Core banking platforms
Deloitte’s view on the market

Tim Walker
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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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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 then 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**

<table>
<thead>
<tr>
<th></th>
<th>Case 1</th>
<th>Case 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch Counter Service</td>
<td>20%</td>
<td>19%</td>
</tr>
<tr>
<td>Branch Back Office</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>Relationship Management</td>
<td>4%</td>
<td>31%</td>
</tr>
<tr>
<td>Customer Service Management</td>
<td>30%</td>
<td>5%</td>
</tr>
<tr>
<td>Cash Handling</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Central Lending Operations</td>
<td>26%</td>
<td>11%</td>
</tr>
<tr>
<td>IT Operations</td>
<td>15%</td>
<td>13%</td>
</tr>
</tbody>
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![Graph showing investment spend over planning horizons](image)
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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

<table>
<thead>
<tr>
<th>New entrants</th>
<th>• Looking for a “bank in a box” with minimal capital investment, customised to the local market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global transaction banks</td>
<td>• Aiming for single instance, multi-entity platform implementations covering corporate banking in multiple markets</td>
</tr>
</tbody>
</table>
| 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 |