Accenture Core Banking Services

Infusing Flexibility:
Core Banking as a strategic enabler of profitability and growth

High performance. Delivered.
Contents

Executive summary 3
The new landscape 4
The time is right to industrialize core banking 6
A unique journey requiring flexibility in multiple dimensions 9
Why Accenture? 12
Executive summary

To achieve and sustain high performance in the future, banks will need to undergo “surgery” to reinvent their core banking operations as the enabler of a more competitive, customer-centric and sustainable business model. And time is of the essence.

In an era of rapid market change, ever more intrusive regulation and ongoing technology innovation, banks need to improve growth and rebuild profitability if they are to achieve a return on equity of 15 percent, as identified in Accenture research. This means that now is the time for banks to seize the initiative by simplifying and industrializing their core banking operations.

In Accenture’s view, success in this new world requires banks to achieve three critical aims:

• Build customer loyalty by delivering distinctive customer experiences that meet consumers’ changing needs and behaviors through every channel, and strengthen brand reputation in holistic ways.

• Boost revenues and rebuild profitability by increasing the quality and volume of customer interactions, creating more innovative and personalized products and services, and offering these at a competitive cost through a variety of channels.

• Improve operational efficiency and customer-centricity while lowering system total cost of ownership (TCO), by removing product and line-of-business silos, and adopting more efficient operating models supported with simplified, automated and technology-enabled processes and capabilities that maximize availability and scalability.

Drawing on Accenture’s industry experience and ongoing research into how banks achieve high performance, this paper explores how banks can respond to the new industry landscape through core banking transformation, and how—with a flexible approach to change—they can infuse agility into their operational DNA and capture a disproportionate share of future revenue growth.

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 need to initiate a program of radical change aimed at simplifying and infusing flexibility into their operating and IT models. Accenture calls this core banking transformation. This is especially critical because—in today’s fast-evolving landscape—a range of key business forces are converging to place enterprise and core banking at the forefront of enabling high performance in the banking industry (Figure 1).

As the chart illustrates, tighter economics, rising customer expectations and more intense competition are compelling banks to embed new capabilities—customer analytics, pricing optimization, enterprise-wide customer relationship management and innovative channel technology—into their operating models to drive growth. Additionally, banks need to address cost in a structural way, progressing from tactical to strategic programs, and gaining competitive advantage by increasing variable cost and improving cost income ratios.

At the same time, banks know that more intrusive regulation will require greater transparency. It means greater discipline around risk—viewing risk management as a vital and integral part of business strategy, and creating a clear view of company-wide risk across product lines and business units. And advances in enabling technology—“virtual” shared IT utilities, service-oriented architectures (SOA), cloud computing and mobility, to name but a few—are making transformational change more affordable, cost-efficient and manageable.
To fuel growth, deliver a 15 percent return on equity and achieve high performance, banks will need to initiate a change program that redefines their business and operating models.
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 increasingly 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 with 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 on next page).

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

In this environment, the drive to optimize processes has been replaced by the need to reposition and reinvent the business.

Banks are aiming to differentiate themselves through innovation and gain the flexibility needed to adapt quickly to the new and uncertain business landscape.

Many banks are accelerating the momentum of change and, in doing so, triggering a resurgence of interest in enterprise and core banking transformation. And rightly so, since 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. At the same time, it provides efficiency gains through more variable costs and generates cost savings.
Targeting benefits beyond costs

In response to these imperatives, a growing number of banks are giving core banking transformation the green light. They view it as a strategic initiative with a business case that shows a return of value that goes well beyond cost reduction.

Many are targeting six specific benefits:

1. Generate additional revenues by, for example, improving the way products and services are assembled, customized and distributed to customers, fueled and enabled by customer centricity and integrated, function-oriented applications.

2. Keep customers satisfied by delivering consistent, personalized experiences across multiple channels and segments without adding layers of complexity and cost.

3. Minimize the impact of regulatory changes and compliance through, for example, isolating calculation engines, parameterization of accounting rules, or adding online validations for compliance purposes.

4. Facilitate effective risk management with automation and flexible controls that provide the right information at the right time, consolidate information and diminish fraud.

