TEMENOS

THE BANKING SOFTWARE COMPANY

The Future of Retail Banking and the Case for Core Transformation

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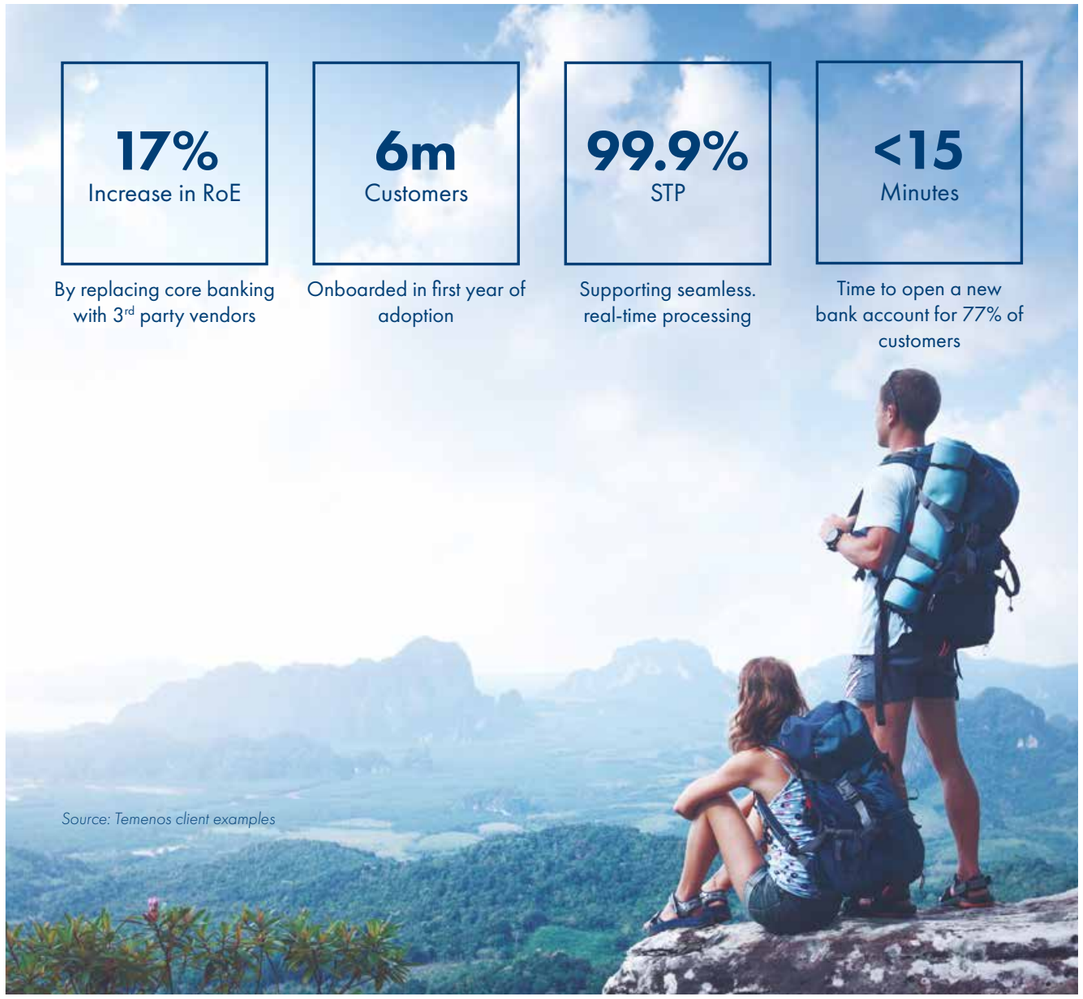
Introduction

This paper argues that the widespread uptake of disruptive new technologies is exacerbating the pressures facing retail banking today, thereby driving a fundamental change in the structure of the industry i.e. digital-driven disintermediation of the banking value chain. Most European banks are not equipped for this change because of the limitations of their aging legacy systems. Although banks have been investing in digital propositions in the front-end, they have been reluctant to embark on core systems replacement. At Temenos, we believe that true digital transformation requires developing a coherent front-to-back proposition, built on a future-proof, modern core banking platform rather than on a complex web of legacy applications. Without a modern core, it is not possible to fulfill the emerging needs of the industry and to meet the heavy regulatory burden in an affordable way. The good news is that core banking transformations can now be executed easily and with acceptable levels of risk, because of the sophistication of packaged software now available and the lessons learnt and proven benefits delivered from successful transformations all over the world.



Source: Temenos client examples

The Technology Mega-Trends in Retail Banking

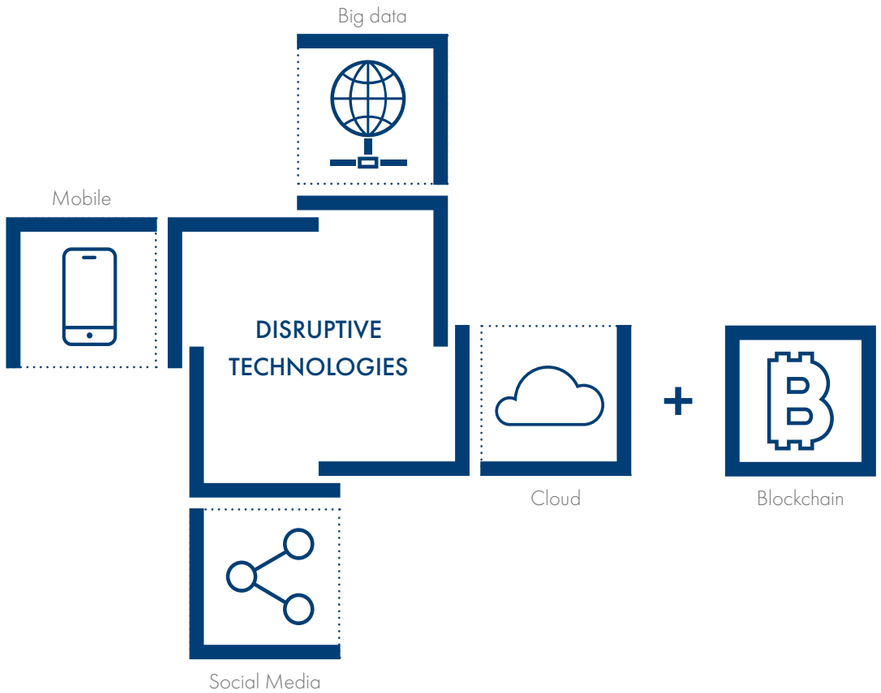
Today, a nexus of four disruptive technologies – mobile, big data, cloud and social media - is becoming omnipresent in retail banking. Blockchain, the distributed transaction validation model behind digital currencies, is another technology likely to significantly impact banking, especially payments, in the future.

