

Executive Leadership Drives Core Banking Replacement

Managing a successful core banking transformation requires strong commitment to long-term goals



Girija Pande
 Chairman, TCS Asia Pacific

While measuring ROI can show an institution the financial benefit of incremental investment, and serves as a useful tool for measuring the profitability of financial instruments, productivity enhancements, and discrete projects, coming to an accurate assessment of ROI for large-scale projects has been an elusive task for large-scale bank projects. Industry experts believe that the standard measure of ROI does not adequately capture the broad financial benefit that has been realised from core banking implementations worldwide.

Core banking upgrades reshape and transform financial institutions in a manner that creates multiple dependencies and simultaneous changes across organizations and their customers. With the implementation of advanced core banking technology, banks are able to consolidate their customer information databases, perform analytics based on a single view of customer data, support robust multi-channel access by customers, rapidly develop and deploy new products and services, and expand into new geographic regions and customer segments.

To calculate the incremental financial benefit of a new core banking system, a financial analyst would have to develop a several-year forecast model of how the financial institution would have performed if the core upgrade had not been made, with consideration of competitive forces and technological trends. The need for extensive projections and assumptions limits the utility of standard ROI calculations in determining the business value of core banking systems.

“Core banking is a foundation system,” explains Girija Pande, Chairman, TCS Asia Pacific. “The ROIs will never work out properly, and there are always people who can question it.”

Accordingly, the impetus for core banking replacement has to come from executive leadership. “If a bank’s senior management team, from the CEO down, is not involved in the complete transformation process, there are problems,” says Pande. “It’s the CEO’s commitment to the transformation which makes the ultimate difference.”

Commitment equals speed

An example of a financial institution that has demonstrated firm commitment to transformation is Guangdong Rural Credit Cooperatives (GDRCC). The largest provincial credit union in China, GDRCC is composed of 99 credit unions across the Guangdong province with a total of 7,022 branches, over 57,000 employees, and a deposit balance of over 700 billion renminbi (\$102.5 billion).



Zhang Xuejun
President of GDRCC Yinxin
Financial Service Center

Prior to the implementation of a new core banking system, GDRCC had over 28 data centres running separate systems, and the broader organization was unable to effectively analyse customer data across these systems. Furthermore, the use of multiple systems led to inefficient development practices and uneven deployments of new technology, resulting in an inconsistent customer experience from city to city within Guangdong province.

With the encouragement of the Guangdong provincial government, and in line with GRDCC's charter to support "agriculture, farmer and village," GRDCC's management commenced a core banking modernization project in April 2007, selecting TCS BANCs from over 20 initial candidates for its combination of advanced technology, security and stability, ease of maintenance, scalability, and relatively lower cost of ownership. The solution includes core application modules, debit cards, and flexibility to connect to external systems.

The project, which was completed in 22 months, holds the record for the shortest implementation timeline for a core banking system implementation in China. "This system has completely realized our goal set in 2007," said Zhang Xuejun, President of GDRCC Yinxin Financial Service Centre, speaking at the Asian Banker Summit, 2010 in Singapore. "Based on this system, we can add more functions, develop according to our needs, and push the development of our bank."

The first major milestone was met in October 2009 with GDRCC successfully going live with TCS BANCs at 267 pilot branches and 200 ATMs in the city of Zhongshan. The rollout is continuing across all 7,022 branches, and the end result will be the consolidation of 28 separate data centres and core systems onto a single TCS BANCs system.

Having a single, centralized depository will enable GDRCC to better control risk and gain efficiencies from standardised business processes. Furthermore, GDRCC will be able to establish a common level of quality and customer service, enabling the credit cooperative to meet its overall goals.

"To our bank, the establishment of this system is not the final goal," said GDRCC's Zhang. "Information technology is a tool or method to realize our goals. The IT system has to be consistent with the development strategy, business strategy, risk strategy and marketing strategy of the financial institution," Zhang added. "Only in this way it can push the bank to develop better and faster."

Commitment equals first-mover advantage

Hua Xia Bank (HXB), with its deployment of the BANCs core banking solution from TCS, was the first commercial bank in China to meet with success in going live with a modern core banking system, according to researchers at China Securities Journal.

This undertaking came about from strategic necessity with China's accession to the WTO agreement. "The opening up of the financial services market and the massive entry of Western banks has pushed Chinese banks into the scope of global competition," said Zhang Sheng, Vice CIO and GM of IT Department, Hua Xia Bank. "In addition, the progress of domestic banks' reformation has also accelerated the market competition."



