



URBING THE CRUNCH

IN THE CURRENT FINANCIAL CLIMATE IT IS CRUCIAL THAT BANKS RETAIN CUSTOMERS BY PROVIDING THE SERVICES THEY DEMAND – BUT THIS CAN PROVE DIFFICULT AND COSTLY TO RECONCILE WITH TRADITIONAL CORE BANKING SYSTEMS. JAMES DODD FINDS OUT THAT A SERVICE-ORIENTED ARCHITECTURE CAN HELP

With the credit crunch currently on everybody's lips, it seems impossible to escape exposure to it and its ramifications – no matter where you are in the world. Obviously the finance sector is taking the brunt of this, and possibly on the very frontline is banking.

The credit crunch has prompted customers to call into question the fundamental services banks provide them. Are they efficient, flexible and easy to use? Now, more than ever, it is important for banks to excel in this area of basic services, which is ultimately traceable to core banking systems. Customers want quality in existing services, as well as the option of new ones, and they want multi-channel access to these offerings. For banks, the challenge lies in making such improvements viable in terms of cost and risk – any changes to the core system must result in operational efficiency, with minimal disruption to the business.

With core banking at the root of the challenge it seems pertinent to first ask, what is actually meant by the term? Naturally, it depends on whom you ask. Typically, industry analysts have quite a narrow definition focused on the retail context and incorporating current savings accounts, lending, customer information

systems and general ledgers. But in a sense this represents the theoretical side of core banking. In reality the industry sees it as an increasingly relative and fragmented idea.

“From the bank's point of view it depends on what sort of business they're in – retail, wholesale or private banking,” says Koen Van den Brande, worldwide industry manager for core banking at Microsoft. “It is also very likely that different parts of the bank will consider different elements of their back-office systems to be core.” The same relativity is prevalent among the industry vendors, who tend to see core banking as whatever it is they sell.

With such a plethora of interpretations it's easy to understand why Microsoft takes a liberal view of the concept: “Our approach tends to accept a very broad description of core banking,” says Van den Brande. “Roughly, we see it as being constituted of most things that happen in the back office.” Clearly, such a flexible approach is primarily concerned with the evolving nature of core banking systems.

In fact, Van den Brande suggests that the future may have limited room for core banking systems as we know them today: “We may find that in the future, as people start to break apart traditional core banking systems, we have a collection of core

“IT’S ABOUT GETTING THE BIG PICTURE FIRST – WHAT COMPETENCIES DO BANKS REQUIRE, HOW DO WE TRANSLATE THIS INTO THE SERVICES LANDSCAPE, AND WHICH SERVICES SHOULD WE FOCUS ON?”

JOHN MCKEE, MANAGING DIRECTOR OF THE BANKING DIVISION, FINANCIAL OBJECTS

banking services.” But why this move from the monolithic, universal systems of old to a more service-oriented approach (SOA)? Some would argue, ‘if it’s not broken; don’t fix it’. But maybe a few cracks are starting to show.

“The current climate illustrates how rapidly business priorities must change and, subsequently, how agility is key to a bank’s survival,” says John McKee, managing director of the banking division at Financial Objects. “The Internet and mobile banking have lowered barriers to entry substantially, and if a bank’s current core system cannot support rapid channel deployment, it will lose assets or market share to more agile institutions.”

However, Barrie Neill, retail banking strategy manager at Temenos, is keen to point out that such issues are fundamental and not merely a sign of the times. “Most of the issues that drive core system

replacement are not the result of the current economic downturn, because they are rooted in the past,” he says. “Neither are those issues going to disappear as a result of the current economic climate. The need for scalable and open systems that can cope with the demands of growth through merger or acquisition may have diminished, but the need for flexibility, openness, scale and agility remains.”

The ability to reuse resources is also becoming increasingly important. “SOA has become a key differentiator in the financial services industry in that it allows banks the flexibility and opportunity to reuse technology assets,” says John Macaluso, senior vice president and chief technology officer at Fiserv CBS Worldwide. “Choosing a flexible and customisable system can also help mitigate the risk of replacement by allowing users to combine older systems as components with newer technology.”

And so with SOA at the fore, it is worth considering the constituents of such an approach. The three most obvious elements are customer focus, operational efficiency and innovation. With customer focus, the central challenge is gaining complete access to customer information that is spread over various locations. The rewards that follow are comprehensive. “Banks that better understand their clients will have a greater opportunity to retain them,” says Michael Nicastro, senior vice president and chief marketing officer of Open Solutions. “In this electronic world where transactions move in cyberspace, the consumer and the business owner may never physically enter the bank, but they will expect service at a level as though they were in a branch every day.”

The second main element of SOA relates to the ability of a bank to offer new products and services. “When it comes to product innovation, clearly parameterised product definition is great if you have it built into a traditional core banking system,” says Van den Brande. “But increasingly companies need to integrate a number of different competencies across the organisation to deliver a new product.” The way SOA enables product managers to bring together and orchestrate services is directly related to a bank’s ability to be innovative and to reassemble or put together a different product offering.

