

The IT Man Cometh

Banks are making very heavy weather of the storms on the financial markets. Streamlining operations and a strong focus on core competencies have become as important as ever. Core banking solutions may provide much-needed support in these troubled times. But for the banks, which solution to choose and how to implement it remain somewhat puzzling questions. *business guide* brought together experts from major providers of banking solutions to explore the IT options available to financial institutions large and small.



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Charlie Matter

Charlie Matter is CEO and Member of the Board of Directors of Finnova AG Bankware since 1999. The company has more than 30 years of experience in developing banking software. Finnova’s main activities nowadays focus on implementing and marketing the Finnova software, which also means to constantly adapt to the clients’ needs.

Interview: Alain Gut, Oliver Kaiser

Photos: Roli Käsbohrer

What are the features of a modern core banking system?

Charlie Matter: A core banking system features comprehensive functionalities driven by new technologies for full-service and private banks. It includes account keeping, securities, business functionalities, payment transaction processing, loan advisory and processing, as well as an integrated e-banking system. It also includes a MIS, risk control and a risk and banking management solution.

Nicholas Hacking: Our experience with our application, the Olympic Banking System, is that the system has to have a wide variety of features, all of which are key in today’s markets. It needs of course to be real-time. It has

to be multi-entity, multi-currency, multi-lingual and be adaptable to new products and services. Let me also mention flexibility generally, in other words: easily standardized and modifiable, and scalable as well. You have to be able to roll it out in an international network, too. In sum it must be a robust and reliable tool that adds value to the business by being flexible enough to adapt to changing markets, products and business models while automating the operational processes and helping the bank measure its and its clients’ risks.

Mr. Bult, what technologies and concepts are you using in your core banking application?

Adrian Bult: The Avaloq Banking System is a universal banking system that supports all types of transactions, enables real-time posi-

tion keeping and real-time credit risk management, along with 24/7 banking. It is based on state-of-the-art technology of Oracle and Java. The asset-concept, a company-wide data model, lets the system work with the latest financial instruments, while staying open for future developments – even those that are not yet foreseeable.

What are the main technological challenges for core banking solutions today?

Daniel Bardini: Today’s challenges for banks in Switzerland have to do with client satisfaction, client retention, profitability, and competitive advantages. Banks no longer face daily technical challenges. So IT needs to focus on supporting and aligning to business strategies. This requires shifting the balance of IT costs from maintenance to development,

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Daniel Bardini



Daniel Bardini is President of the SunGard Apsys business unit, the Private Banking solution provider for European private client investment managers and financial institutions focusing in the Private Banking and Wealth Management domains. With more than 70 sites across Europe, SunGard Apsys supports the entire core banking requirements of many Swiss and Luxembourg Private Banks.

with systems transformation and consolidation as a vital step in this process. IT has to be a fundamental enabler for dealing with business requirements around client service, advisor productivity and achieving operational efficiency and flexibility. In many private banks, there is a misalignment of actual IT cost allocation that works against achieving these objectives. Current IT spending is often heavily weighted towards IT operations and maintenance, with the bulk of IT resources and management time focused on “keeping the lights on” rather than supporting necessary change or supporting business growth objectives.

Nicholas Hacking: Nicholas Hacking: I think we should keep in mind that a bank is not there to be a technology lab but rather to do business – be that private banking, retail banking, or whatever. As such, what really matters

at the end of the day is probably the value added offered by the system. I mentioned this when talking about what a core banking system needs, and of course the other side of the coin – total cost of ownership. Rather than suggest one particular technology or another, I think that a bank’s CTO faces a number of challenges today, but a major one is keeping operating costs low by having a stable, easily-managed platform. Too many systems today seem to still require armies of IT and administrative people. Then comes the issue of integration. Banks typically have numerous systems, and they face quite a challenge making sure that information is accurate, complete and up-to-date in all the systems at the same time.

IT is very often a competitive factor, but standard software packages are setting a trend. How do

banks differentiate themselves with your core banking solution?

