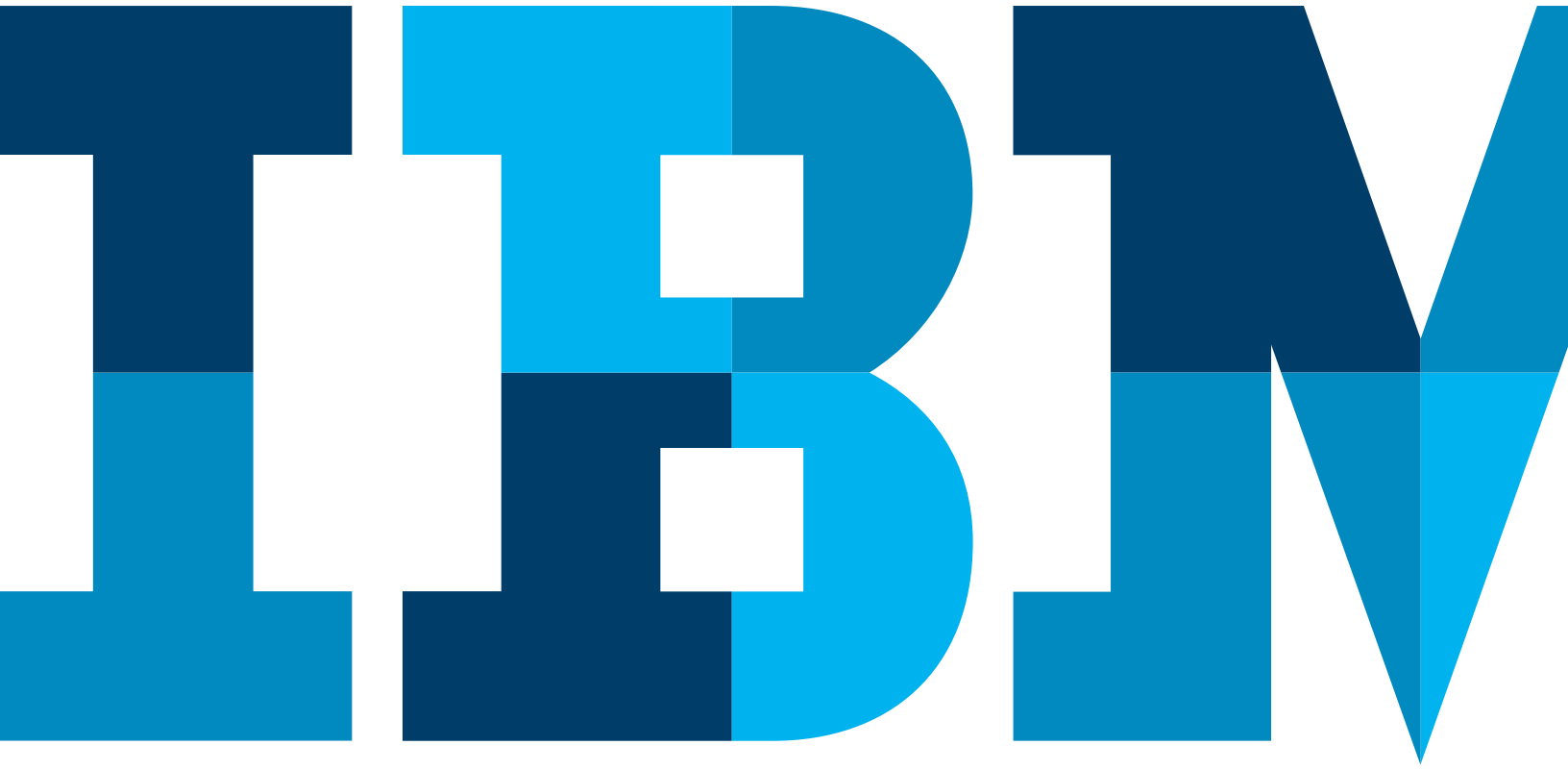
A progressive approach to core banking transformation

An IBM and Oracle joint value proposition



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Overview

Banks globally are operating in a turbulent and rapidly changing environment. They are facing increased regulatory pressure, continuing poor publicity and a deterioration of customer trust. In this environment of lower-for-longer interest rates, below-trend growth and less leverage, banks need to have an increasing focus on restructuring business models in order to improve returns and reduce risk. Additionally, there is a conflicting need to meet customer expectations of product and technology innovation, while minimizing costs during the economic downturn.

