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ZIONS BANK

# ZIONS BANCORPORATION

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# MODEL BANK



*Zions Bancorporation supports multi-entity business model in first US-based core banking implementation of TCS BaNCS*

By **Jason Dunlavey**, Business Development Director, TCS Financial Solutions



**Z**ions Bancorporation, a bank holding company headquartered in Salt Lake City, Utah, operates through eight banking affiliates in high-growth regions stretching from Texas to Washington State. Within that valuable footprint, Zions competes with some of the largest banks in the world along with numerous community banks.

Zions' business model combines the local, relationship-based approach of a community bank with the sophisticated products and services of a large national bank. Each affiliate bank has decision-making autonomy in crafting products and pricing, which sets them apart from larger banks constrained by homogenous loan and deposit products. At the same time, Zions Management Services Company (ZMSC), the enterprise-wide centralized services organization, provides technology and operational support to drive economies of scale, stronger risk management, and broader capabilities for Zions affiliates.

"The key to this model is execution," says Joe Reilly, CIO of Zions Bancorporation. "We must be flexible enough so that the affiliate banks get what they need to compete in their local markets, while at the same time creating operating efficiencies

on the back end."

When it comes to operating efficiencies, there's always room for improvement.

During an earlier growth phase, ZMSC converted each acquired bank onto its existing core banking solution, and those affiliates were permitted to run their own instance, or version, of the software. "When we were in acquisition mode, we were very accommodating to the needs of each bank as they converted over to our systems," explains Reilly. "We let them run their businesses just the way they had prior to being acquired."

The affiliates were then permitted to customize those separate instances, leading to what Reilly calls the "customization trap."

"The rationale of buying commercial solutions hinges on being able to take advantage of vendor enhancements – both functional upgrades and technology improvements," he explains. "We ended up customizing some of these systems to such a great extent that we couldn't upgrade."

"If we had known how large we would ultimately grow, we probably would have done it differently," notes Reilly.

“ We’re a very collegial, collaborative organization, and TCS approached the relationship in the same way. ”

Joe Reilly, CIO, Zions Bancorporation

## THE DO-OVER

The pressure for a new core banking solution became evident throughout the organization.

ZMSC maintains close business partnerships with its affiliate banks. “We’re very much invested in the business outcomes they’re trying to achieve,” says Reilly. “There are definite pain points we’re facing, and in some cases, our current systems are not meeting the business needs of our affiliates.” In late 2011, Zions issued a detailed RFP to eight vendors, and during the selection process considered almost 1,000 separate evaluation criteria.

The single most important factor turned out to be whether the vendor could provide a modern, integrated core banking solution, which Zions judged to be the foundation of its core business strategy. “Case studies from McKinsey and others suggested that these modern, integrated cores offer competitive advantages relating to both expense management and revenue lift,” says Reilly.

In addition, adopting a modern core banking solution at present would sidestep the need to undergo another upgrade in the near future. Had Zions selected a core banking solution built upon legacy technology, the bank would likely have been obligated to upgrade according to a vendor’s timeline rather than its own. “We didn’t want the disruption of having to upgrade twice within a 10- or 15-year period,” explains Reilly.

Out of the initial eight vendors participating in the RFP process, only three offered a modern core. From there, Zions cut the field down to two, and then in August 2012 finally selected TCS BaNCS.

Among the winning criteria, Zions was impressed by the fact that TCS BaNCS was designed as a product with reasonably complete out-of-the-box functionality rather than as a toolkit or framework needing significant configuration and customization. “It’s a difference in the philosophy of the core banking provider,” observes Reilly. “If a provider thinks about itself as a product company, as does TCS, it will continue to invest in that product and build out functionality.”

The completeness and quality of TCS BaNCS was also evi-



dent from its long history of successful delivery in worldwide deployments. “It’s a proven solution, doing the core processing for some of the largest banks in the world, with successful installations across the globe,” says Reilly.

Although this is the first US-based installation of TCS BaNCS for core banking, Zions believes the risk has mitigating factors. “TCS has had tremendous success implementing TCS BaNCS into new markets and new regulatory environments,” says Reilly. “Even though the US is a relatively complex environment, we feel confident in their ability to deliver.” (See sidebar: *Core Banking in the USA*, page 11.)

“TCS’ strategic commitment to the US market made it evident that they were willing to make the investments necessary to become compliant with US banking regulations and accounting standards, and that they were willing to make the investments necessary to bring a competitive product to market here in the US,” adds Reilly.

The cultural fit between Zions and TCS also strongly influenced the decision. “We’re a very collegial, collaborative organization, and TCS approached the relationship in the same way,” says Reilly. “TCS took a long-term view of the relationship and recognized what we were grappling with and the risks and rewards that we were considering.”



