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# Banking Innovation

*The Enterprise-wide Integrated Banking Platform*



## Retail Banking Innovation

Enabled by the Enterprise-wide Integrated Banking Platform

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## Why Innovation?

### Re-engineering the Core to Drive Institution-Wide Innovation

By Kirk Laughlin

Obsolete banking systems are limiting many North American banks from reaching new levels of integration, performance and most importantly, innovation. The limitations arising from legacy systems are profound, and many bank executives are now recognizing the shortcomings of a "best-of-breed" approach, popularized in the 1970s and 1980s, that does not align well with the industry wide movement toward a focused, 360-degree view into the needs of the customer.

To some, the effort to modernize core banking systems can appear to be an ambitious exercise. Many banks are reluctant to move away from entrenched systems, like longstanding and reliable deposit platforms, in favor of new architectures that would tie deposit platforms in with potentially dozens of other systems, thereby eliminating the limitations of a stovepipe framework.

A combination of factors, however, is leading to this newfound consideration of core system transformation. A leading analyst firm estimates that banks that replace best-of-breed systems with highly integrated core processing systems can realize a 20-40% reduction in IT and other operating costs. The truth is bank technology executives continue to express frustration with the time and effort needed to create ways for legacy systems to interact with one another.

At a time when maintaining customer loyalty is often central to the bank's mission, banks require the tools to gain a comprehensive, unified view of the customer. In addition, banks require straight through processing which is seen as a major step away from the manual, inefficient legwork of past. And, finally, there is widespread awareness that the US is lagging the rest of the world in pursuing the advantages of a modernized core.

"The increased focus on financial industry technology suggests that the long expected wave of core platform transformation in the U.S. could happen," Steven Reiter, senior executive and banking technology lead at Accenture, said in a recent story in *American Banker*. "The banking industry drivers are consolidation and the entrance of foreign players and non-traditional competitors, increased customer servicing demands, high IT development and maintenance costs, the need for greater product flexibility, and impending regulatory changes."

### Technology Drives Strategy

Bank technology investments are, perhaps more than ever, viewed as carrying vital influence over the strategic direction of the bank itself. As a result of the economic crisis, bank CIOs in particular are being called on to take a leadership role in using technology tools to drive out inefficiencies and reduce costs. The ability for CIOs to achieve this goal lies in part in their ability to support complimentary objectives across business and technology domains.

"The increased focus by banks on core systems replacement

and simplification of the IT environment reflects a more strategic approach being taken by banks to IT investments," Robert Hunt, senior research director, Retail Banking, at Tower Group, wrote in a recent research note. "Rather than banks implementing individual systems on an "as needed" tactical basis, these actions indicate a long-term, strategic approach to IT modernization."

Hunt identifies six drivers behind the adoption of new core systems, including:

- Increased functionality and flexibility
- Reduced operating costs
- Improved sales platform with streamlined workflow
- Greater degree of systems integration
- Improved customer service capabilities
- Reduction in the number of vendors supplying critical systems to the bank

### The New Role of the Modern Bank

One of the realities many of today's bank wrestle with is how to stay relevant to the lives of customers, many of whom are part of a younger generation that may have less brand loyalty than earlier generations of customers. One way banks are confronting this challenge is by establishing new channels like mobile banking that not only reduce dependency on physical branches, but also generate a closer relationship with the consumer. Sending balance alerts and personalized text messages to the customer's mobile device, for example,

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enables banks to establish a closer bond with the customer which puts the bank in an advantageous position to provide additional services.

As banks evaluate core modernization projects, a common part of the analysis includes examining how customer information can be mined, manipulated and understood in order to achieve improved engagement and loyalty. Jacob Jegher, a senior analyst with Celent's Banking Group, said it is crucial for banks to be able to blend social media activities into bank's day-to-day activities and customer relationships. "The days of pushing data and information out to the customer are over," remarked Jegher in a recent research note. "It's now a two-way street and banks should capitalize on the streams of data, information and interactivity headed their way."