Mobile

With only 30% of accounts globally opened in a branch compared to 70%[1] digitally (online or mobile) in 2013, branch significance as the primary banking channel has already been greatly reduced. Of the digital channels, mobile is fast becoming the largest banking channel by number of transactions. For example, Swedbank in the digitally advanced Nordics, says customers access its mobile banking app 24 times a month, compared to 9 visits per month to its online bank on average. Even in the UK, mobile apps were used 10.5 million times a day across the country in March this year, eclipsing the 9.6 million daily log-ins to internet banking services for the first time[2].

Big Data

A bank's ability to curate, manage and leverage big data, namely the vast stores of structured and unstructured information from within the bank, as well as from exogenous sources like social media sites, partners, suppliers and customers, will be a key differentiator. The value of big data to the retail banking industry is estimated at more than £6 billion over the next five years[3]. Banks are increasingly investing in this area – global IT spend on big data and analytics is expected to rise by 50% between 2015 and 2019, with the financial services industry poised to spend the most[4].



1) Source: Google Financial Services Team 2013
2) British Bankers' Association
3) Banking Technology
4) IDC Worldwide Semiannual Big Data and Analytics Spending guide

Cloud

Regulators and policy-makers in Europe are starting to endorse cloud-based banking services, while becoming less concerned about security and data privacy. For example, the UK's Financial Conduct Authority has recently proposed new guidance on cloud outsourcing, paving the way for banks and other financial services companies to take advantage of cloud computing services, so long as "appropriate safeguards" are in place. It says, "Cloud services can facilitate competition and increase the ability of financial services providers to renew their IT systems more efficiently. Improved choice and innovation should deliver commensurate benefits for banks and consumers." At Temenos, we expect that by 2020, all new core banking initiatives will be on the cloud.

Social Media

One in three of the world's population is already an active social media user[5]. This is growing at 10% year-on-year. Apart from its emerging use as a digital channel in developing economies with young populations, like Turkey or Africa, social media provides banks with contextual awareness of their customers' preferences and feedback on their products and services. It can be a powerful tool in the hands of demanding customers. Consider the case of the 22 year old nanny, Molly Katchpole in the US, who overturned Bank of America's decision to charge $5 per month on debit cards in the US, by launching a Facebook campaign gaining over 300,000 signatures in just a few weeks.

Blockchain

Deloitte predicts that private, permissioned blockchain-based payment systems will gain significant transaction volumes by 2020 and an uber-industry utility for real-time settlements could become a reality by 2025. Blockchain is expected to impact payment processing by reducing the need for intermediaries and forcing banks to re-examine their role in the payments eco-system. By enabling banks to use a mutually shared infrastructure, some industry experts predict that Blockchain could reduce banks' infrastructure costs by $15-20 billion a year by 2022[6].

5) Forrester Research
6) The FinTech 2.0 Paper by Santander Innoventures, Oliver Wyman and The Anthemis Group

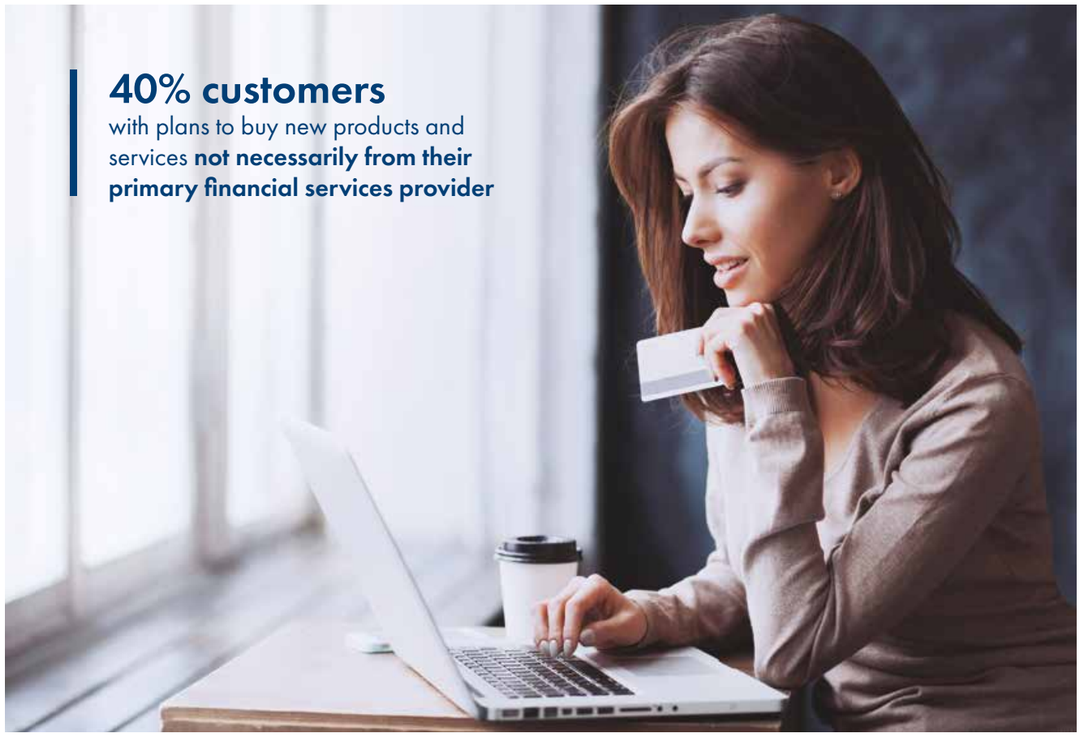
Increasing Pressures on the Retail Banking Industry

The widespread uptake of these technologies, taken together, is exacerbating the pressures facing the retail banking industry – demanding customers, rise of new competitors and increasing levels of regulation. This is happening while the industry continues to face tough market conditions that are not likely to ease in the foreseeable future.

