environments and through our more recent work in the cloud as it has emerged in recent years. We have a profitable alliance with Rubik Financial, using a private cloud approach to deploy a suite of retail banking solutions for the Australian and New Zealand financial services markets. And the banking platform we provide for the newly launched Metro Bank in the UK operates on a cloud-like model.

"It is undeniable that the banking industry has been slower than others to develop trust to the cloud. This is understandable, given the very high security requirements that apply to banking solutions"

Mark Gunning
Global Director, Banking Solutions, Temenos

We have been very proud of the effectiveness with which T24 has been proven to operate within the modern architecture of the Azure cloud and we see enormous potential to offer highly functional cloud-based services that meet individual clients' requirements. For us, this means listening to our clients about where cloud computing sits on their agendas today and in the longer term, in order to provide appropriate solutions that address any concerns they might have.

The early adopters seem to be, unsurprisingly, smaller banks and start-ups, which have a great deal to gain by moving certain aspects of their functions into the cloud. Microfinance is an especially promising area, as cost of ownership can be managed without the need for major investment in information technology capital, and we are in an excellent position to meet this demand. In fact, we are currently embarking on our first T24 Azure project to migrate a network of 12 Mexican microfinance institutions to the Windows Azure cloud platform.

Over the next decade, we expect to see greater understanding of the cloud's place in the banking world, which will enable many more banks to harness the benefits of T24. In the immediate future, we are ready to tackle individual banks' requirements, offering T24 in the cloud, tailored to their needs. Look out for updates in future issues of Temenos News as these implementations get underway.

TCF Lisbon 2011
Temenos Community Forum

23 - 25 May 2011
Lisbon Congress Centre, Portugal

Have You Registered Your Attendance At The Temenos Community Forum (TCF) Yet?

Register Today For TCF Where You Can:

- hear about the latest product developments and how these can improve efficiency.
- attend presentations on the latest industry issues and hot topics by leading speakers in the banking community.
- hear how Temenos' clients are: achieving the highest level of return on assets, capital and cost to income ratio, generating growth, improving customer service and managing their IT cost infrastructure.
- sit down with a Temenos product expert at the 'Product Clinic'.
- meet the Temenos senior management team, client and business partner community in a content rich two and a half day event and exhibition.
- meet and network with your peers to share experiences, challenges and solutions.

Specialist Business Sector Streams

The 2011 TCF event includes content and presentations across all product areas and will include specialist business streams for key sectors such as:

- Anti Money Laundering, Compliance and Payments.
- Business Intelligence.
- Corporate Banking and Trade Finance.
- Islamic Banking.
- Microfinance and Community Banking.
- Private Wealth Management.
- Treasury.
- Retail Banking.
- ACTIS.BSP users.
- IBIS users.

Registration Details:

To register your place email: **temenostcf@temenos.com** to obtain your secure booking code to access the event registration site or alternatively visit **http://www.temenos.com/TCF2011-Lisbon** for more details on the event.

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