

Core banking platforms Deloitte's view on the market



Agenda

Market drivers

Our hypothesis

Implications

Core banking market drivers

Macro-economic forces

- Return to profit
- Globalisation

Changing customer demands

- Slow time to market for products
- Incomplete view of customers

Increased competition

- New entrants
- Foreign banks

Regulatory changes

- Regulatory compliance and reporting
- Recovery and resolution plans

Operational effectiveness

- Fragmented, manual processes
- Operational risk

Impact of legacy technology

- Complex and ageing technology
- Siloed data and product systems

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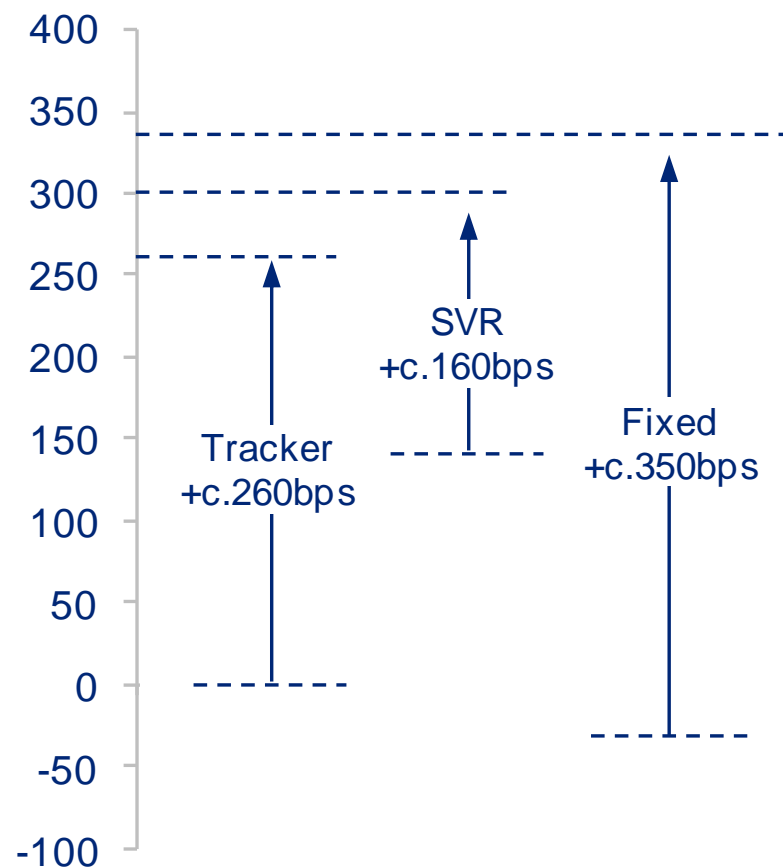
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Change in mortgage rates over long term average



Mortgage rates are weighted average quoted rates over average 3 month LIBOR

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Consumer perception has fundamentally changed

- The vast majority of consumers (c.70%) are more aware of their finances than they were two years ago

Safety of banks is of utmost importance

- 6 out of 10 consumers are much more concerned about how safe their bank is than they were two years ago

Service is back in the spotlight

- More than 65% of people have become more concerned about the way their bank treats its customers, with more than 20% moving a banking relationship due to this dissatisfaction

“Non traditional” banks are appealing

- 25% of people are likely to move their relationship to a new bank which does not behave like a traditional bank – either based on fees, service, ethics, management pay, etc.

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Headcount Reduction Cases

	Case 1	Case 2
Branch Counter Service	20%	19%
Branch Back Office	30%	20%
Relationship Management	4%	31%
Customer Service Management	30%	5%
Cash Handling	5%	7%
Central Lending Operations	26%	11%
IT Operations	15%	13%
	18%	14%

