Infusing Flexibility

Core banking transformation to rebuild profitability and achieve high performance
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Executive Summary

Today's landscape has created a new enthusiasm for transformation. Many banks are accelerating the momentum and, in doing so, triggering a resurgence of interest in enterprise and core banking transformation.

The aim to improve growth and rebuild profitability—to achieve return on equity of 15 percent by 2012 as identified in new Accenture research1—coupled with compelling business forces and new technology innovation are signaling that the time is right for banks to simplify and industrialize their enterprise and core banking operations.

Add to that an equally competitive necessity: flexibility, both in a bank's anatomy and in successful execution of core banking transformation. By infusing agility into their DNA as well as throughout the change journey, banks can improve their products and services to drive growth, gain efficiency and reduce total costs. Process and technology innovation will also enable banks to quickly and efficiently align their business and operating models to obtain the full benefit of industrialized-plus-flexible core banking.

Drawing on Accenture's industry experience and ongoing research into how banks achieve high performance, this brochure explores how banks can respond to the new industry landscape through core banking transformation and how, with a flexible approach to change, they can reap future revenue growth.

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1. Accenture Banking 2012 research, which included a study of more than 150 banks around the world and extended interviews with more than 35 leaders from banks, private equity firms and other experts from outside the banking industry in developed and emerging markets.
To fuel growth, rebuild profitability and achieve high performance, banks will need to start the change needed to simplify and infuse flexibility into their operating and IT models. Accenture calls this “core banking transformation.” And in today’s new landscape, key business forces are converging to place enterprise and core banking at the forefront of enabling high performance in banking (Figure 1).

For example, tighter economics, rising customer expectations and more intense competition are compelling banks to look for better ways to grow their business. Fueled by ready access to a world of information, goods and services, customers want quick, economical, easy-to-access, personal service. To drive growth, banks need to embed new capabilities into their operating models—customer analytics, pricing optimization, enterprise-wide customer relationship management and innovative channel technology—to better know customers, attract new customers, introduce more innovative product bundles, launch new products faster and enter new markets more strategically. Additionally, banks will need to address cost in a structural way—moving from tactical to strategic programs to gaining competitive advantage by increasing variable cost and improving cost income ratios.

Anticipating more intrusive regulation that requires greater transparency, banks will need a higher risk discipline. They need to view risk management as a vital part of the business strategy and take a more effective approach to integrate risk with enterprise performance. The aim: a clear view of company-wide risk across product lines and business units, greater operational efficiency and better relations with rating and regulatory agencies.

**Figure 1:**
Key business forces place enterprise and core banking at the forefront of enabling high-performance banking.

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**Tighter economics**
- Greater consolidation due to over capacity
- Lower growth
- Lower return

**Intense competition**
- Renewed focus on domestic market franchises
- Viable potential new entrants
- Stronger role for low-cost banks and credit unions

**More intrusive regulation**
- New regulatory agenda
- Greater public sector intervention and ownership

**Rising customer expectations**
- Less trust and loyalty
- Quickly changing behaviors
- Stronger environmental and social aims

**Higher risk discipline**
- Increased pressure to strengthen risk management practices
- Lower risk appetite

**Advances in enabling technology**
- New data analytic tools
- Greater innovation, such as cloud computing, mobility and web 2.0
- Faster move to direct channels
Lastly, advances in enabling technology are making transformational change more affordable, cost-efficient and manageable. Technology innovation, such as "virtual" shared IT utilities, other Internet-oriented computing, service-oriented architecture (SOA), cloud computing and mobility to name a few, provides for greater speed and flexibility, both in building a bank's anatomy and in managing the change journey.

Flexibility in enterprise and core banking operations provides the foundation banks need to take advantage of market change and drive business growth. Yet, due to historical under-investment, many banks still have multiple, disparate yet entangled and aging systems that are expensive to maintain, inhibit competitive action (such as faster product launches) and limit revenue growth. Banks now need to take more aggressive and strategic actions to trim down the complexity of their operations and IT while introducing a new kind of predictability that lessens the risk of new market imperatives. Banks that are able to increase flexibility, eliminate or "variabilize" costs and put their customers at the center of operations will be well positioned to quickly adapt to new market conditions, grow the business and achieve high performance.
The time is right to industrialize core banking

Until recently, many banking executives thought they could address core banking complexity solely by reorganizing their IT systems or relying on labor arbitrage. However, the challenges are more systemic and include outdated technology platforms, inappropriate organizational structures and duplicate business processes. Faced with slow growth and tight margins, banks have to address the fact that legacy systems all too often impose high—and now unsustainable—costs of ownership and inflexibility when it comes to changing the business model or adapting the operating model.