Demanding Customers

The consumerization of IT, a term which refers to the ease of use and ubiquity of access of everyday products and services for the end-user, implies that the consumer or employee now expects banking products and services anytime, anywhere, on any device. The bank of tomorrow is not a place customers are likely to go to; instead, the bank must go to customers, wherever they are. The traditional customer journey across a bank is no longer a sequence of awareness, interest, desire and action, but has morphed into a non-linear, individual, spontaneous and unpredictable process, where customers go back and forth in any sequence across any number of bank-owned channels, as well as external portals. Banks need to be ready to engage at each customer touchpoint.

Retail customers are using the disruptive technologies to demand more convenience, greater relevance and higher responsiveness from their banks. They are no longer afraid to go to alternative providers of banking products and services for a better quality of user experience and better value for money. 40% of consumers surveyed in 2014[7] said they had plans to buy new products and services not necessarily from their primary financial services provider. In another survey, 11% of customers in developed markets and 20-30% in developing markets said they would switch banks for a better service[8].



7) Ernst and Young Global Consumer Banking Survey 2014
8) RFI Group - The Financial Brand – A survey of 40,000 consumers in 21 markets

Rise of New Competitors

A new crop of non-traditional companies is entering the retail banking market, leveraging the disruptive technologies to provide customers easier access, greater affordability and superior service. These are all agile, consumer-oriented and technology-intensive organizations, whether they be Fintech start-ups, retailers or technology providers. Such companies are competing directly with mainstream banks to cherry-pick the most profitable segments of the banking value chain, such as mobile payments, or to disintermediate banks entirely, as in peer-to-peer forex and lending.

Whilst many of these organisations are in their infancy, others are already taking significant chunks out of the traditional banking business. The US-based mobile payments app provider, Square, processes $23billion transactions per annum. The China-based WeChatPay, the instant messaging platform for online and peer-to-peer payments, is now attached to 300 million payment cards. Earlier this year, the company claimed it now processes $550 billion of payments annually, twice as much as PayPal.

Banks are especially aware of the technology giants who are starting to enter financial services, as they bring massive distribution platforms and high quality data to the table. Apple Pay, launched in the US 18 months ago, is now available in six countries. BBVA's CEO said nearly three years ago, "If banks are not prepared for new competitors like Google, Facebook and Amazon, they face certain death."

> **If banks are not prepared for new competitors like Google, Facebook and Amazon, they face certain death.**
>
> (BBVA's CEO)

Regulatory Burden

Ever since the credit crisis, banks are under ever-increasing scrutiny from local and global regulators, governments and credit agencies, while facing ever-increasing levels of regulation. These range from more rigorous financial reporting and risk management practices such as Basel III, MiFiD and Dodd-Frank, to a fundamental re-structuring of the banking operating model such as PSD2[9], which prescribes the opening of account information to third parties, such as payment initiation providers or aggregators of customer payment account information. The intent is to create a level playing field for new entrants, thereby increasing competition.

Regulatory compliance can be a significant drain on a bank's investment budget. For example, Barclays recently said that compliance programmes currently take up 40% of their annual IT investment spend, leaving little for strategic initiatives. Moreover, regulation also imposes greater capital requirements that can undermine a retail bank's ability to lend and increase the costs of maintaining deposits. The Basel Committee on Banking Supervision has recently imposed new rules to standardise the way banks assess operational risk, including the potential impact of system failures. As a result, banks using internal models that make them appear less risky face higher capital risk requirements.

Market Conditions

Post-2008, the industry has struggled with historically low interest rates and margins caused by prolonged recessionary conditions, the debt crisis and increased market volatility across the globe. McKinsey predicts that margins will continue to fall through 2020, and the rate of decline may even accelerate. This is reflected in the drastic drop in average returns on equity since 2008, from above 20% to below 10% for the industry. In 2015, nearly two-thirds of developed market banks and a third of those in emerging markets earned a return on equity below their cost of equity, and were valued below their book value[10].

The situation is not helped by price pressures exerted by the new entrants. In Europe, traditional banks have average cost-income ratios of 50-60%, whereas the new digital-only banks are aiming for 30%. The cost models of potential entrants into financial services from the technology world such as Google, Apple and PayPal, are orders of magnitude cheaper than those of traditional banks.

9) Revised Payments Services Directive
10) McKinsey Global Banking Review

Structural Change - Disintermediation of the Retail Banking Value Chain

The widespread consumption of digital banking services by technologically savvy, less loyal customers and the rise of non-traditional players, combined with the high costs of operation of incumbent banks, will eventually lead to removal of end-to-end manufacture and distributions of products and services in a bank entirely. Anthony Jenkins, the former CEO of Barclays, recently said, "Large banks will fragment as they seek to protect the profitable parts of their operations."

