



## AT YOUR SERVICE

AS A GROWING NUMBER OF BANKS SEEK TO RENEW CORE SYSTEMS, A SERVICE-ORIENTED APPROACH CAN HELP ENSURE LONGEVITY, SAYS MARK GUNNING

**T**he core banking systems market is going through an interesting and exciting phase. Gartner recently said that the pace of banks pursuing core renewal is rising. This heightened activity is causing ripples in the core banking vendor community, something we at Temenos have observed first hand over the past 12 months.

The competition is changing in several ways. There are innovative new entrants to the market, many larger institutions have undergone a process of consolidation, and some of the traditional vendors are finding it difficult to keep up with technological developments and market requirements.

There's a lot of pressure on banks at the moment from new entrants in the market, regulatory requirements and a heightened focus on risk management due to the sub-prime crisis. These issues have encouraged them to look at what their core banking systems can do, and take a more mature approach to selection.

Many of the people involved in the selection process are on the second, third, or even fourth system of their career. They have learned that a core banking system needs to last a long time and their approach to choosing a system is more sophisticated as a result. It's not good enough to select a system that fits the bank's requirements today; they need to pick a solution that will still be effective in five or ten years' time.

The relationship between IT and business has been a massive frustration for banks over the years. The business wants to innovate, to launch new products, respond in a cost efficient manner to regulatory pressures and undertake merger and acquisition activity, but the capability of its IT system often

frustrates these ambitions. To tackle this, the selection of core banking systems is now very much a joint process between IT and business, whereas in the past it may have been left solely to IT.

A bank's core solution must be able to respond to manifold challenges covering a broad range of areas, including client service innovation. Customers today often select an institution for a particular product, whereas in the past one bank may have covered all their needs. Their credit card, mortgage, savings and current account could all be provided by different institutions and might be moved elsewhere very quickly should a better deal present itself. The playing field is now more level and as a result, banks must be able to respond quickly to service innovations; either from established institutions, foreign competitors entering the market, or Internet-based providers. This can only be achieved with a robust core banking system in place.

All companies want longevity from their IT investments. One of the biggest worries for a bank used to be whether or not the IT strategy or technology it had invested in would become a dead end. Traditionally, it would select IT systems from the biggest companies in the market in the hope they would remain functional for a long time. However, the preferred situation is one where more solutions are open and standards-based. Temenos believes that as standards emerge around the area of service-oriented architecture (SOA) this is more likely to become a reality.

Any institution with a complex IT environment will, when looking at its future IT infrastructure,

almost certainly conclude that SOA will be at the heart of it. The real benefit only becomes apparent when the full architecture of a bank moves to being service orientated. A bank's core banking solution is key to success here. It contains invaluable customer and business information, and almost every system within the bank's infrastructure needs to know what is happening within that core area to work effectively.

We find that clients place more and more emphasis on whether software has a clear ability to support an SOA strategy and meets the company's vision for the next five to ten years. We feel that any vendor currently ignoring SOA or being overly cautious about it is making a mistake.

Banks want to know that the vendors they deal with are specialists, that they are experienced in supplying the product, and that the product will mature well. Vendors need to be able to demonstrate where their experience comes from, that they have worked with major institutions to deliver innovations that improved the business.

There's an international aspect to core banking systems in that more and more institutions are multinational today, or are planning to be in the future through mergers and acquisitions. For that reason, they are keen to deal with multinational suppliers. They see the innovative products being rolled out by foreign competitors and want to employ them across the entire business.

Most vendors devote a substantial proportion of their revenue to research and development (R&D) in order to improve their product offering, and single country solutions simply aren't as effective at

generating the sums needed for quality R&D. In future only vendors that have global experience, global presence and a global approach will succeed.

Enormous improvements in platform technology mean banks are now able to move away from the traditional platform suppliers. The non-traditional platforms have proven their reliability and scalability, giving banks a greater degree of choice. Microsoft SQL Server is an interesting option that we've been involved with recently. SQL Server provides our customers with a proven database with excellent resilience and reliability at a very competitive cost. We also find that most banks are using it for other purposes already, and they find it very attractive to be able to reuse the same skills for the core banking system. Last year was a record year for us, as demonstrated by our position at the top of the IBS Sales League Table, the industry barometer for international core banking systems sales, and nearly ten per cent of all our new business was on SQL server. Jih Sun, a major Taiwanese retail bank, was one of the first to implement T24 on the Microsoft platform, and has since seen some very significant benefits by moving away from its in-house mainframe solutions, such as improved time to market for new products and the ability to manage user accounts through a consolidated view.

From our point of view, it's obvious that the market wants a combination of modern software like T24 and innovative non-traditional platforms like SQL Server. It's simply a compelling offering all round. **F**

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