In fact, findings from Accenture interviews of more than 35 industry leaders from around the world revealed different models that are capable of delivering a sustainable return on equity (ROE) of 15 percent within safe parameters. The research also identified five areas on which banks should focus to rebuild their ROE (Figure 2).

For example, banks that leverage core banking innovation to optimize product pricing, attract new customers in untapped client segments for inorganic growth and/or improve customer relationship management will be able to drive revenue growth and lower cost for greater ROE. With a renewed pursuit of ROE and available process and technology innovation that enables affordable and manageable transformation, the time is right for banks to push beyond level growth and tactical cost initiatives to implement a more strategic business change.

The drive to optimize has been replaced by the need to reposition and reinvent the business. Banks are aiming to differentiate themselves through innovation and gain the

Figure 2: Rebuilding return on equity by 2012 through five focus areas.
Banks must redefine their business and operating models to sustain a new economic model and achieve target return on equity of 15 percent by 2012.
Core banking transformation represents one of the greatest opportunities for banks to drive growth and manage cost and it can include:

- Business and IT operating model design.
- Product and process engineering.
- Core platform replacement with software frameworks or packages.
- Business application development, revitalization, simplification and enhancements.
- Technical architecture implementations, including service-oriented architecture.
- Application maintenance.
- Business process outsourcing.

flexibility needed to adapt quickly to the new and uncertain business landscape.

Many banks are accelerating momentum and, in doing so, triggering a resurgence of interest in enterprise and core banking transformation. And rightly so, core banking transformation represents one of the greatest opportunities for banks to drive growth and manage cost, while creating a platform for high performance. It streamlines and brings innovation to products and services to grow profitability and revenue, while providing efficiency gains through more variable costs and generating cost savings.

**Today’s transformation difference: industrialization-plus-flexibility**

The core of today’s bank reinvention remains industrialization, making repeatable and predictable as much of the operating model and IT applications as is possible and reasonable. Along with the emphasis on industrialization, banks will also add a focus on flexibility to fuel and sustain growth for the long run (Figure 3).

Through industrialization, the bank builds distinctive capabilities to gain three essential characteristics of high performance:

- **Differentiation**, observed in the eyes of customers, is gained primarily by rapidly tailoring offerings for diverse customer segments through multiple channels with the innovation to meet evolving customer demands and increase revenue per customer.

- **Simplification** means having standardized products, processes and systems across bank operations that enable greater cost efficiency and flexibility and generate economies of scale by eliminating work and optimizing processes. This lowers or variabilizes total cost by affecting all components of cost, instead of single levers such as labor or infrastructure.
• Execution mastery demonstrates not only superior operational performance but also excellence in the delivery of complex business change, both in the transformational program and the continuous improvement process. Industrialized organizations provide the required flexibility and operational execution needed during the transformational journey, and into the future once the new transformed model is in place.

What’s new today in the Core Banking Landscape?

There are two new aspects in today’s resurgence of enterprise and core banking transformation: flexibility and practicality. Banks are now following the “transform to gain flexibility paradigm” to acquire agility both in their anatomy and along the transformation journey. At the same time, banks are being selective and pragmatic in executing the change.

Three ways banks are more pragmatic in planning and executing their transformational journeys:

• Lower cost by leveraging reusability, new technologies that encapsulate legacies and other efficiency and effectiveness tactics.
• Align to business needs and prioritize short term results and initiatives which help to pay for the journey.
• Minimize business disruption.
Infusing flexibility

In the same way that banks will need to be agile in their market responses, they must infuse flexibility in the DNA of their organization—in the anatomy of the solution and in executing the change journey.

Flexibility in the anatomy

Infusing flexibility requires a shift in the nature of core banking transformation to one that is more adaptable, componentized and focused on building capabilities.

For example, the use of innovative architecture concepts will introduce flexibility into a bank’s DNA even as business complexity increases. Extensive use of new levels of architectures—process, functional, application and IT—will allow greater options for banks to more easily and cost-effectively manage and adapt their products and services to market changes. Together, with the use of business process methods and tools that link technology with business strategy, banks can also infuse flexibility-enabling innovation. Technology, such as cloud computing which facilitates dynamic provisioning of IT capabilities quickly and economically, helps to embed the flexibility banks need to be competitive.

Flexibility in the journey

Each transformation journey will be unique to the bank’s future vision, context and strategy. Yet, market conditions will likely dictate an incremental approach to transformation based on prioritized capabilities and near-term business requirements.