## THE “MODEL BANK” APPROACH

Zions entered into an agreement with TCS earlier this year, and Zions released the news along with its second-quarter results in July 2013.

Over the next five to seven years, Zions and TCS will work together to replace the core loan and deposit systems of six affiliate banks of Zions Bancorporation – Amegy Bank of Texas, California Bank & Trust, National Bank of Arizona, Nevada State Bank, Vectra Bank Colorado, and Zions First National Bank (Utah and Idaho) – with a single, multi-entity instance of TCS BaNCS. Two of Zions’ affiliates – The Commerce Bank of Oregon and The Commerce Bank of Washington – are small, specialty banks with existing core processing outsourcing arrangements in place, and these will remain separate from the TCS BaNCS deployment.

Learning from past experience, Zions will maintain a single

instance of TCS BaNCS Universal Financial Platform for use by all affiliates. “We will have one operating model that all of the affiliate banks will adopt,” says Reilly. “We will not be running separate instances for each affiliate.”

Although Zions will operate its affiliate banks under a single instance of TCS BaNCS, each affiliate bank will remain a separate legal entity with its own books, chartered accounts and customer products.

Another guiding principle of the deployment limits the degree of customization permitted. “We believe that if the appropriate product development occurs, we should be able to meet our affiliates’ requirements by configuring the system rather than having to customize,” says Reilly. “We expect that business-specific changes will be accommodated through parameterization, without any custom code development.”

“ We believe that if the appropriate product development occurs, we should be able to meet our affiliates’ requirements by configuring the system rather than having to customize. ”

TCS is taking an innovative “model bank” approach to the deployment. “Because Zions has multiple entities, our approach is to define a model bank across all of its affiliates,” says Ashvini Saxena, Head – TCS Financial Solutions, Americas. “The model bank defines the integral set of products and processes, with centralized data across all affiliates.”

Development of the model bank will be subdivided into three phases: commercial lending, retail lending, and deposits. For each phase, the model bank capabilities have to be built with the flexibility to support each of the affiliate banks.

Work on commercial lending has started, with an on-site team of 15 to 20 people – mostly senior business analysts and architects, plus some project managers – performing solution analysis. “As we move forward with testing, we’ll ramp up in line with the scale of the program,” says Saxena.

The initial rollout will encompass commercial and retail lending, with quick go-live across all of the Zions affiliate banks planned over a two-to-three month period.

The subsequent rollout of deposits will require more time to accommodate operational transformation of bank branches and tellers across affiliate banks. The first branches are expected to be complete the transition to TCS BaNCS for both lending and deposits as early as 2016, with the remainder of the affiliate banks completed in the 2018-2020 timeframe.

All active accounts and transactions will be migrated onto the new system, along with a suitable range of historical data.

Zions’ total cost for these initiatives is currently estimated to be approximately \$200 million, with approximately one-third of that amount estimated to be capitalized by the bank.

## EXPANSIVE BENEFITS

The TCS BaNCS core banking implementation will have tremendous implications for Zions, its affiliate banks, and its customers – as well as for the US banking industry as a whole.

For starters, customers will receive better information about their accounts stemming from the switch from batch to real-time processing. Customers will also be able to get a 360-degree view of all their account relationships with Zions in one place.

Bank employees will have the ability to improve customer relationships based on the expanded scope of the modern, integrated core banking solution. “TCS BaNCS integrates deposits and loans on one system,” says Reilly. “This brings us toward a 360-degree view of our customer relationships without having to pull together customer information from multiple systems.”

The integration of deposits and loans also improves Zions’ ability to create exciting new products within an accelerated timeframe. “We can create complex relationship-based and behavioral-based products that can span across deposit and credit accounts,” says Reilly. “Furthermore, we will be able to develop and introduce these new products much more quickly than we can currently.”

From an operational standpoint, the straight-through processing capabilities of TCS BaNCS will enable Zions to rethink entire workflows and rebalance processes between the front office and back office. “There will be far-reaching changes with respect to how the banks conduct their day-to-day business,” notes Reilly. “Process standardization and optimization should result not only in lowered expense, but also reduced cycle times, higher quality, and better customer experience.”



## FORMING A TEAM

Early interactions between Zions and TCS have placed the core banking implementation project on a solid foundation. “We’re very pleased with how the teams are coalescing and truly becoming a single team,” remarks Reilly. “We’re very impressed with the caliber of people that TCS has put on the project – we have certainly put our best people on it, and are confident TCS has as well.”

Both formal and informal communication channels have been established to ensure a continued positive experience. “We’re thrilled with where the relationship is today, and expect that to continue,” says Reilly. “TCS has been able to address all of our concerns, and we feel very confident in them as a partner.”