The requirement to create a "two way street" where communications lines remain open between both banking institution and customer clearly puts enormous stress on banks relying on legacy systems that are not designed to distribute information to other information silos. What is required is for banks to be agile and informed enough to respond to a customer who may show interest in, for example, a home equity line of credit or a college savings plan. Lacking real-time access to a fully formed view into the customer's patterns, history and expressed preferences virtually eliminates the opportunity for the bank to present innovative, on-demand solutions to the customer's discreet interests.

Furthermore, customers in recent years have become particularly sensitive to the quality of the banking experience

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and therefore are quick to identify inconsistencies in rules from one banking division to another. If systems are failing to communicate with each other, then the risk of customers being provided with contradictory or incomplete information only rises.

Ken Newman, Vice President & Information Security Manager at Central Pacific Bank, says the migration toward core banking systems "makes sense on a number of levels," especially in the area of risk mitigation and security management. "From a security, risk and compliance perspective, you've got a golden source of data. You know where it is, you have a clear picture of whose using it and you are able to put more controls around it."

This viewpoint is also one subscribed to by Infosys Technologies – provider of Finacle universal banking solution that provides an integrated banking platform for core banking, wealth management, CRM, Islamic banking and treasury requirements of retail, corporate and universal banks worldwide.

Rajashekara Maiya, from the Finacle product strategy team, emphasizes that it is often a central commitment to innovation that enables banking executives to see the true advantages of core transformation projects. He cites examples where banks have been able to launch new products within a week instead of the several months it used to take.

He also notes that Finacle is designed not to be driven only through IT departments. In other words, business leaders have an important role to play in running and testing new platforms and applications. "Inside the bank, we have taken a business perspective rather than an IT perspective," he says.

## Related Industry News

### [The Core of the Matter](#) *American Banker*

Wanda Guttas is taking Union Bank on a journey few in the industry have dared — a four-to-five-year trek to a full-scale core upgrade. As program director for the integrated platform, Guttas and her more than 100-strong team will migrate the \$70 billion-asset bank from 50 systems that cover checking, customer information, sales and servicing and commercial and consumer loans to Finacle, an integrated system from Infosys.

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### [Banks Incubate The Innovation Fixation](#) *Bank Technology News*

Steve Jobs said that innovation is what distinguishes a leader from a follower. Most banks don't have Apple-esque credentials when it comes to innovation, but more are not only seeing the value of thinking out the box, but also understanding that creativity doesn't happen in isolation-hence the innovation lab.

>> [read more](#)

### [Viewpoint: Four Models to Produce Three Strong Years](#) *American Banker*

From 2000 to 2007, top-performing banks had an average return on equity of 26%. Today, many of these same banks are looking at 5% — if they are still in business.

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## Ideas for Innovation

Read these perspectives from Infosys:

### A Compelling Case for Channel Innovation

As banks around the world recover from economic upheaval, there's a strong need to innovate on existing ways of doing business, in order to safeguard long-term sustainability. Channel innovation, which has changed the face of banking in recent years, must continue to spearhead the charge. There is much to be gained from innovation including improved customer engagement, agility and efficiency. Not to mention, that even banks' long term future might depend on how well they innovate. >> [read more](#)

### Incremental Innovation: 7 Small but Sure Steps to Success

Innovation is a powerful weapon of differentiation for financial institutions. In recent years, banks have innovated on their products, processes and channel infrastructure to achieve multiple objectives such as raising operational efficiency, improving customer convenience and accelerating business growth. >> [read more](#)

### Making Banking Innovation Count

Banking innovation is subject to closer scrutiny during tough times when there are larger hopes pinned on favourable outcomes, and greater concerns regarding resource utilisation. Arguably, service and product innovation are at the forefront of most change-bearing initiatives. >> [read more](#)



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### Offerings Innovation: Make Products Work Harder in Tougher Times

If you were piloting a plane through turbulent weather, you wouldn't switch off the engine in fear. You would not fly the plane as you did when the sun was shining and you were coasting along either. Instead, you'd think intelligently, plan diligently and do all you can to keep passengers safe. After all, they'd count on you to land safely. >> [read more](#)

## Enabling Innovation: Demos

Learn more about enabling innovation by viewing any of the featured Finacle demos below. You may also request a full personalized demo by [emailing](#) today.

