



V E N D O R S P O T L I G H T

Core Banking Systems: It Will Get Interesting in 2013 and Beyond

February 2013

Adapted from IDC Financial Insights' *Core Banking Update Report 2012*, by Cyrus Daruwala, managing director, IDC Financial Insights

Core banking is the central nervous system of a bank managing channels, accounts, products, deposits, loans and overall GL functionalities across the bank. The system is essentially responsible for processing and posting transactions to and from a customer's accounts, enabling customers to maintain and access multiple products belonging to different lines of business.

A typical Core Banking Systems (CBS) is augmented by various Line of Business (LOB) point solutions. In the midmarket segment, CBS typically includes channel systems for call center, Internet banking and ATM, business intelligence, and CRM. Sometimes CBS also include Cards & Payments solutions. Meanwhile, core systems for the smaller institutions typically provide all systems and technology necessary to run the entire business, and even include accounting, fraud management, compliance, and systems architecture. These are often referred to as Bank – in a – Box.

In this document, which is partly an excerpt taken from IDC Financial Insights' *Core Banking Update Report 2012*, we will highlight the drivers that encourage these banks to refresh, modernize or replace their core systems. We also assess the impact of recent shifts in vendor strategies for the larger bank and conclude with some essential guidance to banks, looking to address their core banking systems

Asia/Pacific's Top Banks and Their Core Banking Partners

A review of the largest banks in Asia/Pacific confirms our observations, that no one vendor *dominates* the core banking vendor landscape. Some of the larger global core banking vendors from US and Europe have their fair share of references among the regional banks, some as much as 12 – 15 year old references, but nevertheless nobody dominates the CBS space.

In terms of sheer number of references among the top 120+ banks, **Silverlake Axis** is one of the leaders, with more than 30 references in Asia Pacific, followed by Temenos, FIS, Fiserv, Oracle and Infosys. The region is also home to a large number of internally developed systems, usually mainframe-based, as well as systems developed by local vendors, a trend we see especially in South Korea and China.

Vendor Strongholds

Vendor strongholds prove how vendors' references in the market are crucial, allowing banks to see if similar models can be easily replicated within their own institutions, with greater certainty and that local know-how, skills, and support are available. As a slew of core banking projects get started in the near to medium term, certain countries will likely see vendor incumbents get even more dominant, as

they are best placed to clinch the upcoming deals and as they squeeze out less prominent players from the game. In short, vendor strongholds — highlighted in Table 1 — will most likely perpetuate.

Table 1

Leading Core Banking Players in the Top 10 Bank Segments in 12 Asia/Pacific Countries

| Country | Prominent Core Banking Applications |
|-------------|---|
| Australia | Internal / Older proprietary , SAP, Oracle, Hogan |
| China | Local / Internal / Older Systems, Temenos, TCS |
| Hong Kong | Local / Internal / Older proprietary systems |
| India | Infosys, Oracle, TCS FNS |
| Indonesia | Silverlake Axis |
| Malaysia | Silverlake Axis |
| Philippines | Silverlake Axis , FIS, Infosys |
| Singapore | Silverlake Axis |
| South Korea | Local core banking applications, Hyundai |
| Taiwan | Internal and proprietary systems |
| Thailand | Silverlake Axis , FIS |
| Vietnam | Silverlake Axis , Temenos, Hyundai |

Note: The list of prominent core banking vendors in each market changes when non-top 10 institutions are included.

Source: IDC Financial Insights, 2013

Old is Not Gold

The age of core banking systems across the Asia/Pacific markets brings up perhaps the most common call to action for core banking modernization — that current core banking systems are simply too old to support the new ways of banking; The way the *Customers* would like to bank.

As a group, Asia/Pacific banks compare favorably versus their peers in the United States and Europe, with respect to the age of core banking systems currently in use. In Asia/Pacific, there have been many references of banks leapfrogging technologies and investing in new generation core systems, not to mention how several newly emerged institutions have built up altogether sophisticated core banking platforms.

However, certain markets in Asia/Pacific stand out for having relatively "older" systems — Taiwan, the Philippines, South Korea, Hong Kong, and the tier 2 banking segments in Australia are where a more wide-scale migration of core banking systems might be impending.

IDC Financial Insights estimates that nearly 32–38 of the 120 banks (a range of 26.7% to 31.7%) will effect significant changes to their current core banking systems within the next three years. Note that these include not only whole-of-core transitions but also significant changes to key components of

their core systems such as chart of accounts, GLs, and loans, deposits, Payment systems — reflecting the growing preference for iterative creation of a core banking platform for many banks in the region (and worldwide).

Results from a recent survey conducted by IDC Financial Insights covering Indonesia, Philippines, Taiwan and Vietnam, give an indication of the extent of core banking modernization activity we expect in the short term (see Table 2).

(Please note, however, that our survey results *included non-top 10 banks as well*, and that similar surveys were not run in the remaining 8 markets covered in this report.)