The final notable SOA element underpins the previous two and is essentially concerned with the operational abilities provided by a dual layer business system. “Operational efficiency is a lot about process optimisation,” says Van den Brande. “If you can externalise those processes, in other words have an SOA infrastructure and a layer on top of that, then you can change your processes without having to change the underlying systems.” Thus process and service run together, yet at the same time independently.

THE DOS AND DON'TS OF CORE BANKING

“It’s worth stressing that a core system replacement project is not just about a partnership between the bank’s business and IT areas,” says Barrie Neill, retail banking strategy manager at Temenos. “It should also be based upon a long-term partnership between the vendor and the bank. If that partnership is not well established it can lead to poor communication, failure to manage issues and risks and uncertainty over scope and timescales to name just three.

“In terms of examples of good practices to follow:

- Establish strong executive sponsorship and engagement from both the business and IT for the commitment and work required
- Carefully define at the highest levels, and agree amongst all stakeholders, what they want to achieve in terms of operational success over time
- Choose the right systems and tools to give the exact functionality, flexibility and agility to support the realisation of the objectives
- Assign owners to the benefits and track these through implementation and subsequent realisation
- Carefully manage the non-IT aspects of change management, such as training and objection handling.”



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Even with its obvious benefits, an integrated services approach must be implemented with care. It is important for an organisation to select the services that are most relevant to its current business offering and concentrate on them, at least at first. To achieve prominent differentiation a bank must admit that rarely can it excel in every focus area – customer relationships, innovation and operational efficiency – at once.

Focusing on a particular service stream also makes a project easier to measure in terms of palpable success. This leads naturally to another important element in any SOA implementation: a phased approach. For large banks in particular, a complete overhaul of the core banking system is simply not viable. Just as SOA is about flexibility and balance, implementing such a structure requires the same philosophy.

“The most popular and least disruptive method is to deploy the new technology either for a new product or a new market or service to existing customers,” explains McKee. “When this has been in production successfully, existing customers and products can be migrated onto the new platform and as the services on the legacy diminish, they can be decommissioned. During this migration a common front end with integration and/or interfacing to the existing systems can minimise user disruption and customer confusion.”

A gradual server-based approach thrives on clear aims, since it makes it easy to track the expected gains. This ensures that the business remains engaged and sees the conversion as a useful thing to do. However, is such an approach considered too costly and disruptive in the current climate? Nicastro quickly counters such qualms: “Technology can help, but bankers will need to forgo the myth that it can be done at minimal cost,” he confirms. “Technology deployed properly can be efficient but it comes at a cost. A complete recipe for failure is when a bank tries to ‘commoditise’ its core technology. The old expression of ‘you get what you pay for’ is very much the case.”

Most banks have now caught on to the direction the industry is heading, and accordingly their enterprise architects have prepared SOA roadmaps. However, in the past, when architects approached the market place they were all too frequently unable to find the solution to match their needs. “The industry is still lagging a little bit,” confirms Van den Brande. “This is one of the reasons why Microsoft joined the launch of the Banking Industry Architecture Network (BIAN). It represents a direct attempt to align what banks see as the roadmap and, correspondingly, what the vendors are able to deliver.”

The BIAN is a group of

banks and information technology vendors that have formed with the aim of developing SOA standards for the banking industry – effectively a common language and code of practice. This would smooth every stage of such an implementation. Technology would integrate more freely, and banks would be able to communicate their needs more easily to vendors who, in turn, would be able to more accurately respond.

Microsoft is already part way down this road. The company’s all-round flexibility and interoperability ensure that it stays at the front of the vendor pack. “Microsoft, and specifically its .NET environment, continues to be the platform of choice for core systems development and operations,” confirms McKee. “In addition to the productivity gains achieved in development, banks also benefit from licensing and support costs which are orders of magnitude better than those associated with more traditional (largely mainframe) alternatives.”

Neill picks out a particular Microsoft product for its usefulness in the industry: “Microsoft SQL Server is a proven solution. By combining ease of use and the availability of leading core banking software from partners such as Temenos, widespread access to technical skills and very competitive pricing on powerful commodity hardware, SQL Server allows banks to empower their people to improve operational efficiency at a much lower total cost of ownership.”

But for Microsoft, SOA is about the bigger picture. “The services offered by Microsoft and its partner ecosystem, combined with people competencies, map directly over the BIAN framework,” says Van den Brande. “It’s all about getting the big picture out there first – what are the competencies banks require, how do we translate this into the services landscape and which services should we focus on to align with what people are actually working on as business-driven priorities at the moment?” It’s important to understand that the BIAN isn’t an attempt to prescribe a set medication to every bank. Rather, it represents the scaffolding for the construction of the ideal SOA structure for any bank.

And so the vision for the future of core banking is not so much of a one-size-fits-all system, but of a flexible, agile platform that integrates a wide variety of customisable services. Whatever an organisation’s aim for its core banking system, Microsoft aspires to help them find the right path. “What we want to illuminate is the practical route to this destination,” sums up Van den Brande. “Where do we start? What do we do first? Where do we get the services from? And how do we make it work from a business point of view?” **F**