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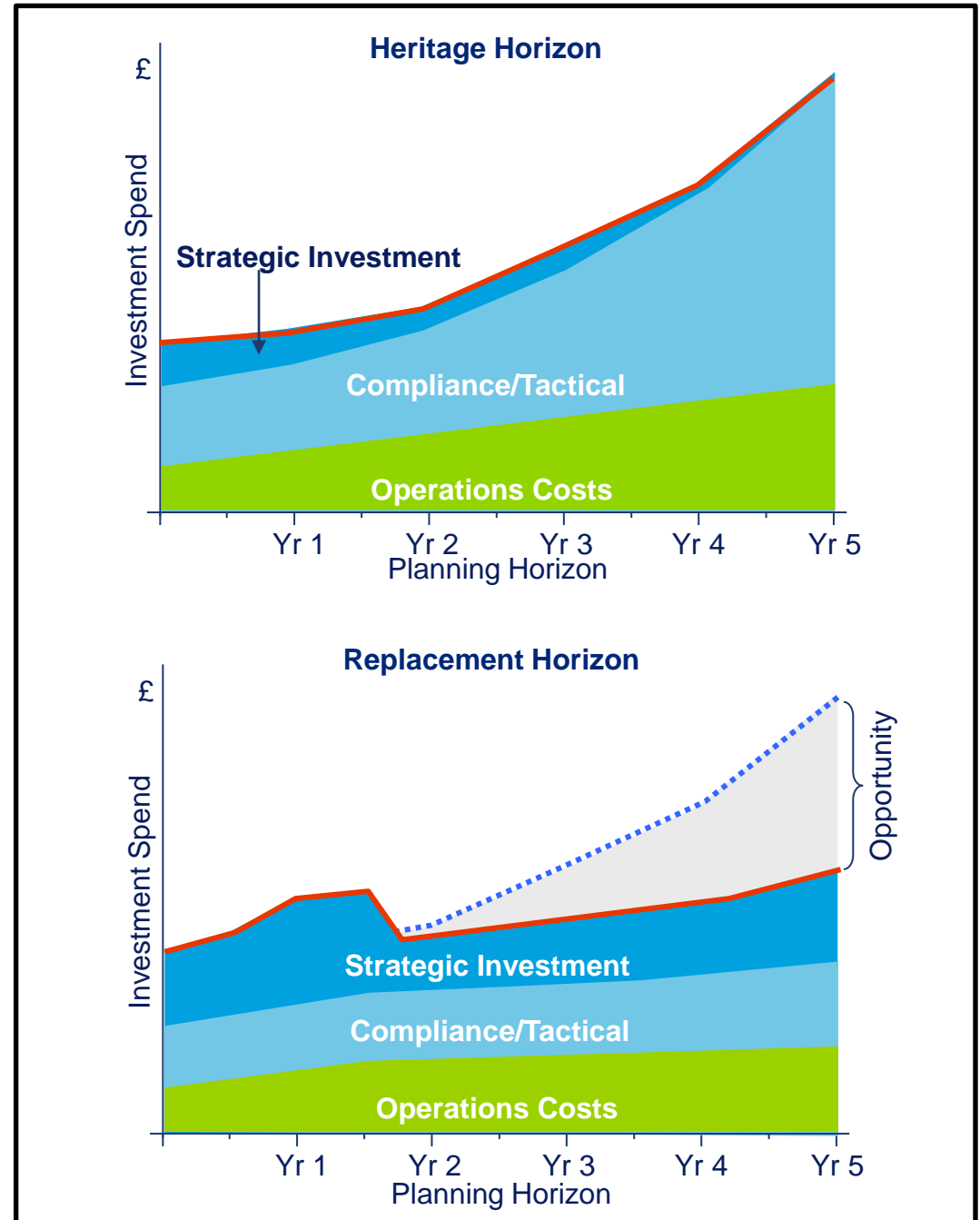
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Past incremental investment in IT is the banking industry's greatest competitive weakness, locking in cost, creating complexity and inhibiting responsiveness to the market.

Only through Core Systems Transformation can new banks enter or existing banks achieve the necessary break through transition to operate efficiently and compete effectively.

Implications – market segments

New entrants

- Looking for a “bank in a box” with minimal capital investment, customised to the local market

Global transaction banks

- Aiming for single instance, multi-entity platform implementations covering corporate banking in multiple markets

Large domestic banks

- Need highly scalable platform customised for the local market
- Infrequent but very large opportunities

Large, complex banks

- Incremental/progressive replacement of existing platforms
- Banking platform vendors compete with specialists

Branches in key markets

- Looking for a single platform suitable for all major markets (London, US, Japan, Russia, China, etc.)
- Decisions tend to be made by HQ

Banks in developing markets

- The most active market for most core banking vendors
- Challenge is to offer local customisation



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