The Bank of 20XX

Temenos Opinion Piece

> Designing the bank of the future
>
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TEMENOS
The Banking Software Company

What would a bank look like if i were to design it now?

Ever since cash dispensers became automated teller machines (ATMs) pundits have regularly said that the large retail banks are going to have to change their core systems or they will lose their customers.

It started with the ATMs because they broke many banks' assumption that their customers transacted all their bank business in their own branch. This only got worse when electronic point of sale (ePOS) got added into the ATM architecture. Then, when mini-computers and PCs took over from mainframes in the early '90s, the pundits said now the banks would have to abandon their out-dated core systems for cheaper alternatives. Next up was the internet, which made it even more obvious that bank customers didn't want to go to the branch but rather wanted the bank to come to them. This was surely going to kill off the mainframe core banking systems. Finally, along came mobile. One large bank told me that it took ten years for the internet bank to overtake the branch – the mobile bank did it in a year. This was confidently predicted to kill off the mainframes about five years ago.

So I am not going to predict the death ('certain death' as the CEO of BBVA puts it) of the mainframe core banking systems. Rather I am going to describe what a bank would look like if I were to design it now. The table below summarises the bank of the future (or 20XX) and compares it with the characteristics of the large retail banks today.

First up, my new bank would focus on providing high levels of customer care. It would be at least as good as Amazon. Every interaction with the bank would be remembered and used to add value to the customer's financial transactions. All services would be available on all appropriate channels 24 hours a day, 7 days a week. By contrast, today's big banks are accounting focused; in fact their systems are called branch accounting systems. This is why there is so little differentiation among the large banks and why in the UK, for instance, there is enormous consolidation of banking.

Next, my bank would assume extremely low margins, so all services would be have their full costs allocated and charged to the customer at a small profit. No pretence of free banking.

Thirdly, my bank would assume that it will get thousands more enquiries than actual financial transactions. Today's banks a built for a 'look to book' ratio of 5 to 1, mine would assume 5000 to 1, as is the case for online travel and capital markets.

Today's large core banking systems stop for the night. They close up after 6pm and wait for the overnight batch accounting run to complete before starting the next morning at 8am. My bank would do everything in real time. You should be able to take £100 out of the ATM at midnight and see the transaction on your mobile as you walk away.

The bank I would build would assume that the customer wants the bank to come to them for all transactions. This would be for paying in shops, paying online, paying friends and family, international payments, getting cash, getting foreign exchange and depositing funds. There would be no need ever to come to a branch to do business, but I would have some high street presence for those customers that want to talk to someone face to face.

Not only is my bank real time, but there are no batches. All processes are same day and straight through. When I opened a mortgage in the US with a large bank in 2000, it took six months for the bank to get the mortgage onto its own online banking system as all the different month end batches completed. This is too expensive, too error prone and too slow for the customer.

I wouldn't build a data centre for my bank. Rather I would rent the hardware and software online using infrastructure as a service for my front office and software as a service for my core banking.

Bank of 2014	Bank of 20XX
Account focused	Customer focused
High margin	Low margin
High volume of transactions	Enormous volume of inquiries
Batch oriented	Real time
High street retailer	Online retailer
Teller transactions	Self-assisted transactions
Batch processing	Straight through processing
Own data centre	Shared infrastructure
Front to back software	Separate front middle back
Makes money on float	Makes money on spread

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This is what even large banks do today for credit card processing, but not for core banking. By sharing the core banking, which is a commodity to my customers, with hundreds of others, the cost can come down to less than 10p per account per month – about 100 times cheaper than an in-house mainframe. I also only have to pay for the processing I need by using the elastic provisioning of these services. This saves a fortune, particularly if I still run close-of-business interest capitalisation.

I would treat my customers fairly and only make money by charging a fair uplift on costs. I would never hold the customer's money to take advantage of legacy payment schemes that take one, three or five days to clear funds.

To sum up, the bank of the future has the four features shown in the table to the right. The bank provides high levels of customer care, like Amazon. It can sustain a very high level of data access even though it is only the updates that make money. It runs at very low margins and passes these on to the customers. Finally, it does everything in real time, as its customers expect.

Whether today's large banks can do this with their existing core systems I leave to you to decide.

Future bank: 4 key features

High customer care	Mass relationship management
High volumes	Internet of things
Low margins	No interchange, no value dating, low interest rate
Real time	Straight through

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About Temenos

Founded in 1993 and listed on the Swiss Stock Exchange (SIX: TEMN), Temenos Group AG is the market leading provider of banking software systems to retail, corporate, universal, private, Islamic, microfinance and community banks, wealth managers, and other financial institutions. Headquartered in Geneva with 56 offices worldwide, Temenos software is proven in over 1,600 customer deployments in more than 150 countries across the world.

Temenos' products provide advanced technology and rich functionality, incorporating best practice processes that leverage Temenos' expertise around the globe. Temenos customers are proven to be more profitable than their peers: in the period 2008-2012, Temenos customers enjoyed on average a 32% higher return on assets, a 42% higher return on equity and an 8.1% lower cost/income ratio than banks running legacy applications

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