Achieving High Performance in Banking: Core Banking Transformation for Improved Revenue and Costs

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Accenture discusses how banks can transform their core systems to reduce costs and boost their customer focus at the same time.

Today’s banks are facing significant, ongoing challenges in both growing revenue and containing costs. It has never been more difficult to win and retain customers or to generate new income streams. And while the worst of the recession appears to have passed, the imperative to replace lost revenue streams has not. Add to these daunting challenges the increasing presence of foreign financial institutions in the North American marketplace, an increasingly difficult competitive landscape, an evolving regulatory environment, and you have the makings of a perfect storm.

Yet some banks not only are surviving in this environment, but in fact are thriving. While today’s winning banks may have differing strategic objectives, they share three core characteristics:

Differentiation on the outside. To pull ahead of the competition and maintain their lead, banks must formulate and execute a distinctive strategy that differentiates them in the eyes of their customers.

Simplification on the inside. Complexity is the enemy of speed and efficiency, and few global industries are as complex as financial services. Banks that succeed in simplifying everything—products, processes and systems across the entire organization—will be well on their way toward high performance.

Execution mastery. Leading financial institutions understand the critical need to prioritize execution as a core capability. This means achieving excellence in executing business processes, as well as in planning and managing investments and change programs across the organization.

To Gain Advantage, Transform the Core

For a growing number of banks, both global and domestic, core banking transformation is a key step toward attaining and enhancing these vital attributes and, ultimately, to growing revenues and addressing cost pressures. How?

Core banking transformation helps banks achieve a full view of their client relationships and, subsequently, identify cross-selling opportunities and bundle products more effectively. This helps the bank generate a compelling value proposition for the customer and generate more revenues. The improved customer experience creates a “virtuous circle” that drives both short-term and long-term revenue gains for the bank. Core banking transformation can also help banks accelerate the speed of new product and service launches. Thus, with more differentiated and relevant offers, a bank is in better position to boost sales among both new and existing customers.

Core banking transformation also can be a powerful asset for cost-reduction initiatives, particularly when they involve the implementation of real-time posting, or the pursuit of lower total cost of ownership for the bank’s technology platform. In fact, in Accenture’s experience, core banking transformation can help banks achieve more than 20 percent savings related to back-office operations.

Given the challenges facing the banking industry—and particularly the impacts on revenue streams, client retention, and overall cost structure—Accenture believes core banking transformation is not a matter of “choice” for most banks. Indeed, given the state of the North American banking market, most banks should be actively evaluating their transformation options.

In particular, the potential business case for transforming the core should be studied by banks that are at risk of not being able to adapt to future business needs and competitive moves due to the complexity of their core business, software and technological platforms. It costs little to evaluate the available options, and a core banking roadmap and transformation program that fits the bank’s budget can be developed within a matter of a few weeks. Bank executives should remember that a core banking transformation does not necessarily mean a bank must completely replace all its core systems. While some banks may be ready to pursue a full replacement, others will want to retain their legacy platforms and focus on renovating them to gain new capabilities. The best course of action depends on a bank’s specific situation.

For instance, a growing number of banks, including multiple major institutions in the United States and Canada, already are pursuing benefits that can flow from full-scale core banking system replacements. Many other banks are exploring platform replacement within sub-segments of their business—for example, focusing on core replacement in a niche segment like corporate banking, and using that program as a pilot for a larger initiative in the near future. Still others are using their core legacy systems as foundations for developing new strengths—such as new creating product-bundling capabilities and the ability to bill customers for value-added services on a more granular basis, implementing service-oriented architecture (SOA) to make information services and data accessible to other systems and platforms, and standardizing existing services to drive cost savings.

The Time to Move Is Now

As the financial crises and resulting recession give way to a renewed emphasis on growth, banks must recognize two things. First, their legacy systems may pose a serious obstacle to their ability to compete in the marketplace and gain share with both new and existing customers. In fact, they may be increasingly at a disadvantage in the marketplace relative to some of their new peers. Second, for many, the cost of maintaining these existing systems is rapidly becoming unsustainable—this includes both the “hard dollars” associated with systems maintenance, and the opportunity cost of lost revenue. While the time to start thinking about change is now, the scope of the change does not have to be all-inclusive and immediate in nature. Multiple paths to benefits exist, depending on a bank’s needs, competitive situation and investment appetite. But regardless of whether it’s done on a full-scale or more limited basis, core banking transformation has the power to give today’s banks the differentiation, simplification, and execution strength they need to cut costs, lift revenue, and pull ahead of the competition. In other words, core banking transformation is a key step in the journey toward high performance.

Why Accenture?

Accenture Core Banking Services has delivered more than 200 core banking transformations across multiple operating models, geographies and software solutions. Since 2005, Accenture has helped most of the top 25 banks in North America implement core banking and lending solutions.

Our portfolio of services, complemented by Accenture Software, covers the entire core banking transformation journey, from the initial strategy and assessment through solution delivery and outsourcing. Finally, Accenture’s proprietary methodologies and frameworks—paired with our Accenture Global Delivery Network—help banks transform themselves quickly, efficiently, and with lower risk.

For more information on how to achieve high performance in core banking, visit www.accenture.com/corebankingservices.