



Core Banking transformation geared towards a “new normal” digital world



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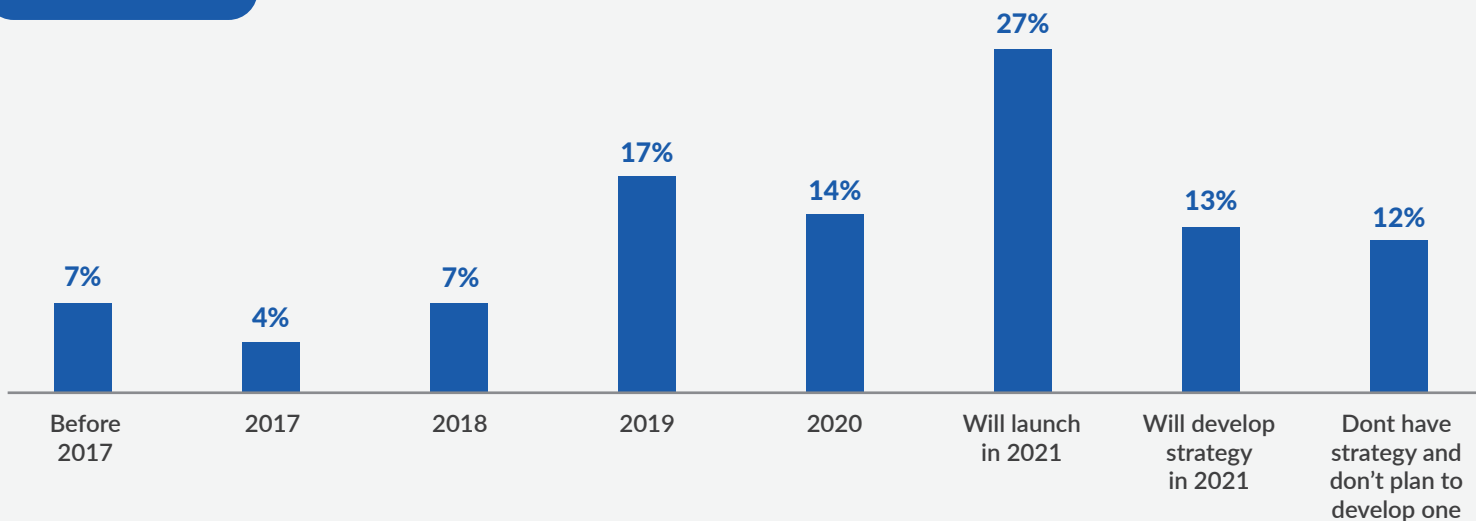


1 Foreword

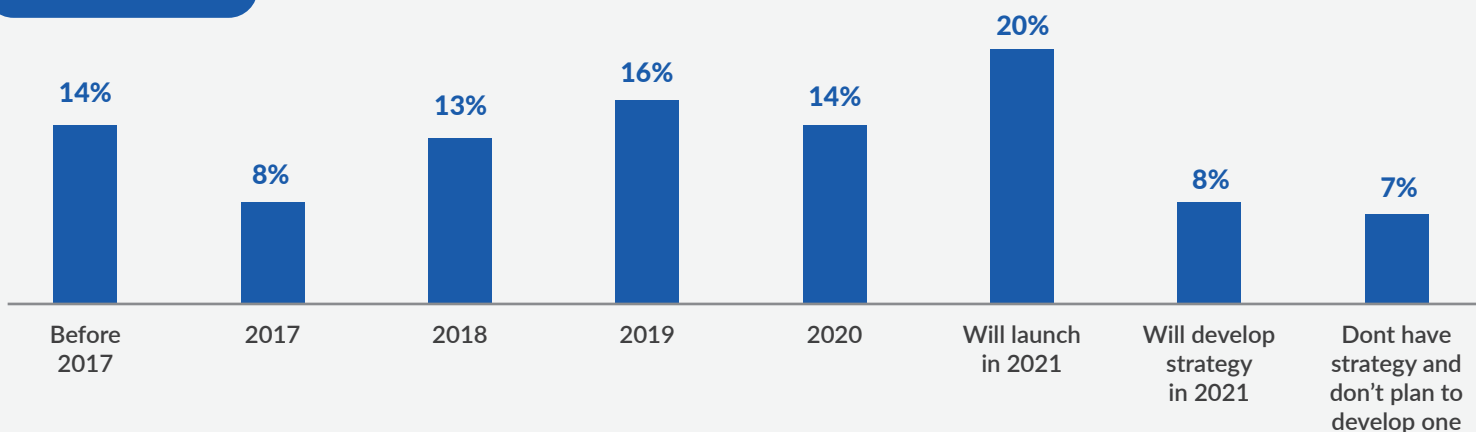
Digitization and increasing customer's demands has led banks to an upending scramble of providing 'banking services at a click' to its customers sitting anywhere around the globe. The legacy banking system has curtailed the banks from expediting and releasing new service offerings to their customers, and hence, digital core transformation is the only option that banks have in order to preserve and build up on its market share and to remain competitive with the emerging fintechs and neobanks. The digital transformation journey of a bank is marred with difficulty and challenges at every front, therefore the transformation journey should be well planned and implemented in a phased manner. The selection of the right core banking product cannot be overstated. Thus, keeping in mind the present and future business strategies, banks should accordingly plan their digital journey.