Successful banks have to find a cost effective way to run their business that enables them to be operationally efficient, while being adaptable to external pressures and flexible to enable innovation. Financial services need insight into what is going on in their business, as a platform for continuous improvement and to enable clear communication with customers and regulators.

Challenges facing banks today

Collapse in customer trust in a time of ever increasing expectations

In a period where margins have been steadily decreasing—or vanishing—rebuilding strong customer relationships, trust and customer retention have become more important than ever.

The explosion of mobile computing and social networking has led to a step change in customer expectations. Patterns of behavior are changing rapidly—customers now demand innovation not just in products and services, but also in technology. They expect personalized and customized service across multiple channels, with the ability to transition between them seamlessly.

Successful banks need to innovate and differentiate by bringing to market quickly and cost effectively new offerings that measure up to the expectations of 21st century consumers and enable customer centricity.

Increasing regulatory demands

In the wake of the financial crisis, a new era of regulation is dawning. Government scrutiny and intervention are steadily increasing, with the aim of stabilizing the banking industry and wider economy, and mitigating the risk and impact of any future financial crisis. Capital and liquidity requirements are steadily increasing, driven by regulations.

Recommendations from the Independent Commission on Banking (ICB) and Financial Stability Board (FSB) are driving tighter risk management practices and internal supervisory measures. Resulting localized regulations may reduce international synergies and increase costs for banks operating globally.

Banks must do more than satisfy regulators. It is equally important to minimize the risk to their reputations. Negative publicity from control failures, money laundering or fraud can be extremely damaging. The leading banks will be those who can adapt most quickly and cost-effectively to global and local regulatory changes, or better still turn them to competitive advantage.

Challenging economic and financial outlook

Depressed economic conditions and market instability persist. Revenues have been relatively flat for the past few years and with increasing financial pressure on households this situation is unlikely to improve in the near future.

Banks are increasingly encouraging customers to use digital channels so they can achieve a move from the higher cost branch network to lower cost online and mobile channels. A successful bank will provide a more complete digital service offering, ultimately to the same level as a branch. This, combined with the ability to seamlessly change channel at any point, will both enhance the customer experience and reduce costs.

Core banking transformation challenges

In order for banks to address the industry challenges, a core banking modernization is required, but complex applications and infrastructures can hinder a bank's ability to effectively deliver new products and services critical to the business. The challenges are many:

- Bank IT infrastructures are complex and heterogeneous
- Duplicate systems and redundant processes are often manual and error prone
- Traditional core banking systems are difficult to support
- Given financial and time pressures, many banks chose to take short-cuts and apply quick fixes rather than address the underlying product-based architectural and governance issues
- Maintaining the existing systems in good working order consumes a major portion of IT budgets and also causes time-to-market issues
- Challenged to support today's banking reporting requirements
- Extensive ad-hoc integration efforts are required to get a total customer view across siloed business lines

The IBM approach

IBM's progressive transformation approach addresses these challenges while mitigating risks and minimizing disruption to the business. It is based on a sound transformation roadmap and allows for short-term decisions where each deployment decision is taken on its own merits and enables the bank to choose the right solution in each case without increasing the overall complexity of the program.