Charlie Matter: There are several differentiators. First of all they benefit from minimum risks during the implementation and migration process. We make absolutely sure that our projects are completed on time. We also lower costs, because our clients need less peripheral and third-party systems thanks to the comprehensive functionalities available. The engineering provides for equal performance with less hardware. It’s like having a car that uses less fuel. Furthermore, our clients benefit from ease of use thanks to an integrated risk and banking management solution and Internet banking. And the system’s modular and modern software architecture ensures a highly flexible and efficient segmentation of the value added chain.

Your core banking solutions are shared between several banks in terms of use and operations. Is this a sensible set-up?

Adrian Bult: We have several clients which use the ability to share our solution amongst several organizational units. Thanks to our technology, we can support nearly any imaginable model of joint usage. The Avaloq community is very actively sharing the results of its work, from concepts to parameterizations, from single functions to complex business solutions. So the answer to the question can be given entirely from a business standpoint, knowing that our banking system will support any degree of sharing.

Daniel Bardini: A bank's decision to adopt a standard banking solution to run operations is the first step towards the bank outsourcing its IT services. This means that our solution only exists because it is shared between our clients. Outsource technology plays a critical

role in the establishment of new private banks and wealth management firms. It is also important for smaller organizations to manage operations cost-effectively while supporting services and investment products that differentiate offerings. Small firms need higher quality at lower costs.

This brings up the general question if a core banking solution should be operated in-house or rather be outsourced.

Charlie Matter: Let me put it this way: it does not really matter. But we have noticed a trend towards outsourcing of computer centers and application management services.

Nicholas Hacking: There is no hard and fast rule. This depends very much on the bank, its business model, and the country or region concerned. What is clear is that banks that still operate a core banking application developed in-house are probably spending a lot more

than their peers for little tangible added value. Combine a package-based approach with the concept of operating hubs, regionally or globally, and you can generate considerable operational efficiency, regardless of whether outsourced or not.

What models are you using to integrate your core banking solutions into existing banking systems?

Daniel Bardini: A core banking solution needs an open architecture that will allow different business processes to work together. Our core banking solution Apsys works in different setups, including sharing components with other solutions in technical and business situations. Our "Business Process Management" capabilities, for instance, support efforts to change business processes in line with industry shifts and go beyond workflow management for managing banking transactions and optimizing transaction flow.