When did your institution launch its digital transformation strategy?

Banks



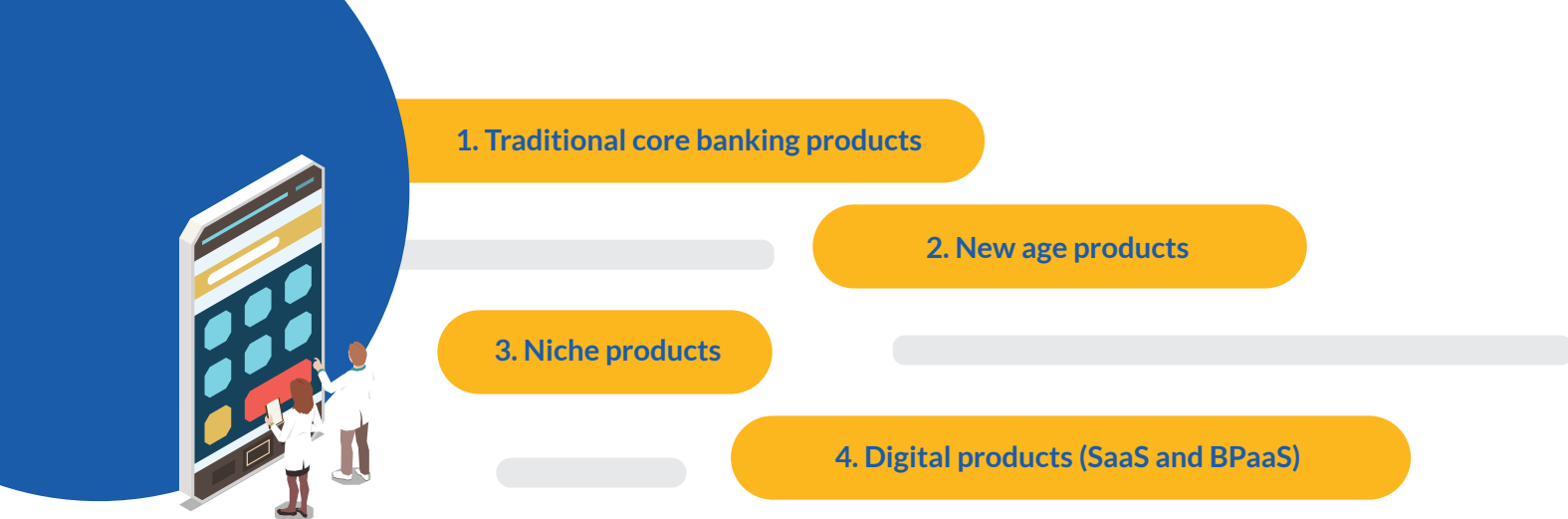
Credit Unions



Source: Cornerstone Advisors survey of 260 community-based financial institution executives, Q4 2020