The leadership at Zions Bancorporation expects the TCS BaNCS core banking solution to support the growth of the 140-year-old organization for decades to come. “This has been widely discussed at the executive management committee level and at the board level for several years,” says Reilly. “Everyone understands why we’re doing this.” ■

## FAST FACTS

- Zions Savings Bank was founded in 1873 in Salt Lake City (then the capital of the Territory of Utah).
- Today, Zions Bancorporation operates as a holding company with eight affiliates and 480 banking offices in ten Western and Southwestern states – Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah and Washington.
- As of the second fiscal quarter of 2013, Zions had approximately \$54.9 billion in total assets and approximately 10,200 employees.

## AT A GLANCE

**Company:** Zions Bancorporation

**Headquarters:** Salt Lake City, Utah, USA

**Business Challenge:** To support multiple banking affiliates on a modern, integrated core banking platform

**Solution:** Single instance of TCS BaNCS Universal Financial Platform for multi-entity core banking



## CORE BANKING IN THE USA

“ The model bank defines the integral set of products and processes, with centralized data across all affiliates. ”

Ashvini Saxena, Head, TCS Financial Solutions, Americas

In 1971, TCS won its first North American client. In 1979, TCS was the first Indian technology firm to set up operations in New York City.

Today, TCS supports North American customers with 17 offices in the US, three in Canada and three in Mexico, and with more than 19,000 consultants.

In anticipation of the present pace of growth, for the past several years TCS has ramped up its investments in the US market. “We’ve set up delivery capabilities in Cincinnati and other TCS development centers,” says Ashvini Saxena, Head, TCS Financial Solutions, Americas. “The expansion of our US-based facilities and resources has laid the groundwork for the adaptation and acceptance of TCS BaNCS in the domestic banking market.”

Prior to engaging with Zions Bancorporation for a multi-entity core banking replacement project, TCS performed a full review of US-specific regulatory requirements. “We hired local business experts in lending and deposits, who are responsible for reviewing and identifying required changes for TCS BaNCS,” says Saxena. “We’ve tracked the specifics of regulatory requirements at the state and federal level across multiple regulatory agencies, performed the requirements analysis, and incorporated the required changes into the product.”

In addition, TCS entered into an ongoing relationship with a Top Four global consulting firm, which will be responsible for performing reviews and cross-checks on regulatory readiness for TCS BaNCS. “We’ll be doing these reviews periodically to ensure that we’ve incorporated all subsequent changes,” says Saxena.

The US-based TCS BaNCS team includes regulatory compliance and audit compliance staff having extensive experience working with major banks and consulting organizations, with the legal background and regulatory background to work directly with regulators and examiners. “We’ve hired experts on a full-time basis to coordinate with interactions with regulators, to augment our internal checks and balances, and to ensure the readiness of the TCS BaNCS solution,” says Saxena.

### SCALING UP

The other major challenge with serving the US marketplace is building an infrastructure capable of meeting the expected market demand for a modern core banking solution.

The US marketplace serves a population of over 310 million people with more than 7,000 depository institutions and 6,700 credit unions. Many of those banks – especially the smaller, community banks, are long overdue for core banking replacement.

“Given the large number of regulatory changes and the flow of customers to smaller banks and community banks, Tier 3 and Tier 4 banks have been required to deploy features, functionalities, and levels of regulatory compliance at par with the larger banks,” says Saxena. “They’ve been struggling with those issues and the limitations of the services and solutions provided to them.”

“Through the ‘model bank’ approach to core banking, we believe there’s great possibility to serve those customers,” adds Saxena. “We’ve built the right team to bring to the US the best practices that we’ve learned from core banking rollouts globally, so that we’re able to meet the business objectives of our US clients without delay.”

Already, TCS has decisively demonstrated the ability of TCS BaNCS to accommodate very large numbers of accounts and transactions. In a November 2012 benchmark of transaction processing speed performed by Ernst & Young, TCS BaNCS executed month-end processes for 1 billion loan and deposit accounts in just 88 minutes. Another proof point is the TCS BaNCS deployment for State Bank of India across 18,500 bank branches, which represents a larger branch network than the top three US banks combined.

To support the larger banks as well as the lower scale typically required by Tier 3 and smaller banks and credit unions in the US, TCS has entered into an agreement with Savvis, a CenturyLink company, to offer the TCS BaNCS suite of products on a cloud-enabled hosted environment.

“We have the right technology and the right partners, and we’ve put together a team of experienced subject-matter experts in US banking regulation and operations,” says Saxena. “We’re ready to provide immediate relief for US financial institutions trapped by outdated technology solutions.” ■