5. Drive cost reduction through industrialization and simplification of the operating model and IT. Examples include reducing the number of people devoted to administrative tasks by simplifying and automating process. This can increase the time devoted to sales activities, thus boosting revenue growth, while simultaneously eliminating disparate and duplicated systems, thus accelerating time-to-market and minimizing the costs of developing and maintaining IT systems.

6. Accelerate and facilitate domestic or international M&A integration, where relevant, enabled by a simplified operating model underpinned by IT with the right architectural principles.

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, a bank can build distinctive capabilities to gain three essential characteristics of high performance:

- Differentiation—in the eyes of customers—is gained 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, lowering or variabilizing total cost.

- Execution mastery demonstrates not only superior operational performance but also excellence in the delivery of complex business change. Industrialized organizations exhibit the flexibility and operational execution needed both during the transformational journey itself and in the continuous improvement process that follows.

Three key themes emerge

Given the scope and scale of the benefits to gain, it is hardly surprising that virtually all major leading banks have now started—or are thinking about starting—a core banking transformation program. As Accenture works with banks to plan and implement these programs, we are seeing three distinct themes emerge compared to previous initiatives. This time, it’s a:

- Capability building journey where improvements are made selectively and gradually, driven by business needs with financial rewards at every step along the way.

- Different paradigm, transforming to infuse flexibility both into the bank’s DNA and also into its journey to create the new DNA. Industrialization and simplification of the operating model and IT are still the pillars to achieve predictability, but the degree of flexibility is new—enabling faster, better responses to market change and providing the sustainability required for the long run. Even a ways into the journey, banks will need ample flexibility to change direction if market conditions dictate, by exploring new ways of achieving transformation and new delivery and partnership models.

- More manageable, affordable transformation—the technology is now available to enable selective, less risky, less costly and less invasive “surgery,” delivering sustainable results with far less cost and disruption than in the past. Examples include industrialization techniques such as SOA, evolving architectural concepts, and new trends such as virtualization and cloud computing.
**FIGURE 3. The full value of an industrialized-plus-flexible core bank.**

<table>
<thead>
<tr>
<th>Business Architecture</th>
<th>Functional Architecture</th>
<th>Process Architecture</th>
<th>Operating Model</th>
<th>IT Model</th>
<th>Sustainability</th>
<th>Flexibility Components</th>
<th>Industrialization</th>
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</thead>
<tbody>
<tr>
<td>Differentiation</td>
<td>Simplification</td>
<td>Execution Mastery</td>
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<tr>
<td>• Customer-centric application</td>
<td>• High data volumes with maximum scalability</td>
<td>• Single customer experience through all channels</td>
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<tr>
<td>• Flexible product configuration</td>
<td>• Flexible, industrialized M&amp;A and international expansion engine</td>
<td>• Better financial results and risk exposure due to precise management of business rules</td>
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<td>• Pricing based on segmentation schemes</td>
<td>• High level of automation</td>
<td>• Improved credit quality</td>
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<tr>
<td>• Complete multi-channel capabilities</td>
<td>• Parameterized, customer-oriented processes for back and front office scenarios</td>
<td>• Minimized delivery risk through accelerators, frameworks and predictable outcomes</td>
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Source: Accenture Banking 2012 research.
Core banking transformation represents one of the greatest opportunities for banks to drive growth and manage cost. 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 (SOA).
- Related IT Infrastructure enhancements such as virtualization, downsizing to lower-cost platforms or cloud deployments.
- Application and IT outsourcing.
- Business process outsourcing.

The scope of transformation
The scope of transformation
We view core banking transformation as a “journey”—and each bank’s journey differs from that of its peers and competitors, depending on the bank’s context, type and the scope, extent and nature of change required.

At the same time, 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 renew. In this sense, the market has extended the various transformational journeys a bank can undertake.

In the same way that banks will need to be agile in their market responses, they must infuse flexibility into 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, these architectures can also enable banks to infuse flexibility-enabling innovation. And new technologies—such as cloud computing, which facilitates dynamic provisioning of IT capabilities quickly and economically—can help to embed the flexibility banks will need to remain competitive in the future.
Flexibility in the journey
Each transformation journey will be uniquely tailored 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.