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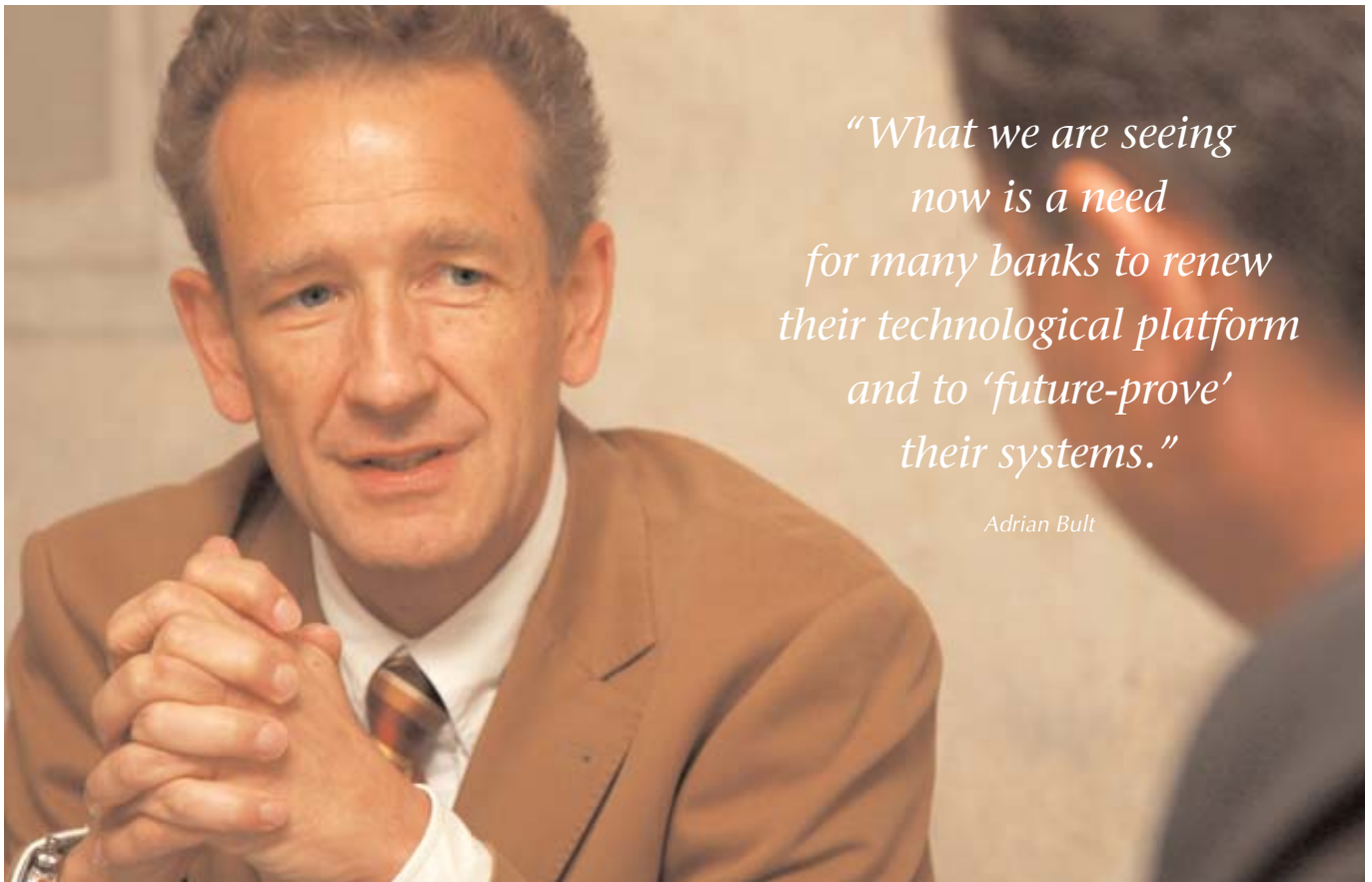
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“What we are seeing now is a need for many banks to renew their technological platform and to ‘future-prove’ their systems.”

Adrian Bult

Adrian Bult is Chief Operating Officer of Avaloq. With more than 33,000 Avaloq users every third Swiss banking workplace is based on Avaloq. Avaloq has a strong client base in private as well as in retail banking.

Nicholas Hacking: Integration is best achieved using standards. If this can't be done, then a messaging architecture or middleware should be used. This in turn should be as “open” as possible. We believe that our Enterprise Service Bus provides the flexibility and standardization necessary to meet most integration requirements.

Charlie Matter: Usually, Finnova does replace existing banking systems, but our modular approach has allowed us in the past to sell individual modules that have been interfaced with existing systems. Finnova is an open, modular system with well-defined interfaces.

How should a bank handle its dependency of a core banking solution supplier?

Adrian Bult: The easiest way is to be part of a broad user community with similar interests.

If the banks can openly share their needs, share their experiences and even have a market for their solutions, their dependency on a supplier turns into a role of “market makers.” In the Avaloq community, our clients have created a market where they can significantly influence the directions in which we develop the product. In return we can bring our ideas to this market and test their validity, acceptance and innovational power.

Daniel Bardini: Actually, rather than a bank being dependant on the core banking solution, we see it the other way round; we depend on our clients. This means that everything we decide is dependent on serving our clients. The relationship between a bank and its vendor does not end at the sales counter. For Wegelin & Co, the purchase of SunGard's core banking system Apsys back in 1996 was

the beginning of a partnership that has stretched well beyond a decade. It has helped the bank pursue a radical path in creating and developing complex alternative investment products and becoming a BPO provider for fellow Swiss banks.

How do you view the competitive environment in Switzerland when it comes to core banking solutions?

Nicholas Hacking: There is a high level of competition, especially given the relatively low level of deals in any given year. But there also seems to be wide differences in vendor offerings, especially in terms of price and implementation experience and capability.