Zhang Sheng
*Vice CIO and GM of IT
 Department, Hua Xia Bank*

In 2002, HXB executives partnered with an international consultancy to perform a GAP analysis between their own capabilities and those of foreign commercial banks. From this analysis, they drafted the development objectives and a work plan for an international reconstruction project. The ultimate objective was not just to implement new technology, but also to perform business process reengineering coupled with an entirely new set of internal business rules and operational procedures.

In 2005, Deutsche Bank became a strategic investor in HXB, entering into a long-term strategic cooperation agreement, which further propelled HXB's searching for a modern core banking system to go in line with international practice. HXB required a core banking system capable of configuring product parameters based on customer requirements, with the flexibility to support the fast paced product development cycle of a competitive global marketplace.

To meet these business requirements, HXB selected the TCS BαNCS core banking solution, deploying a full suite of TCS BαNCS modules, including the teller system on the front end, customer information file, deposit, loan and payments on the back end, and the debit card module. The system went live in July 2009, and has proven itself to be reliable and capable, with around-the-clock reliability and real-time processing.

With TCS BαNCS now in production, HXB can configure parameters at both the product and transaction levels, assemble banking products based on ever-emerging customer requirements, and manage the back-end accounting all within an integrated set of business processes that encompass functional business areas from R&D to sales. Also, TCS BαNCS enables HXB to go further in its cooperation with Deutsche Bank in new product development, marketing, and other areas.

HXB's retail customers now enjoy a personalised experience when entering a branch, with tellers able to access customers' total profiles in order to recommend financial products and services. With faster access to data and reduced reliance on outdated business processes, tellers now have an improved level of understanding and confidence regarding customers' product and service requirements. With this enterprise-wide orientation toward the customer, HXB has been able to improve its marketing, risk management, decision-making, and ability to serve the customers' changing requirements.

"The market has become more customer-oriented," says HXB's Zheng. "Nowadays, customers are more aware of branding and the positioning of the banks, and they are requiring more diversified and personalized services and products, and also they require differentiation, timely information and consultation."

The competitive advantage stemming from the bank's core transformation project has been a major success for HXB executives, who can take pride making HXB the first publicly traded commercial bank in China to go live with an advanced, modern core banking system.

Commitment equals flexibility

Founded in 1946 as the country's first national bank, Bank Negara Indonesia (BNI) is a provider of financial services to over 9.6 million retail customers and about 150,000

corporate customers. BNI offers a diverse set of offerings for retail banking customers, Islamic banking customers, small-to-medium-sized enterprises, corporate customers and government entities.

As with any major business decision, core banking upgrades have to be evaluated with consideration of company strategy, technological trends and competitive dynamics in the industry. "With core banking or with any other technology, we have to realise that technology is growing exponentially," said Dr. Henrisa Lubis, Vice President, Information Technology Division, BNI. "We have to really think through our decisions."

In embarking upon a core banking upgrade initiative in 2004, BNI gained the ability to offer Shariah-compliant Islamic banking services alongside conventional banking, addressing a vibrant and growing market. "The tellers in all of our outlets are able to look at both the conventional and the Shariah accounts from the same window," says Dr. Lubis. "We have two systems—conventional and Shariah—working together as one."

This enabled the Islamic banking customers to gain instant access to a large branch network from the outset, rather than what would have been necessary had it been launched as a separate bank from the outset. Now that the Islamic bank has gained traction, customers and profitability, BNI has enough scale with its Islamic banking business to justify creation of a separately-branded spin-off for Islamic banking that nevertheless uses the same underlying technology.

Powering the bank's capabilities is TCS BANCOS core banking. Internally known as BNI iCONS (Integrated and Centralized Online System), the system processes an average of 2.8 million transactions daily. Following the deployment, the bank achieved a 30% reduction in time-to-market for new products while reducing total cost of ownership by 50%.

Core banking in a scaled-up world

Based on the adoption of modern core banking systems in populous Asian countries including China, Indonesia and India, it's evident that the scale of banking operations has undergone an order-of-magnitude shift. "The whole scale of the banking business has changed," remarks TCS' Pande. "We thought we had done a great job when we implemented core banking for State Bank of India with 125 million accounts, until we came to Bank of China and discovered that they had 380 million accounts."

The fundamental scale shift affects the economics of banking across the entire global financial services industry. Whether to update core banking systems is neither a luxury to be considered only by the largest retail banks or a matter to be decided by short-term ROI calculations. Instead, the imperative to upgrade core systems has become a necessity to be addressed head-on by senior executives at financial institutions of every size and scope. Whether through in-house deployments or shared services arrangements, viable solutions exist that fit the needs of financial institutions both large and small, serving any combination of target markets and geographies.

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