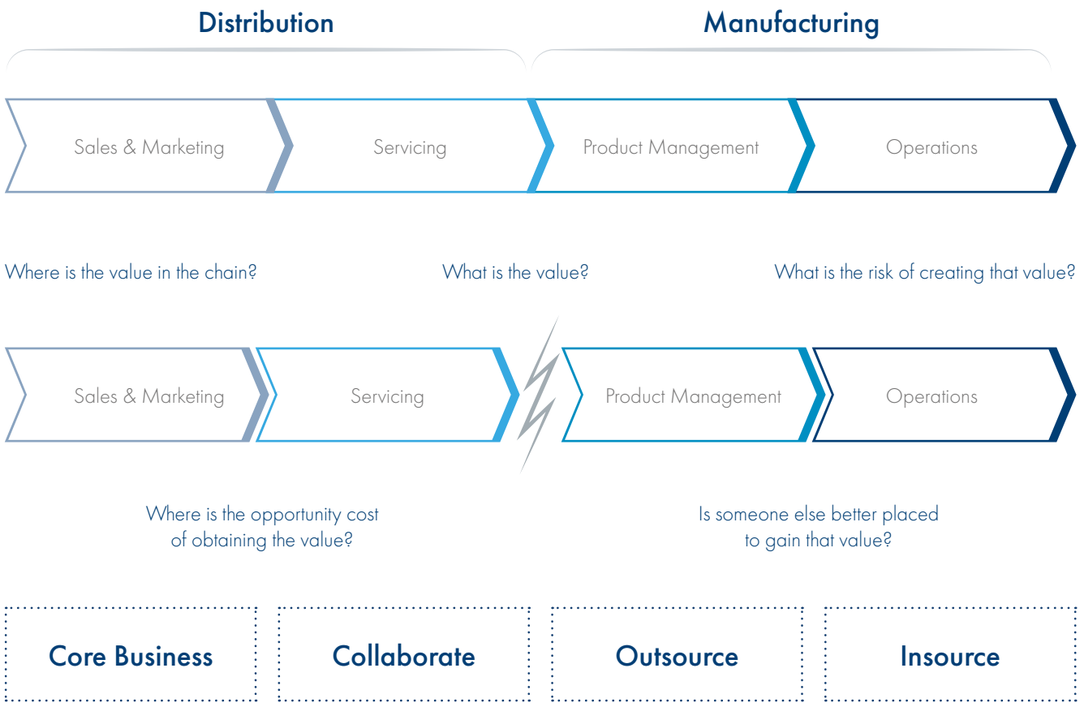


Figure 1: Disintermediation of retail banking value chain.

Banks will need to assess which elements of their value chain truly add value to the end customer and which do not, how much value is created, what are the associated risks and costs and what are the opportunity costs of divestment. Accordingly, banks may decide to focus on certain processes themselves, may consider outsourcing and other innovative partnership models for sections of their value chain or may in-source certain business from other banks, leveraging economies of scale and leading to the rise of new utility models in the industry.

The banking value chain of the future, comprising value elements and utility elements, will entail a move from competition to collaboration with other players in the eco-system and from using proprietary technologies to adopting open standards. White-labelling products of non-traditional players or even other banks will become more commonplace, creating banking marketplaces offering products from multiple providers. Already, for example, Santander and RBS are partnering with Funding Circle for lending to SME customers.

The Retail Banking Model of the Future

Incumbent banks still possess an enormous competitive advantage over non-traditional entrants. Their scale, connectivity, assets and special role as custodians of consumers' financial information puts retail banks in a prime position to capture the market of the future.

Being regulated means implicit state support in the shape of insured deposits and access to central bank funding, resulting in lower costs of liquidity and raised barriers to entry. Historically, this has led to increased trust between the bank and the customer. The very public challenges to banks' reputations recently, such as large-scale fraud and the banking bail-outs, have done little to reduce this trust. In a recent survey[11], 86% of banking customers in North America said they trusted banks and financial services institutions to securely manage their data more than providers of mobile phone services, social media or consumer technology.

The opportunity presented by a disruptive move into the digital and disintermediated world of banking will, however, require banks to fundamentally restructure their business model, acquiring new competencies as well as improving their ability to execute. This section describes the full-service retail banking model of the future.

11) "Banking Shaped by the Customer" Accenture Consumer Digital Banking Survey 2015

The new business model will need to balance between customer-driven differentiation in the front-office and efficiency-driven standardisation in the back-office. Both the front-office and back-office will be driven by the mining and analysis of data, the former to digitally augment and personalize the customer experience and the latter to reduce operational costs and risks.