This gradual approach is selective and pragmatic, and supports a dual goal: achieve short-term benefits and allow for planning of intermediate next steps based on the outcomes of preceding steps. It employs flexible step changes to create distinctive bank capabilities.

Figure 4: Successful core banking transformation journey.
A bank designed to sustain high performance is a bank whose core banking operations allow it to adapt quickly and simply for optimum growth.
The successful transformation journey
While each core banking transformation journey will be unique, there are phases common to every successful journey: define the path, govern the process and execute the approach (Figure 4).

Define the right path
A successful core banking transformation journey begins with defining the path that best fits the bank and leads to high performance. Banks will assess their unique context and business needs, and analyze capabilities relative to their future vision and existing state. This phase will also identify and prioritize the strategic initiatives, including associated goals and costs, required to deliver the bank's targeted performance outcomes.

A bank's unique transformation journey approach, including scope and nature, will depend on the output of the strategic capability planning phase. The approach can span a whole host of different change scenarios—from operating model transformation to pure IT transformation, from business niche improvement to complete functional coverage, from the front office to the back office, from distribution to manufacturing, or from reuse to renewal.

To help banks determine how best to transform and translate their strategic assessment into measurable action, Accenture provides a broad portfolio of core banking transformation offerings around four alternative journeys:

- Selective capability building. Support of banks’ efforts to revitalize selective capabilities aimed at achieving differentiation and growth or cost reduction. Examples of building selective capability to improve differentiation and growth may include providing digital deposits services or building or improving product bundling and fee factory capabilities. Examples of building selective capabilities to reduce or variabilize costs may include providing retail lending factories or creating capabilities to improve post merger integration or provisioning (vertical application outsourcing).

- Revitalization. Elimination of legacy process and system constraints through gradual renewal of technology and IT application landscape, partially reusing existing process and systems and, typically, upgrading to a new generation of technology. This more evolutionary option is most applicable when there is a starting point that allows for upgrades and reuse, or when deploying transformational change in a staged manner over time.

- Bank-in-a-box. Quick provision of low-cost, easy-to-deploy bank operations typically through pre-integrated solutions which deliver full and broad banking capabilities. In this case, the bank primarily adapts itself and its business needs to the capabilities provided by the chosen solution.

- Replacement. Delivery of a new, end-to-end capability solution through core systems replacement, often pursued within a broad scope under an aggressive timeframe when seeking maximum transformational impact. The replacements are supported by market-leading software and next generation core banking platforms, such as Alnova Financial Solutions™, SAP Banking Services, Oracle Financial Services, Finacle, Temenos, Fidelity or Silverlake, to name a few.

Within each alternative journey, standard software or platforms and tools are available to accelerate the journey.

Govern the process
The objective of this phase is to institute the structures, steps and procedures that govern how the change program is run and to keep it on track to achieving high performance—from beginning to end. A well-run governance process will provide for continuous alignment with strategic targets, monitoring and measurement of results against an initial business case, and adjustments to the journey based on performance evaluation for greater efficiency and effectiveness.
**Execute the approach**

Executing the journey in a pragmatic way means developing and taking a set of preparatory steps to provide the needed capabilities to execute the journey, while achieving rapid results along the way. Key elements in the execution phase include:

- **Quick wins.** Having as a priority to target and score quick wins which returns savings to reinvest in the journey and fuel momentum for the long-term.

- **Capability delivery.** Designing and building the different capabilities required to execute the journey, including organizational and operational models, development guidelines, development methodologies, infrastructure and tools.

- **Architecturization.** Developing a new, broader set of architecture layers (process, application and technology) to provide flexibility through integration between business and IT while standardizing the relationship between the architecture layers and their components.

- **Evolutional transformation.** Taking a step-change approach, defined in the planning phase, that is business-driven, process-focused and technology-enabled. The approach targets more granular outcomes that better measure, justify and fund investments, and is agile enough to adjust based on results. It aims to gradually evolve the applications to an architectural model, simplifying and increasing their flexibility by combining business and technology.

At the end of a successful journey, banks will have new, componentized core banking capabilities with built-in flexibility for more predictable and sustainable outcomes. In essence, the new capabilities will themselves provide the agility needed for banks to continue changing and adapting quickly and simply for optimum growth.
Why Accenture?

For banks that have decided to change, Accenture has the banking industry knowledge, assets, people and tools to accelerate the journey and help mitigate the risk.