-  **Account Opening**
-  **Alerts**
-  **Bill Payment**
-  **Campaign Management**
-  **Disbursements**
-  **Interaction Module**
-  **Liquidity Management**
-  **Product Creation**
-  **Syndication Source**
-  **Transaction Source**

## Innovation Success Story: Union Bank

Hear from **Wanda Guttas, Executive Vice President, Union Bank** on implementing an integrated banking platform solution.



Union Bank, N.A., is among the 25 largest banks in the United States, based on assets. The bank has 335 branch offices in California, Washington, and Oregon; two international offices; and facilities in six other states. Union Bank, N.A., was the first major Californian bank to open a 7-days-a-week supermarket branch

in 1990. The bank's holding company is UnionBanCal Corporation, which is a wholly owned subsidiary of The Bank of Tokyo-Mitsubishi UFJ, Ltd. BTMU is part of the Mitsubishi UFJ Financial Group, Inc., one of the world's leading financial companies with assets of \$1.4 trillion as of September 30, 2008.

Sumit Virmani, Head Product Marketing, Infosys Technologies Limited spoke to Wanda Guttas, Executive Vice President, Union Bank about the transformation strategies that Union Bank is adopting to emerge unscathed and stronger in these challenging times.

**Q:** Wanda, to say "These are challenging times for the global banking industry" would surely be an understatement. Can you tell us how the transformation program that Union Bank has embarked upon would prepare the bank to thrive in these difficult times?

**A:** Yes these are certainly very difficult times. But we at Union Bank believe that this is the perfect time to be embarking on a transformation project such as this. We believe that when the economy and financial industries recover and the consumer confidence is restored, we will be in a position to respond quickly to the changing environment. We are dedicating a very significant number of resources to the transformation program.

We took over 100 senior-level employees from their existing jobs to work on the transformation program which created the need to back fill a number of positions. With the uncertainty in the marketplace and the consolidation of banks we have been able to hire some very top notch talent to augment our project as well as work on our business lines. So, when the economy does recover and we seek growth opportunities we will be in a very strong position with a new platform and business model that will enable us to respond quickly.

**Q:** Let me now ask you about what has been called the 'crisis of trust'? Customer confidence in banks has declined dramatically. Given your aggressive retail strategy, how in your opinion will this transformation program play a role in rebuilding that lost trust?

**A:** I think there are several ways. One area in particular has to do with the product itself. Six months ago, before the changes in the stock market, certainly the demand for products of a more conservative nature weren't quite as great as they are today. So a transformation program such as this will enable us to respond quickly to consumer desires and needs in the market place and help solve some of the uncertainty.

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But, more importantly from a service stand point and a product need, we believe that we will be able to leverage information about our customers in a much greater way than we have ever been able to do so. The 360 degree view of our customers is something we have not had in the past. So being able to meet small needs of the customer and reassure them that we understand their total banking portfolio and their service needs is part of restoring confidence. We also hope to be on quite an aggressive acquisition campaign purchasing financial institutions in the very near future. One of the things we believe an integrated banking platform will enable us to do is allow customers to retain some of the product and service features that they had with their old institutions, rather than requiring them to change to a new bank's product and service capabilities; this allows a lot more flexibility in that respect. We have also been very fortunate because we have seen a migration of new customers to the bank as a result of their confidence in our financial condition, which has been beneficial for us as well.

**Q:** We have consistently seen that a large scale transformation program of this scale requires significant preparedness and change on the part of the organization, beyond just the technology infrastructure. How has Union Bank gone about preparing itself for this change?

**A:** That's probably what keeps me up at night, when people ask me what I am concerned about. The organizational change in our first release will probably touch about 60 percent of our employees. The tools that they use to do their jobs will be different for about 6000 employees who will need to prepare for this change.

