



# A survival guide *for core banking renewal*



## Executive summary

As a result of the economic downturn, IT cost reduction has dominated bank agendas during the past year, however most banks considering core banking renewal are not postponing these strategic programs. These are increasingly the focus of banks searching for competitive advantage across multiple geographies.

Traditional and nontraditional banks searching for opportunities to build capital through innovative deposit-taking strategies, as well as the ability to reduce operational costs and decrease product time-to-market, need to reassess their current core banking technology's ability to meet these shifting priorities.

Gartner defines a core banking system as a back-end system that processes daily banking transactions, and posts updates to accounts and other financial records. Core banking systems typically include deposit, loan and credit-processing capabilities, with interfaces to general ledger systems and reporting tools. Strategic spending on these systems is based on a combination of service-oriented architecture and supporting technologies that create extensible, agile architectures.

Darwin's theory of evolution, as published in his work *The Origin of Species*, purports that populations evolve through a process of natural selection, whereby favourable traits become more common and unfavourable traits become less common. Over time, this process may result in adaptations for particular niches, resulting in the emergence of new species.

If we apply this theory to banking systems, we can draw a number of parallels. Unfavourable technologies become extinct, while newer, more agile and flexible technologies provide competitive edge – and ultimately survival. In the same vein, ways of doing business change as banks look to achieve the holy grail of straight-through-processing, reduce their costs and target their customers better. But, if we try to adapt defunct technologies to new ways of doing business, or adapt new technologies to invalid processes, we risk ending up with a freak of nature – something that is unfit for purpose, rather than the streamlined creation that we were hoping for. So, let's apply our adaptation of Darwin's theory to the implementation of a packaged core banking system. Implementing a packaged core banking solution is not a technical exercise. It's effectively a business transformation project. It can be an even greater transformation if you remain true to the reasons behind procuring a packaged core banking solution in the first place – in essence, you're choosing to implement a system that is proven in the market place, has evolved from the experience of many hundreds of previous implementations to embrace best practice processes, and will bring flexibility and product innovation to your organisation.

However, the way in which you currently execute your business is driven by the same system that presents the limitations that you are now trying to replace. You need to ensure that your requirements are driven by the future, but you also want to ensure that what you are looking for can actually be delivered without having to develop a bespoke solution! You want the best of both worlds but don't know where to start. There are some basic questions that require answers before you embark on a core system replacement. Do you know what your future technology environment looks like? Do you understand the changes that you will need to make to ensure that the system you end up with will meet the demands of your business today and in the future? What will be the impact of these changes on your organisation, including modifications to individual roles and responsibilities? Like everything else related to change, questions lead to uncertainty, uncertainty leads to a lack of focus and dedication, and in turn increase the risk that you will not fulfill the goal you have set out to achieve. Understanding the challenges that you face is the first step to ensuring the success of the transformation you are undertaking.

## Step 1 | Don't underestimate the importance of your processes

Transformation projects involve a change from one form to another but packaged core banking transformation projects ultimately have a destination in mind. Being process-aware allows organizations to encourage a palpable sense of openness and sharing; if your core banking vendor is unable to provide you with a detailed understanding of the future process landscape as part of their offering, then you've either chosen the wrong packaged software vendor or worse, you've chosen a services vendor who will build something specific for you. Identifying the processes that create value for both customers and shareholders allows you to focus your efforts on driving the maximum benefit from your transformation efforts. Many value creating processes are cross-functional in nature and as such require consistent application across the organisation. If this cannot be easily understood and measured, then your attempts to bring about the improvements you seek as part of your core banking implementation will at best be misunderstood and at worst, resisted.

### Do consider the following:

- What does your process landscape look like currently and what will it look like in the future; which areas you already know need improvement and how can you achieve it? Don't assume your current business processes are fine. Remember – a bad process in your current environment will remain a bad process in the new environment – it may be more automated, but it's still a bad process. How interdependent are your processes and what level of reuse do you get from your current and future core banking solution?
- What does your organisational structure look like at present and, importantly, what changes will occur during a core banking implementation? Will everything remain the same, or be different?
- Who is positioned to gain from the change – your customers, your staff, your shareholders? Has this been given adequate consideration?

## Step 2 | Adopt not adapt!

The traditional route has been for banks to take a packaged system and then systematically customize it to fit its in-house processes, without contemplating whether those processes are still the most effective. Invariably the result has been that the new system never quite delivers on its early promise. And how can it, when it has been changed beyond all recognition? Our belief is that banks embarking on a packaged core banking system implementation should fully embrace the packaged concept they are buying-in to, and adopt the system accordingly within their organisation. In many cases, this will mean reviewing current business processes, and adapting them to the new system, rather than the other way around. ADOPT, NOT ADAPT – should be the mantra for anyone wanting to get the most out of their investment in a packaged core banking application.

## Step 3 | Strike the right balance

The essential message of business process management and its alignment with core banking implementations is as follows: 'We design, manage and reward our organisations by functional performance, yet we deliver value to customers and stakeholders via cross-functional processes.' Put simply, features and functions are great but if you don't understand the role they play in the end-to-end-process, you will never gain the full benefits and potential to be obtained from a packaged core banking solution. Getting the right balance between functional management and process delivery is at the heart of every improvement in organisational performance.