The stages of a 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
Our experience shows that starting the journey off correctly is key to a successful transformation. An initial strategic capability planning exercise, together with the right level of involvement from business and IT teams based on a business case-driven approach, will help to shape the most appropriate journey with measurable action.

With these imperatives in mind, a successful core banking transformation journey begins with a clear definition of the path that will best suit the bank and lead to high performance. Banks will need to assess their unique context and business requirements, 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 cover-age, from the front office to the back office, from distribution to manufacturing, or from reuse to renewal.

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 from beginning to end to achieve high performance. 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
The best journeys are executed in a pragmatic way. It 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:

- **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.** The approach targets more granular outcomes that better measure, justify and fund investments, and is agile enough to adjust based on results.
Why Accenture?

The Accenture Core Banking Services team is an established global leader in its marketplace, with deep penetration and relationships in major banks worldwide. But this is just the start. We continue to refine our operations, capabilities and skills to help more banks achieve even greater success in undertaking their core banking transformational journeys.

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 Core Banking Services 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) to help with the transformation journey.

Throughout the journey, we leverage our portfolio of services, complemented by Accenture Software for Banking. Combining high value consulting with extensive systems integration and outsourcing and BPO capabilities, Accenture is uniquely positioned to deliver value to our clients.

We bring innovative ideas and industrialized offerings

Accenture’s broad, innovative 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.

FIGURE 5. Accenture Core Banking Framework—from strategic planning to execution to outsourcing.
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.
Solutions and services within Accenture Core Banking Services support the different change journeys. Our portfolio of offerings include:

- **Total Core Banking Transformation** to enable efficient growth, based on either a replacement or revitalization approach supported by end-to-end services elements ranging from Management Consulting to BPO, including PMO, full system integration and outsourcing services.
- **Selective Capability Building** to enable revenue growth and cost reduction, including a select portfolio of applications such as origination or product factories and bundling, downsizing to UNIX or Application Outsourcing and ASP services.
- **International expansion and consolidation** from PMO to BPO hubs.
- **Acquisition Engine** to accelerate cost-effective post-M&A integration including PMO, Data Migration, Testing Factories and/or Application Outsourcing.
- **Corporate Banking Transformation**
- **Zero Back-Office Operating Model** to optimize back office activities.
- **Core Banking Utility**, a cost-effective outsourced platform, to accelerate time to market with Cloud and Saas Core Banking Services for green fields, divestures or cases where speed to market and low cost are key drivers.
- **Social Media Capabilities** to transition from awareness to a transactional stage in social media.

We provide predictable business outcomes

Accenture Core Banking Services is backed by and delivered through a broad and diverse range of capabilities, enabling 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, helping our clients to 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 standalone platforms and solutions including the Accenture Multichannel Platform and Accenture Product and Fee Factory. We also develop industry enhancements or accelerators of the proprietary software of market leaders, such as Oracle and SAP. In 2011 Alnova Financial Solutions™ received the Xcelent Functionality Award for breadth of functionality in Celent’s latest reports on global core banking solutions for large and midsize institutions. 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—ranging from methodologies (such as Accenture Delivery Methods) and frameworks, to High Performance Banking content (research, processes and services) and accelerators (such as testing and data conversion tools), which are customized or applied to different solutions.

• 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.

• 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™.

Three key differentiators

Essentially, our core banking clients benefit from our capabilities in three key ways:

• First, they gain confidence in our unique blend of deep banking industry knowledge and expertise with unrivaled IT and business transformation delivery experience, built up through more than 20 years of executing successfully Core Banking Transformation programs of all natures.

• Second, they gain efficiency through our global reach and capacity to support not only domestic banks but large international banking groups in all their locations through local resources who understand the local context and culture, complemented by efficient, robust and proven offshore capabilities, supported by deep pools of core banking experts ready to serve where needed.

• Third, they gain flexibility from our unique combination of market-leading assets, tools, skills and capabilities. 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). 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

Core Banking Services 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™, Accenture Multichannel Platform and Accenture Product and Fee Factory, visit www.accenture.com/corebanking.
About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 249,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$25.5 billion for the fiscal year ended Aug. 31, 2011.