2 Executive Summary

Core banking transformation in the new normal digital world is a crucial step for banks to remain competitive and retain their customers by providing them improved services and an enriched banking experience. This white paper focuses on the needs of banks to undergo core transformation, to determine the diverse approaches that could be followed for the transformation journey. After a basic foundation of why and how banks need to go for a core transformation, an evaluation grid is discussed which includes all the necessary parameters that a core banking product should deliver. This evaluation grid acts as a checklist to aid banks in choosing the right banking suite. The evaluation grid can be summarized broadly into 9 different parameters, that are, Business Area, Functional Use Case, Vendor Details, Product Features, Implementation, Product Principles, Operations, Training & Support and Cost. This evaluation grid developed is further utilized in the white paper to compare 6 different core banking products which are taken from four exhaustive categories into which core banking products are divided into. These categories are-



The six products taken from the above four categories are compared on the basis of the evaluation grid parameters and then rated on a scale of 1-10; 1 being the lowest and 10 being the highest score in any parameter. An aggregate score is further calculated by multiplying the average of each parameter score and the weightage set for each parameter which are bank specific and decided previously for each parameter (depends on the strategy and business case of the bank). After the comparison is made, it is concluded that the product taken from niche category scores the highest among all other products included in the comparison. The second position is taken by the product in the digital players category followed by three products taken from the traditional core banking products category. The sixth or the last position is taken by the product coming from new age products category. Thus, an overall comparative chart is created at the end which acts as a baseline version of how to compare and select from a plethora of options available in the market. In the end, an overview of Hexaware's approach and solutions are discussed.

“Many banks that were taking an incremental approach to digital were shocked into reality during 2020, and executives realized greater investment and faster transformation is needed to stay relevant.”

—Cornerstone Advisors

3 Digital Core Banking Transformation Introduction

3.1 Need of digital core transformation

Operational Improvement- The traditional legacy systems have rigid monolithic architecture and it is impossible to upgrade and work on a particular product feature without affecting the entire system. Digital transformation of the core solves this recurring issue by providing the modular architecture and end-to-end streamlined business processes, automating manual tasks and increasing the employee productivity thus boosting the operational efficiency of the bank.

New Functionality- The transformation also helps banks in innovating and introducing new functionalities in lesser time, thus, improving customer satisfaction and retention.

Regulations & Compliance- The digital core transformation also makes the system more flexible than the legacy systems and therefore compliance to the law of the land becomes easier for the banks in different regions.

Cost optimization- The decreased cost of maintaining deposits, transactions and improved operational efficiency helps in cost optimization for the bank. The increase in employee productivity also helps banks to improve their overall resource utilization.

Business and IT alignment- The business case for core transformation helps align the IT with business strategy of banks and increases the scope of services by choosing the right fit configuration in the core banking product.

3.2 Approaches in Digital Transformation Journey

The legacy system acts as a roadblock in increasing the scope of services and competing with the emerging neobanks and the fintech firms. Due to this, digital transformation has become the need of the hour. There are two different approaches of undergoing the journey of transformation-



Big Bang Approach- Under this approach, the banks completely rip and replace the legacy system with the new digitized core. This halts the banking operations totally until the complete implementation is done.

Incremental Approach- Under this approach, new modules are added along with the legacy system in a standalone format. The legacy system remains functional and new modules added are integrated among themselves which eventually replaces the legacy system with an integrated modular -architecture core banking solution.

3.3 Stages in Digital Transformation Journey

The transformation journey of a bank is altered with several challenges as banks may be running on non- integrated back office legacy systems that adds up to the complexity at times of data migration, integration and implementation stages. The different stages that a bank undergoes during the core transformation are as follows-

Identify business case- It is critical for banks to comprehend their business requirements - both present and future, be it customer demands on products and services, or compliance requirements for business operations before undergoing a core transformation. The business case for the transformation must be discrete and all the stakeholders should have a buy in on the idea as the process fundamentally changes the business process and can only succeed with a collective effort of all stakeholders.

Technical Implementation- The technical implementation stage involves collaboration between the business leaders and the technical heads.

Business walk-through- After the implementation stage is completed, simulation run is done to complete a practice walk through. It also includes providing training to employees and end users.

Go live and support- After simulation, the transformation achieves the go-live stage and the new core is live in the market.

Core banking transformation is rapidly being adopted by banks to remain competitive and increases their business scope and services. Therefore, it becomes paramount for banks to evaluate their position and then create a business case for their digital transformation which will act as the bottom-line in selecting the right fit banking suite. The market is flooded with different core banking products and selecting the right product for the business is as essential as the transformation itself. Therefore, an evaluation grid is required to compare different products and then come up with the right solution.