Analyzing your current situation to understand your key performance indicators (KPIs) and pain points – caused either by your processes or your incumbent banking system – is crucial to understanding where you are today, where you want to be in the future, and how to get there. The outcome of this exercise will potentially include a variety of recommendations, both system and non-system related. It is at this point that Temenos believes the 'Adopt, not Adapt' approach is pivotal to the success of a core system replacement project if you are opting for a packaged solution.

## How does Temenos help banks achieve this?

Knowing your destination is only the beginning; deciding on the best route to get there represents your biggest challenge. A map makes it easier to get from A to B, so why should your core banking replacement journey be any different. Your ultimate aim is to transform your company into a competitive animal that can not only survive but win in today's economic jungle. But it's not easy to accomplish if you are driving blind. Many traditional consulting companies can design processes and offer process consulting to banks, and they do it very well. However, at the end of the engagement, once their processes recommendations are delivered, either you, or the consulting company, needs to find a banking system that can execute them. Result – you select a banking system and immediately instigate numerous customizations to adapt it to your new requirements, contravening your original principles behind selecting a packaged system in the first place.

Temenos' experience in implementing the T24 core banking system at over 700 clients provides valuable insights for their Management Consulting and Professional Services (MCPS) team to engage with banks and other financial institutions to understand their operational business challenges and provide an effective solution in line with each organization's business strategy. The culmination of this extensive experience resulted in the creation of the Temenos Banking Reference Processes, a repository of 500 plus industry-standard banking processes, pre-aligned to T24 (role by role, activity by activity) for the rapid delivery of key banking services for all areas of banking, from Retail, to Corporate, to Private and beyond. The repository represents end-to-end processes, crossing departmental boundaries, and spread across multiple roles to deliver a banking service or transaction.

**MCPS offers a number of consulting engagements built around this repository – and a standard part of the Temenos implementation approach – focused around the following:**

### **Business process review**

Looks at existing business processes to identify current pain-points, define potential quick wins, quantify the impact that your current problems are having on your business, obtain clarity on the improvement potential and identify and justify proposed non-system changes. By focusing on the high value processes and quick wins that can bring immediate benefit to your organisation Temenos can help build a business case for a core system replacement.

### **Business process transformation**

Helps chart the path to your final destination – achievement of business and strategic objectives. Temenos evaluates, identifies and recommends the changes required to align your overall process landscape and organisation to industry-standard banking practices, highlighting the organisational and structural changes needed to extract the maximum benefit from a new system.

During this phase the Banking Reference Processes are used to map out standard business processes, attuned to the functionality available within T24 Model Bank. Through this approach you can be confident that the process recommendations made are both possible and available 'out-of-the-box' from Temenos' packaged core banking system with little or no customization necessary.

### **Alignment**

Aligns the outcomes of the Process Review and Transformation with T24 Model Bank. MCPS helps you to understand the impact of introducing T24 Model Bank into your organisation including changes to different roles and responsibilities as a direct result of process changes and new functionality that will be available to you within the system. Close alignment with the Banking Reference Processes, keeps customizations to a minimum, the consulting approach ensures that any modifications are fully justified from a business value perspective. By embracing an 'Adopt' approach to a T24 Model Bank implementation the project scope can be accurately forecasted and controlled. In turn this will have a positive impact on implementation deadlines, budgets, project risk and ultimately the overall success of your project.

## Conclusion

Banks and financial institutions have to make a myriad of important decisions which will be imperative to their future survival. The financial services landscape has changed beyond all recognition, and banks need to change their modus operandi to regain the trust of their customers, their partners and their shareholders. Even if your organisation has emerged relatively unscathed from the recent turmoil, you will undoubtedly be looking into how you can reduce your costs, improve your customer service and increase your market share. Now is not a time for trying out new and exotic financial products and services. It's all about getting back to basics and delivering brilliantly. But, your business may have evolved to such an extent that even this is difficult to achieve. This is why Temenos believes that you need to search for improvements in both your processes and your systems to position your organisation for survival and success. Technology by itself is not a panacea. But technology has evolved to such an extent that it can hold the key to achieving your goals – if you are willing to accept the changes that you will need to make to get there. Temenos wants to help banks to get the most out their core banking systems, and their Management Consulting and Professional Services team is there to help you do just that.



## About Temenos

Founded in 1993 and listed on the Swiss Stock Exchange (SIX: TEMN), Temenos Group AG is a global provider of banking software systems in the Retail, Corporate & Correspondent, Universal, Private, Islamic and Microfinance & Community banking markets. Headquartered in Geneva with 57 offices worldwide, Temenos serves over 1200 customers in more than 125 countries. Temenos' software products provide advanced technology and rich functionality, incorporating best practice processes that leverage Temenos' experience in over 600 implementations around the globe. Temenos' advanced and automated implementation approach, provided by its strong Management Consulting and Professional Services organisation, ensures efficient and low-risk core banking platform migrations. Temenos is top of the IBS Sales League Table 2009, winner every year since its launch of the Best Core Banking Product in Banking Technology magazine's Readers' Choice Awards and ranks 26th in the American Banker top 100 FinTech companies. Temenos customers are proven to be more profitable than their peers: data from The Banker – top 1000 banks shows that Temenos' customers enjoy a 54% higher return on assets, a 62% higher return on capital and a cost/income ratio that is 7.2 points lower than non-Temenos customers.

For more information please visit [www.temenos.com](http://www.temenos.com)