Table 2

Banks' Plans for Core Banking System Modernization in the Next Three Years

| | Have decided to replace | Actively looking to replace | Will do minor/major changes | No change/Undecided |
|--------------------|-------------------------|-----------------------------|-----------------------------|---------------------|
| Indonesia (n=9) | 0% | 22.0% | 66.7% | 11.1% |
| Philippines (n=24) | 7.1% | 21.4% | 57.2% | 14.3% |
| Taiwan (n=26) | 11.5% | 15.4% | 61.5% | 11.6% |
| Vietnam (n=9) | 11.1% | 11.1% | 77.8% | 0% |

Source: IDC Financial Insights, 2013

Future Outlook

For 2013, a higher percentage of core banking deals will continue to be seen from India, Indonesia, South Korea, Malaysia, the Philippines, and Cambodia.

ASEAN. The momentum for core banking renewal will come from either the top-tier domestic players in Vietnam, Malaysia, Sri Lanka and Cambodia or from the midsize banks in Indonesia, Philippines, and Thailand, that want to use modern core applications to propel them to the big leagues. Aggressive market share competition is expected within the ASEAN markets, and a new core banking system is tied closely to the organization's ability to compete and rise above its peers.

Australia and New Zealand. Huge core banking deals come in cycles, and the recent surge in core banking spending (coming from the Commonwealth Bank of Australia) will not be sustained. Smaller banks, however, will still need to modernize their legacy platforms

China. Scalability is the name of the game. Outside the big state banks that are going for in-house solutions that might or might not be based on large vendors' core banking frameworks, the mainland's city-based banks will invest in core solutions that are easy to deploy and that will provide significant capabilities in throughput and transaction volumes. Thanks to newly issued banking licenses, foreign banks are quickly setting up operations in the country and are thus eager to roll out core banking systems expeditiously, albeit with some customization to align with Chinese banking practices. Meanwhile, rural cooperative banks are keen to invest in utility-based solutions

India. A wide range of banks, from large public sector to smaller private banks, are still deploying core banking solutions in an effort to upgrade manual processes and increase overall operational efficiency. Financial inclusion, banking joint Ventures, bancassurance, and other unbanked initiatives are creating opportunities for banks that previously not exist.

North Asia. Core banking deals will be signed by banks that have recently finalized or will soon finalize their strategic IT master plans. These master plans are built on banks' views of how banking will be undertaken in the future, reflecting the forward-looking mindset of only the strongest, most sustainable banking organizations in South Korea and Taiwan.

Singapore and Hong Kong. The Asia/Pacific financial powerhouses are competing to be the IT and operational hubs of emerging Asia/Pacific super-regionals and will thus seek core banking platforms that can serve multiple operations across multiple countries. Banks will be looking for a base set of applications that will be the platform for country-specific overlays for risk management, currencies, products, and pricing. Meanwhile, the dominant domestic players (3 homegrown banks in Singapore and fewer than 10 banks in Hong Kong that have really old core banking platforms) will need to map out their respective core banking systems for the future.

Essential Guidance for Banks

Banks that are pushing forward with core banking upgrades will have to integrate to their program of work their organization's strategies in traditionally "noncore" areas such as data management and risk management. A truly modern core banking system will significantly scale up a bank's capabilities in these two "hot" areas for 2013 and beyond. A program that neglects these areas will create a run-of-the-mill core system and represent a missed opportunity for real banking modernization.

Core banking vendors such as Silverlake Axis have responded and have come up with propositions in these same areas of risk and data/analytics — and others as well, although some of these "others" like social media or peer-to-peer functionalities can prove to be more nice-to-have factors in the meantime. Banks need to understand what exactly their current and alternative vendors have to offer in these new areas and how these fit in the vendors' view of what a "new core system" is. Furthermore, how a vendor addresses the "what is your 'new' core banking vision" question will help the bank in determining whether the vendor will fall victim to the supposed consolidation of the vendor landscape.

Finally, while cost blowouts and timeline extensions are common issues in core banking projects, they will become more pertinent as core banking projects regain momentum in Asia/Pacific. Projects will compete for skilled and experienced resources for systems architecture and core banking implementation, ultimately making core banking more painful than it should be. However, it is the adherence to the old but still relevant principles of project management that will keep banks on the path to success.

ABOUT THIS PUBLICATION

This publication was produced by IDC Financial Insights Go-to-Market Services. The opinion, analysis, and research results presented herein are drawn from more detailed research and analysis independently conducted and published by IDC Financial Insights, unless specific vendor sponsorship is noted. IDC Financial Insights Go-to-Market Services makes IDC Financial Insights content available in a wide range of formats for distribution by various companies. A license to distribute IDC Financial Insights content does not imply endorsement of or opinion about the licensee.

COPYRIGHT AND RESTRICTIONS

Any IDC Financial Insights information or reference to IDC Financial Insights that is to be used in advertising, press releases, or promotional materials requires prior written approval from IDC Financial Insights. For permission requests contact the GMS information line at 65-6829 7757 or gmsap@idc.com.

Translation and/or localization of this document requires an additional license from IDC Financial Insights.

For more information on IDC Financial Insights, an IDC company visit <http://www.idc-fi.com/>. For more information on IDC visit www.idc.com or for more information on GMS, visit www.idc.com/gms.

Asia/Pacific Headquarters: 80 Anson Road #38-00 Fuji Xerox Towers, Singapore 079907 [idc-fi.com](http://www.idc-fi.com)