4 Evaluation Grid

4.1 Parameters included in the evaluation grid

The core banking products available in the market are countless, and hence, in order to select the right banking suite, it is essential for banks to first evaluate them. This evaluation can be done by comparing products on certain parameters which the banks consider important from their business point of view. These parameters are given different weightages depending on the priorities and the particular business case leading to the core transformation in the concerned bank. Below is an evaluation grid that is developed after considering all the important characteristics of a core banking product from the standpoint of a bank undergoing digital transformation.



4.1.1 Parameter 1- Business Area

The business area parameter delineates how the product can augment the quality of service offerings of the bank. The core banking platform should support new product innovations and expedite time-to-market for new launches. It must have the ability to up-sell, cross-sell different products of the bank and increase business by improving customer satisfaction and customer acquisition as well as update according to the new regulation and adherence mandated by the law of the land.



4.1.2 Parameter 2- Functional Use Case

The functional use case includes all the parameters that focus on the mission critical functionalities that the core banking product should provide the clients. Basic functionalities include the customer relationship management, deposit management, loans and liquidity management, settlement, and all other accounting processes.





4.1.3 Parameter 3- Vendor Details

The vendor details also matter to a great extent while selecting the core banking product as it brings in light the capability and KPI's of the product, the peer group of users of the product and based on this, the overall after sales service and assistance provided by the vendor.



4.1.4 Parameter 4 - Product Features

The product features include characteristics such as the agility, scalability, the percentage customization and configuration required during the implementation. Banks prefer products that are standardized and require little to no customization. However, configuration flexibility is a desired feature. It also includes the integration ability of the banking system with the traditional legacy framework that the bank already has in place.



4.1.5 Parameter 5- Implementation

Under the implementation section, the timeline in which the implementation will be completed is considered vital as it is important for banks to get done with the new product's implementation as soon as possible in order to retain its customers in a competitive market space. The implementation timeline is also important as it needs continuous involvement of business leaders which reduces the time they devote to other operations of the bank.



4.1.6 Parameter 6 - Product Principles

The product is also evaluated on properties such as modularity in architecture, and reusability of current existing components present in the legacy system that defines the flexibility of the product. Product features also include considerations such as regulatory compliance like the Basel III norms and other laws of the land. It also includes the efficient management of critical data of the end users and the client bank.



4.1.7 Parameter 7 - Operations

This parameter evaluates whether the core banking transformation aids the bank in achieving an end-to-end streamlining of the business processes which makes the banking operations seamless. It should also be able to harness the humongous data collected from multifarious platforms and users to make the operations customer-centric compared to the product-centric approach of the legacy system followed earlier.



4.1.8 Parameter 8 - Training and Support

Under the training and support parameter, the product is evaluated on the quality of the end-user training and the detailed instructions of using different services provided across all the platforms of banking. It also evaluates the technical support that the vendor provides to the employees of the bank and the service level agreement (SLA) norms in which the vendor will respond to the bank employees in case of any issues.



4.1.9 Parameter 9 - Cost

The core banking transformation is a costly affair and includes various upfront and recurring costs during and after implementation such as the hardware and software cost, license fees, maintenance cost, etc. Banks should choose the right banking product which fits in with their revenue generation schemes. The new SaaS and BPaaS subscription based models such as those provided by Mambu are making the digitization affordable for small banks and credit unions which is making banking easier for end users.



The above-mentioned list of parameters tries to incorporate and factor in all the considerations of a bank before selecting the product for its core transformation. The products are evaluated on these parameters to select one from the plethora of options that the market provides.

To help banks in choosing the right banking suite, this paper categorizes all the incumbent core banking products available in the market under 4 exhaustive categories depending on how long they have been in business and their market share. The traditional products are the ones that have been in business from a very long time and have proven their mettle time and again. The new age products as the name denotes are new in the industry and have a smaller market and a scattered market share as compared to the traditional products. The niche products have been in the market for a decent time but their market share is limited, and they provide diversified banking services in a limited geography. The last category is the digital products category which has revolutionized the banking industry by providing SaaS and BPaaS modes of core banking subscriptions to its client banks and have reduced the cost of ownership for these banks and simultaneously boosted their top line and bottom line growth by providing improved services to the end users.