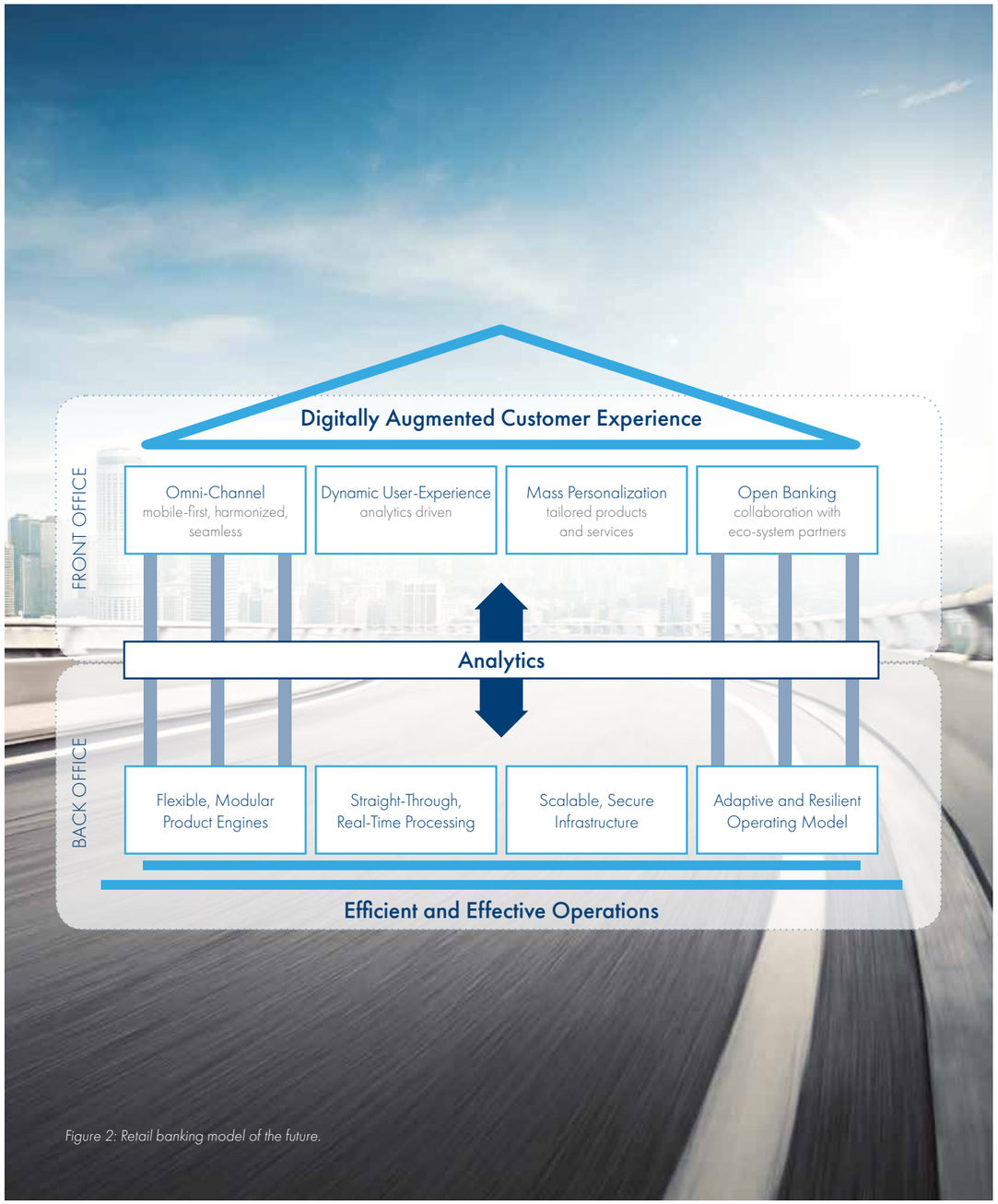


Figure 2: Retail banking model of the future.

The front-office will focus on providing a digitally augmented customer experience that differentiates the bank from competition. It will have the following characteristics:

Omni-channel

While the majority of banking services will be provided digitally i.e., self-service via mobile, banks will still need to support multiple channels, including digital and assisted and both bank-owned and external i.e., those that are not under the control of the bank such as social media sites, comparison sites and partner portals. These channels must provide a completely consistent customer experience and must share intelligent information in real-time, so that transactions initiated in one channel can seamlessly continue in another. Metro Bank, the first new bank in the UK in 100 years, started with a distinctive in-branch proposition, where customers could open accounts in 15 minutes. The optimal and intuitive experience in the branches has now been extended online.

Dynamic User Experience

A 360 degree view of the customer using bank data across product lines and channels, as well as external data such as social media using real-time analytics, will help generate new insights on customer behaviour, preferences, spending habits and propensity to buy. These, in turn, will be used to change the user experience dynamically, to enhance that experience with gamification techniques, such as nudging customers towards their financial goals, or to provide a personalized and holistic experience through prospecting, campaigns, sales origination and servicing in real-time. Any change in the user interaction, whether by the interface or the workflow, will need to flow seamlessly across devices, channels and products. Equitable Bank in Canada recently launched EQ bank with Deloitte Digital to provide a dynamic mobile-only onboarding experience for its customers.

Mass Personalization

Banks will offer customers their own personalized set of products and services, designed and priced based on a 360 lifetime view of the customer and offered via a self-service menu of mix-and-match options. Value-added lifestyle services, in addition to basic banking products, will be a differentiator. Examples include enhanced personal finance management to enable customers to gain insights into the spending and savings habits of their peers, or location-based discount offers in select retail outlets such as loyalty rewards

Offering products and services proactively is another aspect of personalization. Vancouver based Blueshore Financial has recently transformed from a community credit union to a sophisticated, technologically innovative financial boutique, using predictive analytics to offer proactive, personalized advice through its state-of-the-art "Financial Spa" branches. Bank of America is using transaction and propensity models to predict which customers are suitable for re-financing in order to make them the right offer, at the right time, through the right channel.

Open Banking

PSD2 will require banks to open their architecture to third party providers through the use of Application Program Interfaces (APIs), so they can share account information and be able to white-label and bundle products from third party providers, such as Fintechs with niche offerings. This ability to collaborate with multiple partners, flexibly and seamlessly, will be key, given the fluidity of the retail banking value chain of the future. In the mass affluent segment, digital banks like Credit Agricole's BforBank have already been offering customers third party investment funds in addition to their own.

Nordea

As an important step in the development of more personalized and convenient services to customers in the future, Nordea embarked on the implementation of a new Core Banking Platform (CBP) in late 2015. Digitization and the rapid change in customers' preferences towards using online and mobile solutions as well as the need for improved resilience and efficiency, have driven this decision.

The new Core Banking Platform comprising loans, deposits and transaction accounts across four Nordic countries, is a key part of Nordea's Simplification Program aimed at harmonizing products and processes in order to meet the needs of the bank's 11 million customers going forward. 65-90% of products are being eliminated as Nordea strive to minimize local variations across the four countries.

CBP is being implemented using a solution from Temenos, while Accenture has been selected to provide the integration and implementation support. The migration to the new platform is being done gradually across all product lines over the coming four to five years, starting with a pilot involving a mobile savings product in Finland that was delivered on time and budget in mid-2016.

In order to ensure success, Nordea's CBP Program is sponsored by the Board and has been given the highest priority after critical compliance. All countries are involved in each phase, and customer-facing staff are rotated actively between the program and their day jobs in the business, in order to build momentum across the bank. Finally, Nordea is adopting the Model Bank approach of minimizing customization and using standard processes wherever possible.

