

# FUTURE BANKING BLOG

## CORE BANKING – DON'T FORGET IT!

Recent announcements from many vendors, combined with evidence from surveys done by IBM and others, have clearly shown that in many banks recent investment in IT has been more concentrated on mobile channels and other “front end” initiatives, rather than changing core banking platforms.

This is probably not surprising in some ways. Many banks needed, and some still need to, play “catch-up” in terms of what they offer their customer base as touch-points to the bank. Simple web-banking applications which only allow inquiries, sometimes on a limited range of accounts or products, and which do not contain any interactive element, are simply no longer an acceptable face for many, if not all, customers.

And as more and more customers, of all ages, are getting used to using a variety of online channels to communicate in other areas of their lives – be it shopping, news or simply chat, the banks need to be seen to be providing similar features, albeit with that added extra which most consumers would judge as being absolutely crucial in a banking context – security.

So the recent concentration of initiatives in this area by many banks is understandable – but I would suggest not sufficient.



It is all very well improving the customer-facing channels, or indeed those system touch-points used by customer-facing staff, and investment in this area will need to continue, but investment should not be limited just to these elements of a bank's overall IT architecture.

Banks after all are not in the Hollywood movie business – it is not just the façade that counts.

With margins and profits continuing to be under threat, and the regulatory burden unlikely to diminish and if anything probably going to increase, it is vital that banks also look at how they can further automate their processing so as to control costs.

But this automation needs to be done in a way that remains highly flexible. The business, and its associated regulatory requirements, is called upon to change more rapidly in future, and as a result systems must also be capable of adapting rapidly, and cost-effectively, to changing requirements.

This means that not only should banks continue to invest in their front-office and other customer-facing channels, but they should also be taking a long hard look at the systems and processes behind these front-office tools – i.e. the core system and its satellite applications.

Banks seem to have been put off, understandably perhaps in some cases, from looking at changes to their core system by the publicity around a number of high-profile (and highly costly) project failures. But rather than shying away from the change banks should be looking at those projects, learning the lessons, and then applying them (where relevant) to their own planning.

It is just not realistic to expect that just changing the front-office and channels will be sufficient to contain the pressure to process more cost-effectively.

Added to this is the fact that a number of regulators seem to be (perhaps a bit late in the day?) looking at the way in which banks' core systems are used, their age, and how they have been built. This interest has no doubt been provoked, in some countries, by the very public failure of certain large banks' systems at crucial moments, so impacting customers' access to ATMs and other services deemed to be "essential".

I would therefore argue that banks need to plan on both continuing the effort in the front-office and channels, but also review and update their core platforms.

In doing so they should divide their planning into short-term, relatively simple in scope, projects, but which in turn fit into and are consistent with, a longer term vision for the bank's core system and overall architecture.

Cost reduction, and indeed the avoidance of large, embarrassing and costly IT project failures, can only be achieved by having a multiplicity of smaller, simpler, steps. Projects need to be planned on the principle of "keep it simple", but consistent with an overall long term vision whose aims should be high levels of automation but within an overall IT architecture that is as simple as possible.

In conclusion, which is very much in line with the views that many banks seem to express via recent surveys, banks will need to continue to invest in IT. But this needs to be done not just in the area of front-office and channels but also in the modernisation of the middle and back-office (core) processing which lies behind that, so as to both automate and simplify. And as always it is always better to be doing it at a pace, and on a basis, which suits the individual bank, rather than being told/forced to do it by the regulator.



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