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We have twelve dedicated project teams for our transformation program and one of them is dedicated fully to the organizational change aspect. We started them at the same time even though we are two years away from going live. As the others, this project team is focusing on training and extensive communication programs within the bank. We are also developing what we call a Customer Advocacy Panel where we are using our line officers, to be able to articulate to the senior project team members, as well as our executive management, how they see our program impacting customers so that we can prepare customers adequately as well.

Within our organizational change team there are professionals dedicated to communications and training, as well as a couple of team members I call the 'worry warts,' who come from the business lines. Their job is to worry about how this will impact their business groups. They are the voices of the organizational change team and will make sure that all the little details are brought to light in our communications and training. So it's a big, big part of our program transformation.

**Q:** We have also witnessed that when banks are embarking upon a program of this nature they are usually caught up between the choice of integrated versus best of breed. Could you share with us the thought process behind the choice of integrated banking platform for Union Bank?

**A:** Yes. We have definitely struggled with the best of the breeds and actually that's how we got to the decision to make an integrated banking platform selection. We were looking at replacing our core banking DDA system (Demand Deposit System) and CIF (Customer Information System) and as we



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were pursuing the best of breed out there and looking at the cost and time to actually implement that, we quickly came to this conclusion that at the end of two to three years while we would have brand new DDA and CIF systems, we would have a number of our old other legacy systems as well. This would mean spending a lot of time and money to integrate them again. It quickly became apparent that an integrated banking platform approach would allow us to replace multiple legacy systems at a lower cost and at a quicker pace, than if we took a one-off, best of breed approach. Then, when you take that through the whole transformation cycle, you start to think about what that means to your front line, the training time and the cost to integrate to acquire new institutions. It made a lot of financial sense to take this approach and learning more about the platform has been very exciting for the team because the capabilities and the confidence that we made the right decision to pursue an integrated banking platform vs. the best of breed, I think, is quite sound with the program.

**Q:** Talking about the long term business impact of such a program, how do you see it delivering a distinct and sustainable competitive edge for Union Bank?

**A:** The transformation of course is a journey. It's not the end. Technology enables the transformation and so you know the goal is to initially install the technology and then leverage it for the future and we see some very exciting prospects for the long run as a result of this. As we pursue our journey, it will enable us to develop a series of building blocks to make the bank more streamlined, more efficient and offer services that we could have only dreamed of in terms of real time systems. Things that we didn't start doing until 8 in the morning, we can now be doing at

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11 in the morning and can be done in some places where 11 a.m. is the middle of the day. When people come back to work in the morning all the work that they normally would have done is completely finished and we can deliver information to our customers about their accounts much quicker in the morning than we had ever been able to do. So, we see this as a long journey but as we take individual steps, each will reveal a new journey, a new potential opportunity for the bank that we will continue to leverage.

**Q:** Finally, Wanda. Many global banks that had plans for replacing their back office systems have been stopped in their tracks by this financial turmoil. What would be your advice to them in these challenging times?

**A:** I would say that for financial institutions committed to pursuing an integrated banking platform, capital may well be at a premium these days and may not allow the opportunity for them to pursue it. There is certainly a lot of planning required for an integrated banking platform, a lot of preparation needed but if they truly are committed to it, that type of work can continue. There is a lot of preparation required not only in making sure your organization is ready for it and is going in the same direction but being prepared for the actual technology journey takes a lot of planning as well.

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## About Us

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Finacle from Infosys partners with banks to power-up their innovation agenda, enabling them to differentiate their products and service, enhance customer experience and achieve greater operational efficiency. Finacle solutions address the **core banking, wealth management, CRM, Islamic banking** and **treasury** requirements of retail, corporate and universal banks worldwide. Finacle solutions also empower banks with multiple sales, service and marketing channels including **e-banking, mobile banking** and call centers. These offerings make Finacle a strong innovation-facilitator enabling banks to accelerate growth, while maximizing value from their large scale business transformation.

Finacle is the chosen solution in over 131 banks across 65 countries. For more details, visit [www.infosys.com/finacle](http://www.infosys.com/finacle).

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