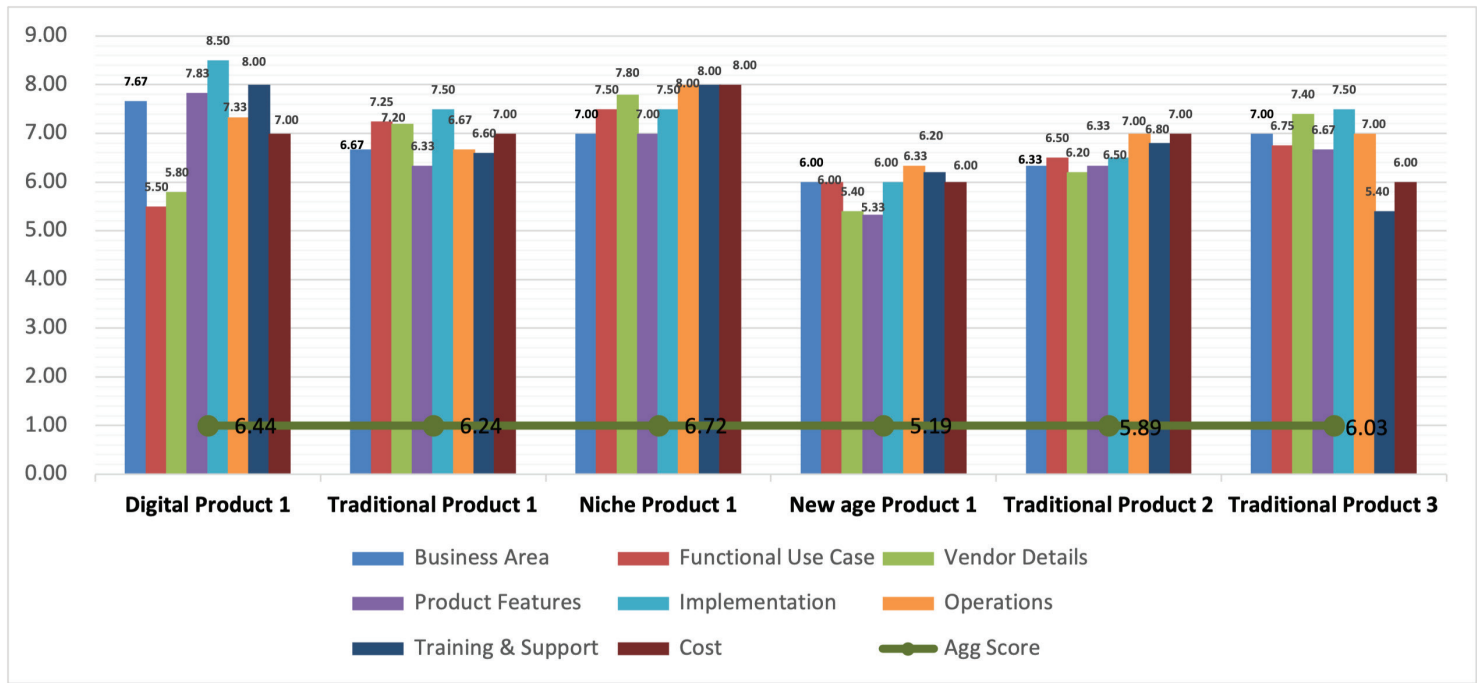
5 Comparison Chart

5.1 Categorizing core banking products-

In order to compare the different core banking products available in the market, this paper first classifies them into 4 different categories. The categories are-

- 1) Traditional core banking products
- 2) Niche core banking products
- 3) New age core banking products
- 4) Digital (Saas and BPaaS) core banking products

In the comparison chart, one product each from digital core banking products (SaaS and BPaaS), niche core banking products, and new age core banking products is chosen and three products from traditional core banking products are chosen. These products are now compared across the different parameters in the evaluation grid and then rated on a scale of 1-10.



After the products are evaluated and rated on different parameters, an aggregate score is obtained by taking a product of the average parameter score and the particular parameter's weightages according to the requirement of the bank.

Aggregate Score= \sum (average parameter score * weightage of the parameter)

The aggregate score obtained for the selected products is shown in the chart above.



5.1.1 Ratings obtained by Traditional core banking products - The core banking products in this category i.e., traditional product 1, traditional product 2, and traditional product 3 have obtained an aggregate score of 6.24, 5.89 and 6.03 respectively.