Combining deep technology acumen with industry knowledge and market-leading software-based solutions, Accenture is the right choice for a core banking transformation journey because:

We offer end-to-end services
Drawing on its banking industry knowledge and experience, Accenture is one of the few companies that have helped banks succeed throughout the entire core banking transformation journey. Accenture has a proprietary Core Banking Transformation Framework (Figure 5.0) to help with the transformation journey. Accenture leverages its portfolio of services, complemented by Accenture Software for Banking, to provide clients end-to-end coverage from the initial strategy and assessment phase through solution delivery to outsourcing.

Accenture Software for Banking supports journey acceleration and flexibility through proprietary and non-proprietary core banking solutions, ensuring completeness and independence in enabling with software a broader range of transformation journeys. Combining high value consulting with extensive systems integration and outsourcing capabilities, Accenture is uniquely positioned to deliver value to our clients.

We bring innovative ideas and industrialized offerings
Accenture’s broad, end to end offerings— with different types of solutions and levels of services—support unique bank transformation journeys and meet specific bank business needs at a competitive total cost of ownership while reducing implementation risk. It allows Accenture to address most any situation or combination of business challenges, providing clients enormous flexibility in finding a transformation approach that best fits their circumstances.

Figure 5:
Accenture Core Banking Framework—from strategic planning to execution to outsourcing.
Solutions and services within Accenture Core Banking Transformation Services support four change journeys a bank can take as described on page 10:

- Selective capability building.
- Revitalization.
- Bank-in-a-box.
- Replacement.

**We provide predictable business outcomes**

Accenture Core Banking Transformation Services is backed by and delivered through broad and various capabilities which allow for flexible, affordable, low-risk delivery with predictable outcomes. These include:

- Banking industry and specialty skills. More than 28,000 Accenture professionals work with our financial services clients globally. One quarter of this total are specialists in core banking with asset-related implementation success to help minimize execution risk and accelerate results.

- Innovative software-based solutions and longstanding alliances. Through the dedicated organization, Accenture Software for Banking, Accenture manages its integrated core banking solution, Alnova Financial Solutions™, as well as develops industry enhancements or accelerators of the proprietary software of market leaders, such as Oracle and SAP. In 2010 Alnova Financial Solutions™ was ranked “among the best for its advanced functionality” by Celent. We also have extensive experience with other global and regional software solutions that support our clients’ business needs, such as Finacle, T24, Fidelity and Silverlake. Where appropriate Accenture develops and delivers custom implementations.

- A broad set of methodologies, frameworks and accelerators. Accenture has a distinctive collection of global assets—from methodologies (such as Accenture Delivery Methods) and frameworks, to High Performance Banking content (research, processes and services) and accelerators (like testing and data conversion tools), that are customized or applied to different solutions. Because of the preferred relationship and experience with its partners’ preconfigured solutions and tools, Accenture helps provide fast and lower risk implementations when using those standard packages.

- One of the largest, most diverse delivery networks in the world. The Accenture Global Delivery Network uses common methodologies, architectures and metrics to turn more than 50 global facilities staffed by more than 80,000 professionals into a massive engine for high performance. The network’s diverse range of centers, including IT centers and business process outsourcing centers, offers depth and breadth of core application skills that can support a multitude of core banking systems integration projects in an efficient manner. In addition, Accenture Centers of Excellence for Assets & Software, strategically located around the world, specialize in all phases of the banking transformation process.

- A track record of implementation success. Accenture has delivered more than 200 core banking transformations across multiple types of operating models, geographies and software solutions. More than 100 banking clients have taken advantage of Alnova Financial Solutions™. In addition, Accenture was rated #1 worldwide system integrator by IDC in 2008.

Accenture's exceptionally strong track record of core banking transformation experience includes Banco Bilbao Vizcaya Argentaria (BBVA), Banco Santander, Bank of Ireland, BAWAG P.S.K. (Austria), Development Bank of Singapore, Commonwealth Bank of Australia, PKO Bank Polski (Poland) and Standard Bank of South Africa. Accenture is also engaged in operational efficiency projects with several clients, including major United States banks.

Accenture capabilities allow for high-quality execution that reduces risk, accelerates results and helps banks realize more standardized and predictable business benefits.
Making it happen with Accenture

Accenture is ready to help you begin the step change needed to industrialize core banking and gain the flexibility necessary to achieve and sustain high performance.

There are many ways in which banks can get started. Some might begin with a diagnostics exercise to identify and quantify business improvement opportunities across the core. For others, Accenture can help execute specific step changes against an existing roadmap or help institute check points to measure and refine the journey.

To learn more about how Accenture can help your bank achieve high performance, and to access additional core banking materials including points of view, credentials, and software like Alnova™, visit www.accenture.com/corebanking.