Charlie Matter: I think there's healthy competition between a manageable number of providers who give each other a run for



“Too many systems today seem to still require armies of IT and administrative people.”

Nicholas Hacking

Nicholas Hacking is a Director with ERI, the company behind the Olympic Banking System. He has 30 years of experience in banking and banking IT, and is responsible for ERI's activities in the UK, Middle East, Asia and the US. The Olympic Banking System focuses on the provision of packaged application software for international private banking and wealth management.

their money. And this keeps the markets dynamic – and is an advantage for the clients. But I would like to remind you that the software business is capital-intensive because of its constantly evolving technologies. This means that money has to be earned in order to ensure a sustainable development on behalf of our clients.

What is your outlook for the Swiss core banking system market in the next two or three years?

Adrian Bult: What we are seeing now is a need for many banks to renew their technological platform and to “future-prove” their systems. Ever more complex financial products in shortening cycles are adding to this task. Not all the banking solutions offered in the market will be able to meet these challenges, nor will the banks be able to keep up in-house

development at today's level. Clients will want to benefit from a set of “templates” that secure fast and reliable implementation. This is true for banks operating in the home market as well as those seeking additional opportunities abroad. Core banking systems will have to be able to support all sorts of business processes from an entire banking operation down to a single departmental function. They will also have to be provided as a traditional in-house service to a fully ASP-based solution and all of that in real-time, 24 hours a day, seven days week.

Daniel Bardini: The situation in the financial industry has become very acute. Banks need to consider any sort of spending more carefully. Maintaining a balance of IT spending that is focused on supporting the business is vital. Switching spending from RTB (*run-the-*

bank) to CTB (*change-the-bank*) is not sufficient. A number of banks allocate higher sums to CTB. But the additional return and extra functionality delivered in many cases will be severely restricted, because developments resources will be shifted towards integration, process modification and testing rather than being invested in creating the required functionality. The problem is often with the underlying core systems. Older systems typically require far greater resources to install new releases and require more time to implement – owing to development on top of the core, or the inflexibility of the older systems themselves.

There has been much talk about the alleged amounts the ZKB paid for their IT-platform. How do you view this case?



Dr. Alain Gut is Head of Consulting Practice and Member of the Management Team at Tata Consultancy Services Switzerland Ltd (TCS). In addition he is the Head of Consulting Practice Private Banking Europe. A part of the Tata Group, India's largest industrial conglomerate, Tata Consultancy Services is an IT services, business solutions and outsourcing organization.

Charlie Matter: The published amounts have indeed been very high. We could operate for more than 20 years with that sum of money, which obviously gives food for thought. But the complexity of IT solutions shows a tendency to increase disproportionately with the size of a bank, which is also the chance for small and medium-sized banks. Larger banking institutions, however, are prone to build expensive, complicated and customized solutions – if only because there are more funds available – thereby missing the opportunity to take advantage of economies of scale.

Adrian Bult: Larger banks still have a choice to either use multiple systems and do the integration themselves or select a core banking solution like Avaloq and replace 30 to 40 separate applications. As one of the project

leaders at ZKB stated: “In the first year, already, we made savings of 11 percent and at the same time were more productive.” With the experience from our clients we are confident, that, in the long run, the implementation of our banking solution is also an attractive option for every bank from a financial standpoint.

Daniel Bardini: In our view the correct question here is not the amount spent, but if the money invested generated the expected return.

Would you like to make a general comment about costs?

Nicholas Hacking: We see a lot of IT projects where the implementation of a system seems to take much longer than originally planned, and cost considerably more than

originally estimated. It continues to amaze me that with all the expertise available, and with all the knowledge that has been built up over the years with the project experience of both banks and vendors, that some projects still go wrong. There are many successful projects, which of course don't get talked about because they are perhaps not seen as being “newsworthy,” but there are also too many that do end up being the “talk of the market” because of how “wrong” they went. I sometimes think that banks do not examine a vendor's implementation track record closely enough when looking for a company to provide a core application. And vendors need to take each individual bank more into account and the likely circumstances of the project when estimating the likely implementation effort. ■