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The 4 C's of Core Banking

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Abstract

Finding the best way to tackle legacy core systems has re-emerged as a key topic of debate among banks, from top tier global players to smaller, domestic institutions. With their vast, fragmented architectures, banks' legacy systems are typically cumbersome and lack the agility required to adapt to today's business and market needs. Factors such as evolving customer expectations, new regulations and the need to enter new geographies or launch new products require banks to have flexible systems that can continually adapt to support their evolving business needs. With legacy systems so far having failed to address these changing requirements, this article discusses why banks should consider four crucial aspects to make their core banking systems more efficient

this year: componentisation, going back to the core, compliance and customer centricity.

Keywords: **banking; information and communication technology (ICT); core banking; innovation**

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INTRODUCTION

Finding the best way to tackle legacy core systems has re-emerged as a key topic of debate among banks, from top tier global players to smaller, domestic institutions. With their vast, fragmented architectures, banks' legacy systems are typically cumbersome and lack the agility required to adapt to today's business and market needs. Factors such as evolving customer expectations, new regulations and the need to enter new geographies or launch new products require banks to have flexible systems that can continually adapt to support their evolving business needs.

With legacy systems so far having failed to address these changing requirements, this article discusses why banks should consider four crucial aspects to make their core banking systems more efficient this year: componentisation, going back to the core, compliance and customer centricity.

THE FIRST C: COMPONENTISATION

Forrester's research entitled 'The Future Shape Of Banking Architecture In 2023' , identifies a series of requirements as well as the architectural layers of the future banking platform. The key layers focus on personalised customer services and real-time information analysis; a separation of product design and customisation; and a clear distinction between core competencies and non-differentiation functions supported by selective sourcing.

In practice, this means that the big banks are focusing on what they are good at and outsource the rest, whereas new entrants are typically focusing on specific areas within the financial services value chain, such as loans, selling the products of other big players. This approach is already enabling, MoneYou in The Netherlands, for example, to sell loans managed by Fortis. Meanwhile Tesco in the UK, Carrefour in France and Volkswagen in Germany have all entered the financial services market offering payment services from traditional financial institutions in addition to their core offering.

With the traditional banking value chain breaking up, increasing competition in the space and the need to drive down costs, traditional banks, as well as new entrants, will require the flexibility to operate agile banking models that can adapt easily to changes in regulation and market and customer demands. As such, banks and corporates wishing to operate in this market need to ensure their infrastructure is based on a flexible and scalable Service Oriented Architecture (SOA) that enables them to easily and quickly roll out additional products, services and channels to respond to evolving market demands.

THE SECOND C: BACK TO THE CORE

If traditional banks want to be in a position to react to increasing competition in the banking market, an agile and modular core banking system will give them the necessary degree of independence, both on the business and on the IT level, to quickly expand their business, deliver more profitable products, enter new markets and ultimately attract additional lines of revenue. At the same time, banks will be able to focus on their key strengths while at the same achieving cost efficiencies.

In fact, a recent report by Ovum, 'A Change for Good in Core Banking Systems', suggests that banks' core systems will assume greater prominence from 2010 as financial institutions continue to adjust to an altered competitive landscape and a revised set of priorities. With the renewed focus on core banking systems, a piece of Callataj & Wouters European market research conducted in 2010 backs these findings and shows that banks are keen to refresh their outdated systems. According to the findings, 66 per cent of respondents across the UK, Germany and France agreed that the events of the past two years in the finance industry have increased the importance of core banking systems to the business.

It looks like 2011 will be the year when a significant proportion of banks increase their investment in their core banking systems with 44 per cent of research respondents planning to increase spend on their systems over the next two years in order to enhance competitiveness, meet regulatory initiatives and manage risk.

With cost and competition being prime drivers for an infrastructure refresh, banks need to start ridding themselves of the burden of inflexible solutions which were typically designed and implemented when the financial world was a very different place.

THE THIRD C: COMPLIANCE

In addition to increased competition in the banking space and a need for cost reduction, it is regulatory initiatives such as the Single Euro Payments Area (SEPA), the Payment Services Directive (PSD), the latest Basel III proposals and the UK's Faster Payments Service (FPS), to name just a few, that are driving banks to refocus on their core banking infrastructures. Banks need flexible solutions in order to comply and respond to the evolving legislative requirements.

As part of some of the regulatory changes, the ISO 20022 messaging standard, for example, has emerged as the recommended format for all payment processing steps under SEPA. It introduces a number of benefits, such as greater STP rates that enable banks to save time and money. What's more, it offers a more standardised payments service that allows banks to conduct business across national borders, thereby delivering improved customer service. Crucially, ISO 20022 will streamline and standardise payment processes, which means that banks will also have a greater opportunity, as well as more time and money, to focus on innovating payment solutions and services.

In order to take advantage of the benefits new regulatory initiatives offer, the move from

old, siloed legacy systems to a universal messaging standard will help both banks and their corporate customers to enhance their transaction processes and help them reduce the global maintenance costs dedicated to payments processing.

THE FINAL C: CUSTOMER CENTRICITY

As the industry emerges from the economic crisis, many banks are aware of the fact that there is a need to re-establish trust and customer confidence in their services. Following the risk-friendly and somewhat greedy years of the 2000s, customers now need to be put back at the heart of a bank's strategy to ensure they remain competitive in an ever more crowded market place.

As banks look to refresh their overall core banking infrastructure, they must also look to store information at every level of detail in relation to all customer activities across the bank and then link this back to the account portfolio to gain a single customer view. What's more, the multiplication of channels, such as mobile or social media platforms, is making matters even more complex and a comprehensive and cross-channel customer view is therefore becoming increasingly important.

An outdated or fragmented core system prevents banks from achieving a single view of each customer portfolio, creating an obstacle for the front office to manage their customers and maximise revenues. In addition, the banks are then faced with a high cost of ownership and high risk due to inconsistencies across the IT infrastructure due to an accumulation of multiple systems. As such, banks must be fully equipped with the appropriate information to be able to manage and up-sell across multiple channels.

CONCLUSION

A lot seems to be changing in 2011 in the banking space with new payment channels, such as mobile, gaining in popularity the implementation of SEPA finally becoming a reality. In order for banks to deal with these changes and many more, a flexible and modular banking system will be the key to financial institutions coping with the challenges before them and capitalising on the business opportunities that also exist.

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