The back-office will need to focus on efficient and effective operations. It will have the following characteristics:

Flexible, Modular Product Engines

Modern product architectures with re-usable product features, product hierarchies and relationship pricing, will allow banks to offer customer-centric, innovative feature-rich products that are quick to create and easy to maintain. Nordea is an example of a bank striving to provide "segment-of-one" products, built using thousands of combinations of a few core attributes by using a fully flexible, modular product engine, which allows quick product creation through configuration. Speed to market in launching products in the back-office will enable test launches based on real-time customer feedback, targeted time-bound promotions and introductory offers in the front-office.

Scalable, Secure Infrastructure

The bank's operations and IT infrastructure must be able to handle the proliferation of customer interactions engendered by digitization. The projected increase in the look to book ratio from 5:1 to 1000:1[12] means that the core banking software needs to service queries as well as process transactions optimally. Scaling to demand at peak processing times will be an essential requirement, as well as resilience in terms of 99.99958%[13] uptime and in-built security controls against cyber-threats. Commercial Bank of Africa's partnership in Kenya with Safaricom, M-Shwari is an example of a bank that built a 100% mobile, 100% STP platform, which allowed it to onboard 1 million under-banked customers in the first 40 days and six million in the first year of launch.

Straight-Through, Real-Time Processing

In order for banks to support digital customer journeys end-to-end from prospecting and from order fulfilment to servicing, they will need straight-through processing all the way from the front-office to the back-office. Swissquote, the Switzerland-based online financial services provider, offers 99.9% straight-through processing (STP) of its banking, asset management, trading and FX products. The 24x7 banking needs of today's always-on customers can only be catered to by real-time core processing engines. Seamless, real-time processing will enable banks to fulfil customer expectations around speed and responsiveness, as well as improve back-office productivity and reduce IT costs.

Adaptive and Resilient Operating Model

The operating model of the future will have in-built mechanisms for self-monitoring of interactions and transactions in real-time. This will be beneficial for both internal systems and processes as well as for tracking the performance of external service providers (e.g., third party web services, bill payment providers, managed hosting providers, EFT[14] and inter-bank connections) so as to trace the source of issues and problems well before they arise. It implies looking beyond simple indicators like up-time to metrics like response times, usage patterns and failed transactions, in order to identify underlying issues across the bank's processes.

12) Expected increase based on Temenos client feedback on projected mobile channel adoption as well as PSD2 consequences; the airline industry has already achieved 1000:1 due to digital adoption
13) Temenos average uptime across its core banking customer base
14) Electronic Funds Transfer

Implications on the Operating Model and IT Architecture

Retail banks will need to replace their product-siloed organization structures, processes and go-to-market propositions with a more customer-centric operating model that is simpler, leaner, more flexible and able to quickly adapt to changing market and regulatory requirements.

IT systems will need to reflect this. Banks' IT departments will have to change from their traditional roles as in-house software producers, to orchestrators of standard rather than proprietary software, focused on building a robust, flexible architecture of the future, able to utilize solutions and partnerships that deliver this in a cost-effective way. The aim is to achieve easy opt-in and opt-out of products, services and business lines, ease of acquisition and divestiture, and a decoupling of the front-office from the back-office so there is no duplication of functionality across them i.e., product-based business logic is not hard-wired into channels.

The important consideration is that the orchestration and development of banking services is agnostic of where they are consumed. Such a front-to-back integrated as well as modular IT architecture will allow maximum flexibility and re-usability, while also lowering the cost of operations so investment can be diverted to digital innovation and competitive differentiation.

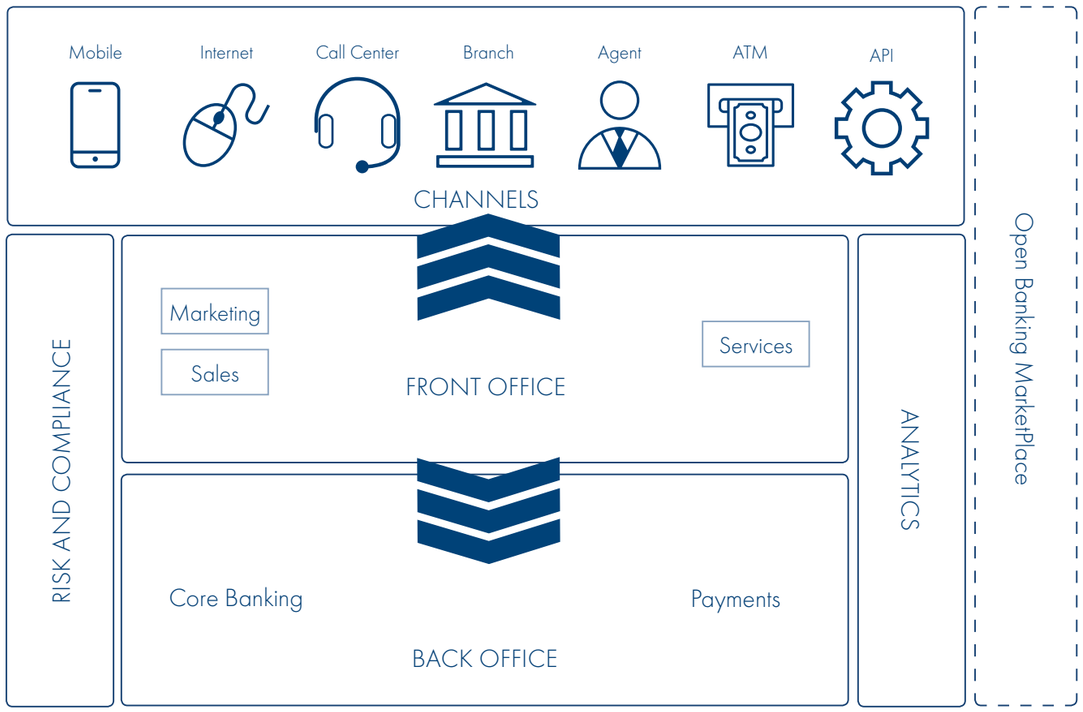


Figure 3: Modern front to back integrated retail banking architecture.