Given the high cost of implementing a replacement project, business problems are often not addressed comprehensively and a componentized solution provides the best chance of success. The transformation roadmap includes a prioritization of individual solution components, which augments the chance to accomplish long-term goals. This component-by-component transformation approach avoids the high risk rip-and-replace approach and achieves a steady stream of return on investment (ROI). Banks that use a progressive approach to drive transformation have achieved tangible results in shorter timeframes than banks that waited until the end of a long transformation period.

Our coexistence led approach defines a modular and componentized solution and keeps the existing architecture untouched. Solution elements required for coexistence can be progressively implemented, as they are required, not before.

The focus is on starting up as soon as possible and there are several potential entry points to begin, such as with a product (for example, starting with simple products where interfaces to other systems and frequency of transactions are minimized and are less complex to engineer), customer (when a business case may prioritize key customer segments) or process (for example, origination).

In addition, the implementation is progressive, from simple to complex. Existing application features are leveraged and more coexistence patterns are added as required. We leverage lessons learned from one product to the next.

Our approach ideally supports implementations of Oracle's next generation banking application, the Oracle Banking Platform.

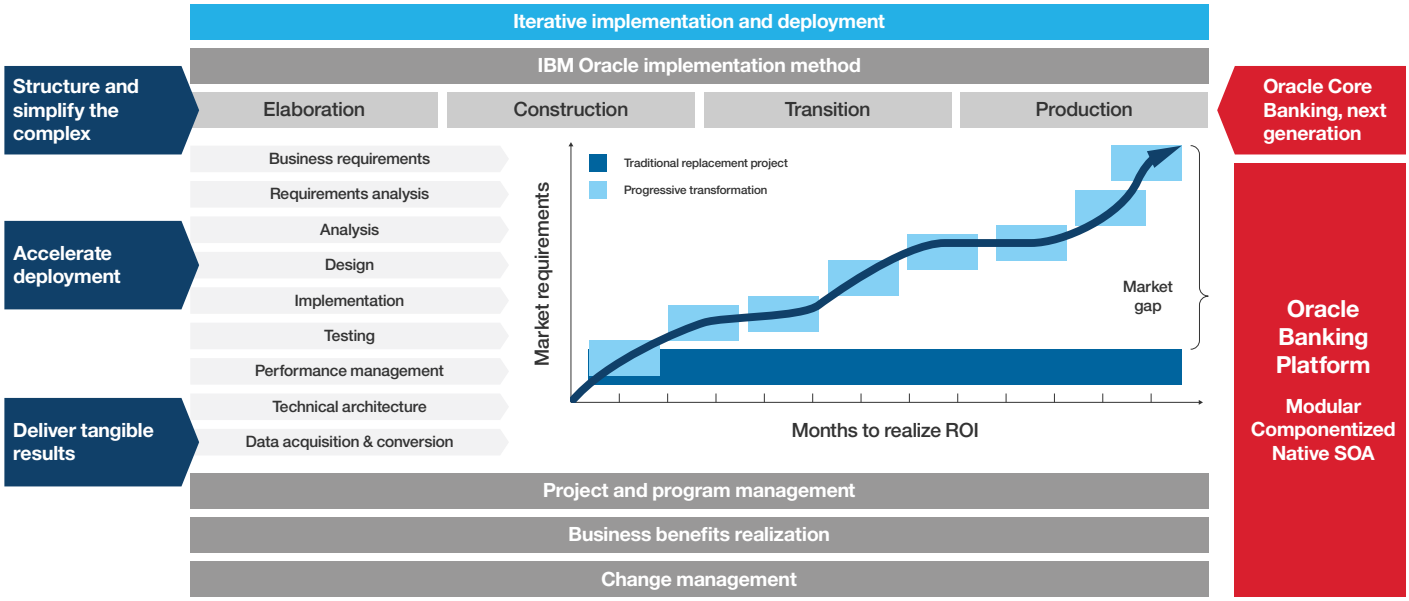

Figure 1. The Oracle Banking Platform

The Oracle Banking Platform

The Oracle Banking Platform enables effective core banking, greater agility and focuses on the fundamental architectural building blocks that are necessary to provide speed and agility in addressing new and emerging opportunities while minimizing disruption and risk to the business. It helps enable transformational outcomes through:

- Multi-brand and multi-entity architecture enables new business models
- Role-based distribution capabilities enabling customer, banker and third-party access
- Customer centricity core to all aspects of design
- Process enabled, with process rules extracted from core systems and configurable by business analysts
- Specific enterprise capabilities developed for origination and fulfillment, spanning product types and business unit boundaries
- Single product processing platform for retail, business and corporate banking

Our leading Oracle practice—leveraging the power of IBM

IBM brings many industry tested points of view as the starting point for a progressive transformation based on the Oracle Banking Platform. We understand the structure of the Oracle Banking Platform, understand what is possible and what is not. IBM's envisioning entails the basic building blocks for a core banking transformation based on Oracle's key domestic retail banking entry points that enable co-existence and progressive

Structure and simplify the complex

- Break-down the business in its building block components
- Isolate areas of strategic advantage and identify points of cost leverage
- Set priorities for cost reduction and competitive advantage

Accelerate deployment

- Address challenges, that create the need for a bank renewal program in an innovative transformation approach
- Provide the right team with real industry insights and capabilities to deliver the right solutions

Deliver tangible results

- Deliver tangible results for short term that transform business advantage overtime
- Deliver short term ROI incrementally and enable innovation
- Simultaneously design a business model that will perform better longer term

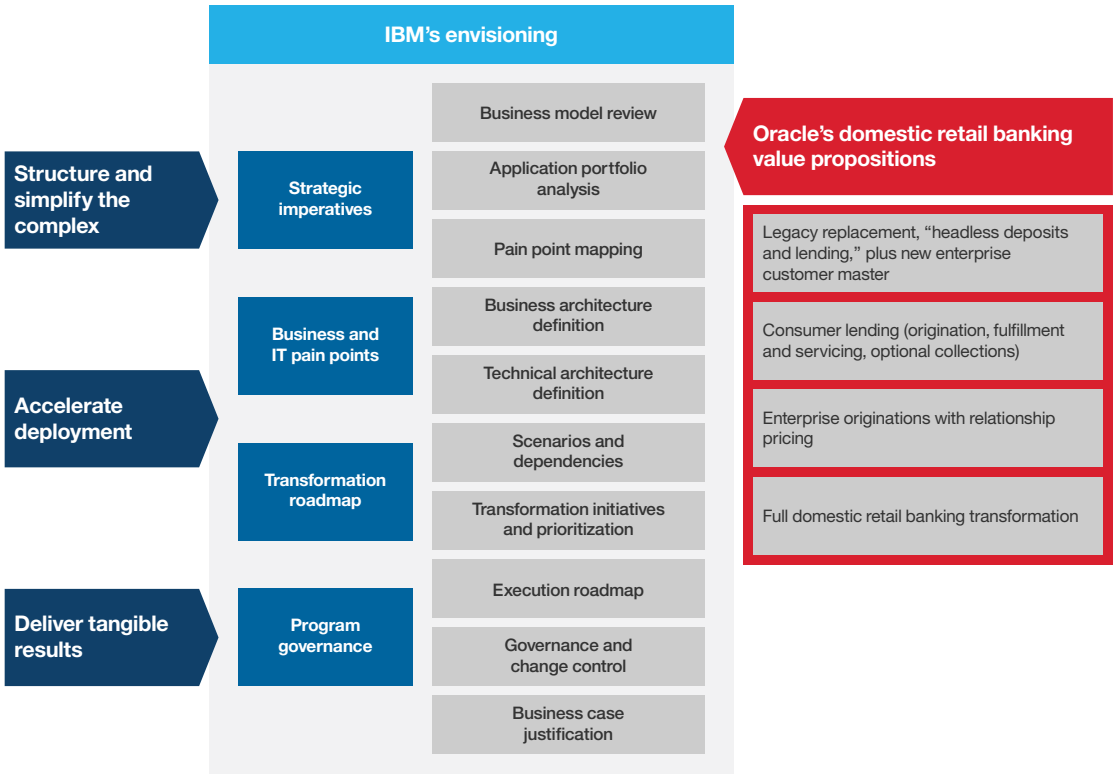

Figure 2. The progressive implementation approach for the Oracle Banking Platform is driven by the platform's building blocks and IBM's accelerators.