The Current Reality

The vast majority of established banks, particularly in Europe, have complex and fragmented legacy IT architecture pre-dating the digital era that is inflexible and expensive to run and maintain. For some, a history of mergers and acquisitions has resulted in multiple, overlapping legacy systems across their business lines and countries of operation.

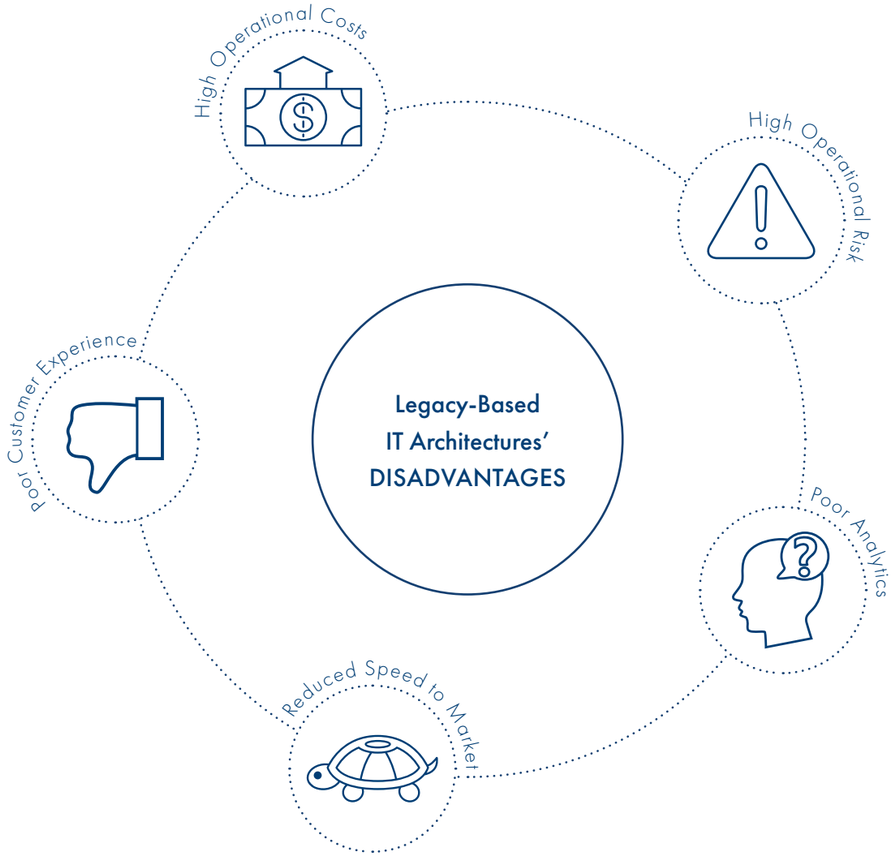
Core banking systems designed 30+ years ago were originally batch accounting systems, designed to maintain end-of-day positions when bank branches opened during business hours only. The memo post systems that evolved later for same-day posting provided customers and bank employees with intra-day balance information. However, these memo systems did not track full information or trace to source e.g., provide a single view of the customer across all products, track orders before they became transactions, or service customer requests to drill into transaction detail straight through.

The advent of always-on, anytime, anywhere internet and mobile banking, the consequent dramatic increase in the look-to-book ratio and the requirement for instant processing of payments rendered these legacy systems woefully inadequate. Banks responded to the changing needs of the digital world by adding new niche applications and interfaces around the legacy, to provide a near real-time experience for customers.

The resulting legacy-based complex IT architecture is not fit-for-purpose in today's world. Behind the ATMs, mobile apps and tellers, transactions continue to queue up behind others to be processed at a later time, with the temporary memo posts trying to hide this from the customer until the batch process completes. Worse, product-based banking services hard-wired into channels make it prohibitively expensive and time-consuming to reflect a change in product through all channels.

The Case for Core Transformation

Legacy-based IT architectures have several disadvantages, reducing the bank's ability to compete in today's world.



High Operational Costs

Banks spend on average 11%[15] of their revenues on IT, a percentage much higher than other industries which have already industrialized their processes with the help of modern off-the-shelf commercial software. Moreover, only 30%[16] of banks' IT spend is on growth and innovation; the rest is on business-as-usual, coping with the legacy spaghetti. The costs are higher due to manual processes and greater integration and maintenance efforts. Peak usage during the batch process results in high infrastructure costs, in contrast to modern real-time systems that smooth out usage patterns and enhance efficiency.

High Operational Risk

Apart from the risk of technological obsolescence and skills shortages caused by running 30+ year old systems, a legacy landscape with manual hand-offs and re-keying of information in different systems increases the risk of processing errors. Multiple interfaces introduce multiple points of failure. There have been several instances of high-profile outages with associated reputational damage recently. In 2012, a glitch in the legacy batch process scheduler at RBS resulted in 12 million customers being denied access to their accounts for more than a week. They were unable to make online or card payments of essential bills, resulting in changes to credit ratings in some cases, for which the bank was subsequently held accountable for.

15) BCG IT benchmark in banking 2004-2011
16) BCG IT benchmark in banking 2004-2011

Poor Customer Experience

Legacy spaghetti behind a modern, digital front-end can imply manual hand-offs in an end-to-end banking process. A customer journey that begins digitally and switches to manual at a later stage of the process, say in a mortgage application, will frustrate customers that are expecting an Amazon-style, seamless service from their banks. It also makes it almost impossible for banks to provide customers with accurate updates on the status of their query or application as the transaction moves from the front-office to the back-office. Batch processing in legacy systems implies that customers are forced to wait for their transactions to clear, instead of instant processing.

Reduced Speed to Market

Of 65 senior banking executives surveyed by Ovum in Europe[17], 80% said outdated core banking systems were causing them to struggle to bring new products to market quickly, while 75% felt that existing systems do not support regulatory change. Legacy systems are typically not parameter-driven, taking months of coding and testing to launch new products or to extend the product or service range to accommodate customers' particular needs. Mainframe legacy release cycles are also too rigid and infrequent, often quarterly or half-yearly, making it difficult to respond quickly to business requirements. Google and Facebook, in contrast, have weekly release cycles. Modern packaged software providers are moving towards monthly releases and online software upgrades, making them much more responsive to the fast-moving retail banking world.

Poor Analytics

Powerful analytics driven off data from the core engines are required to understand customer needs, supply regulators with necessary data and to make key business decisions to improve performance. Extracting the data from legacy systems is often too complex and costly an exercise, resulting in banks sitting with a wealth of rich transactional information across their organizations, with no means to exploit it. They often miss business opportunities from interconnected customer relationships, say, when a retail customer works for, supplies to, or purchases from a corporate customer of the bank. Duplication of data across many product-siloed legacy systems means there are multiple versions of the truth, making it difficult to have a single view of an end-customer and holistically engage with them. A tier 1 bank, for example, embarked on a big data implementation project in 2012 to extract data from 46 mainframe-based data warehouses that over a span of 30 years, had built up 90% data duplication.

17) BCG IT benchmark in banking 2004-2011

Core Banking Transformations – Why (Not)?

Core banking platforms that support all retail transactions are critical to a bank's operation, but in the past, replacing them was sometimes likened to open-heart surgery. Historically, banks have been averse to core banking transformation because of the perceived risk and disruption to business, combined with a difficult to justify business case. Many of these concerns are no longer valid.

Software Package Maturity

Early core banking transformations were problematic because the software packages of the time were not robust enough to handle the complex needs of a bank; significant customizations were needed, integration with legacy was difficult and co-existence with legacy and other systems was necessary to provide key functionality. This greatly increased the complexity of the implementations. Business process re-design and requirements gathering were time-consuming, often needing re-doing during the transformation as business and regulatory needs changed. Resulting scope creep led to delays and overrunning costs.

Packaged software has now evolved and matured, with broader functional coverage and better technological design as vendors continue to invest heavily in innovation. Modern core banking software packages are highly parameter-driven for maximum flexibility, also featuring preconfigured and re-usable products and processes to accelerate speed to market. They are platform-independent and cloud capable, real-time 24x7, highly scalable, and have pre-built integration frameworks to seamlessly connect with other systems.

Transformation Skills

Neither the software providers, nor the system integrators, used to implement early core banking projects possessed the skills or experience to handle the attendant complexity or criticality. For example, a European bank changed programme leadership, as well as their system integrator, three times before they finally got underway, leading to a 4x increase in timelines and a 3x budget over-run. Moreover, the scope was reduced to just one product, therefore greatly decreasing the expected benefits of the programme as no legacy could be decommissioned.

There is now a wealth of transformation experience in the market, with a good number of successful core banking implementations completed across the globe. These have yielded both valuable

lessons on the do's and don'ts of managing these programmes, as well as a growing pool of trained resources across an eco-system of vendors, system integrators and the banks themselves, that are in high demand. Executive sponsorship and governance, early and regular business involvement and simplification of banking products and processes up-front are all examples of best-practices used routinely in such programmes today. The more visionary banking leaders have realized that IT is not a core part of their business, therefore outsourcing and collaborating with technology partners is the best way to achieve success.

Business Justification

Traditional waterfall models of development meant multi-year core banking transformations, structured around few and infrequent milestones, with long payback times. Often, business and IT benefits could not be realized for many years, while initial investment was heavy and often exceeded original estimates. Justifying the business case in the face of more immediate non-discretionary regulatory or customer-facing digitization projects often proved to be too big a barrier. The average tenure of CIOs at just four years[18] meant that for a CIO, taking on a multi-year programme was considered too risky from a professional standpoint.

Today, implementation methodologies have evolved. Agile approaches and cloud technology options to mitigate risk through frequent, incremental delivery and quicker time to value cause the business case to be more justifiable, while also making it easier to maintain momentum around a 'change the bank' mindset, rather than a 'run the bank' culture. Most banks complete a 'pilot' project to prove the concept before embarking on a full-blown transformation. Many follow well-tested phasing and migration approaches, aimed at minimizing business risk and accelerating decommissioning of legacy systems, using state-of-the-art automated design and testing tools.

Banks that have replaced their core banking systems with third party software have been found to have 17% better returns on equity and 6% improvement on their cost-income ratios[19]. This data can help boards of leading banks to gain confidence that core banking transformations are not only eminently do-able, but also yield proven financial benefits, if done right.

18) Gartner estimate
19) Temenos research using data from The Banker and IBS Intelligence (2008-2015)

Conclusion

At Temenos, we believe the tipping point has been reached. The banking industry is changing so dramatically, it is no longer possible for banks to stay competitive and fulfil the needs of customers with their legacy IT landscapes. Many bank executives have tended to view digital transformation too narrowly, concentrating on stand-alone front-end features such as mobile apps or online spend analysis charts. Digital innovation built on batch systems with inflexible product engines, hard-wired channels and broken, manual processes, is not sustainable. A modern, digital front-end without a modern core banking platform will eventually hurt a bank, for it will be unable to provide customers the full front-to-back service that they have come to expect from providers of lifestyle and retail services, like Amazon and Uber.

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Business Solutions Manager

John Schlesinger
Chief Architect

About Temenos

Temenos AG (SIX: TEMN), headquartered in Geneva, is the world's leader in banking software, partnering with banks and other financial institutions to transform their businesses and stay ahead of a changing marketplace. Over 3,000 firms across the globe, including 41 of the top 50 banks, rely on Temenos to process both the daily transactions and client interactions of more than 500 million banking customers. Temenos offers cloud-native, cloud-agnostic front office and core banking, payments, fund management and wealth management software products enabling banks to deliver consistent, frictionless customer journeys and gain operational excellence. Temenos customers are proven to be more profitable than their peers: over a seven-year period, they enjoyed on average a 31% higher return on assets, a 36% higher return on equity and an 8.6 percentage point lower cost/income ratio than banks running legacy applications.

Learn More

To find out how Temenos can help with your digital banking needs, contact sales@temenos.com or visit us at www.temenos.com

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