We provide IBM best practices, methodology, assets and solution accelerators to lower implementation risk and speed deployment. Our transformation framework can help to achieve:

- A streamlined and automated operating environment
- Standardized business processes
- An adaptable core banking system

Additionally, IBM provides creative Oracle application management solutions for core banking transformation that clearly identifies areas for improved business value, quantifies the expected returns, and accelerates results. This helps to shift focus from cost cutting alone to continuous innovation with Oracle investments. IBM enables smart maintenance of applications with a robust set of tools, methods and resources to deliver compelling business outcomes

Delivering business results

Our approach helps to create a truly customer focused enterprise by aligning the organization, processes, and channels around the customer to deliver the right products and solutions to each customer. We can also help optimize risk and compliance by providing insight into all risk types across the enterprise and helping to actively manage the risk associated with the bank's business operations.

Additionally, you can increase flexibility and streamline operations through improving the efficiency of front office product and service delivery and reducing operating expense and improve back office efficiency.

Case study

To provide for continued growth and increased operational efficiency, a large financial institution in Australia is implementing a major transformation of its core banking systems and processes, using the Oracle Banking Platform.

The program is the bank's core banking and transformation program and the largest program the bank has ever undertaken. IBM is providing the bank new capabilities across the retail and business banks in Australia. It is also enhancing capabilities in the products it provides its customers and the way it can bring those products to market. Specifically, they have started with a program of banking without branches, where a customer can create an account and have a complete customer experience without ever having to go into a bank branch. In addition to creating engaging customer relationships by increasing their availability and tailoring their customer interactions, they are using the platform for their core processes, reducing their total cost of ownership.

Typical rollout strategy example

A typical rollout strategy for a full domestic retail banking transformation delivers early evidence of the future banking model and enables early realization of value:

- Potentially start with an early migration of high net worth customers, who are serviced through dedicated relationship managers and have little or no branch access
- Alternatively, start with a migration of a "direct only" segment (if it exists), providing a way to remove the branch from early scope to create an initial staging option
- Start with personal banking before business, as in retail banking it is assumed that the customer base is skewed to personal banking customers
- Focus on the business imperative to drive improved business performance (both revenue and cost) in retail banking
- Start with customer, not account-based migration, so that the customer relationship is never split across old and new platforms

Why IBM

Careful planning, skilled deployment and process improvement are the first steps to maximize the return on your enterprise technology investments. This is where IBM stands out, with virtually unparalleled experience gained from its long history of successful Oracle implementations.

IBM services span the entire project lifecycle — from initial consulting, sizing, solution design and component selection, to implementation, hosting and support — enabling faster return on investment. Oracle customers benefit from comprehensive IBM industry and business expertise to deliver optimal results. IBM leverages one of the world's largest global repositories of best practices and benchmarks, combined with knowledge gained from thousands of engagements to deliver end-to-end solutions faster, more efficiently and with lower risk.

IBM Global Services — Global Business Services is an Oracle Diamond Level Partner. Diamond Partner status provides us with greater leverage and access to Oracle's sales and product development organizations and their executive leadership. As an Oracle Diamond Level Partner, IBM has more than 10,000 consultants worldwide engaged in successful Oracle implementations and support; we can enable you to more effectively evaluate, pursue and capitalize on opportunities for growth.

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Somers, NY 10589

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