5.1.2 Ratings obtained by Niche core banking product - The niche core banking product chosen, i.e. Niche Product 1 has obtained an aggregate score of 6.72 on a scale of 1-10.

5.1.3 Ratings obtained by New age core banking product- The new age core banking product chosen, i.e. New age Product 1 has obtained an aggregate score of 5.19 on a scale of 1-10.

5.1.4 Ratings obtained by Digital (SaaS and BPaaS) core banking product- The digital core banking product chosen, i.e. Digital product 1 has obtained an aggregate score of 6.44 on a scale on 1-10. On the basis of the obtained aggregate score, the products are given a comparative ranking mentioned below-

Ranks	Products	Aggregate Score
1	Niche Product 1	6.72
2	Digital Product 1	6.44
3	Traditional Product 1	6.24
4	Traditional Product 3	6.03
5	Traditional Product 2	5.89
6	New age Product 1	5.19

The individual parameter score can also be used to plot different products against combinations of different parameters. The axis of the plot depends on the parameters that are paramount for the bank undergoing the transformation.

In order to help banks to embark on their digital transformation journey, Hexaware provides digital banking advisory termed as the #RightFitPath (Intellectual Property of Hexaware) to guide banks during their transformation journey and help them to retain and preserve their business strategy. This is an inside-out, bird's eye view that assesses the current position of the bank and identifies the requirement of the bank to reach its target position post digitization.

5.2 Mapping products on the #RightFitPath

The two axes while plotting the products on the #RightFitPath are the Business Value and the Ease of Use. Products are plotted in such a way that any point on the plot represents the respective Business Value and the Ease of Use of a product. The 4 quadrants in the #RightFitPath are mentioned below-

	Business Value	Ease of Use
First Quadrant	High	High
Second Quadrant	Low	High
Third Quadrant	Low	Low
Fourth Quadrant	High	Low

To plot the six products taken for comparison on the #RightFitPath, it is essential to divide the nine parameters discussed above between the Business Value and the Ease of use.

All the parameters that directly impact the Business Value by reducing the time-to-market for new services or helping banks in adhering to regulatory guidelines, increasing the functional coverage of the bank and reducing the cost of operations are included in the Business Value header of the #RightFitPath.

Similarly, all the parameters that simplify operations from the viewpoint of an employee as well as an end user are included in the Ease of Use header of the #RightFitPath. This includes all parameters that focus on streamlining different processes, enabling outsourcing of non-core operations of a bank, as well as providing training and technical support to employees of the bank. From the customers' perspective, this includes the availability of third party resources as well as an interactive banking experience across different platforms.

The below table shows the division of the parameters between the two axes of the #RightFitPath-



Business Value	Ease of Use
Business Area	Product Features
Functional Use Case	Implementation
Vendor Details	Product Principles
Cost	Operations Training & Support

On the basis of the above categorization of the parameters, following steps are followed to plot the products on the #RightFitPath-

1) An average value of the Business Value and the Ease of Use for each product is needed to plot the products on the #RightFitPath.

Average value of Business Value for any product = Parameter Score of (Business area + Functional use case + Vendor details + Cost)/4

Average value of Ease of Use for any product = Parameter Score of (Product Features+ Implementation+ Product Principles+ Operations+ Training and support)/5

2) Next step is to determine the value of origin for the two axes. It is calculated by taking the average of the Business Value and the Ease of Use for all the products mentioned in the comparative chart. Below table shows the origin calculation-

	Business Value	Ease of Use
Niche Product 1	7.58	7.42
Digital Product 1	6.49	7.89
Traditional Product 1	7.03	6.90
Traditional Product 2	6.51	6.57
Traditional Product 3	6.79	6.75
New age Product 1	5.85	5.81
Average	6.70	6.80

Origin value for Business Value = 6.70 Origin value for Ease of Use = 6.80

3) Lastly, in order to determine the position of the product on the #RightFitPath, values above the origin point are considered high and values below origin are considered low and they are mapped in the respective quadrants with the help of table 3.

	Business Value	Ease of Use	Right Fit Quadrant
Niche Product 1	High	High	First
Digital Product 1	Low	High	Second
Traditional Product 1	High	High	First
Traditional Product 2	Low	Low	Third
Traditional Product 3	High	Low	Fourth
New age Product 1	Low	Low	Third

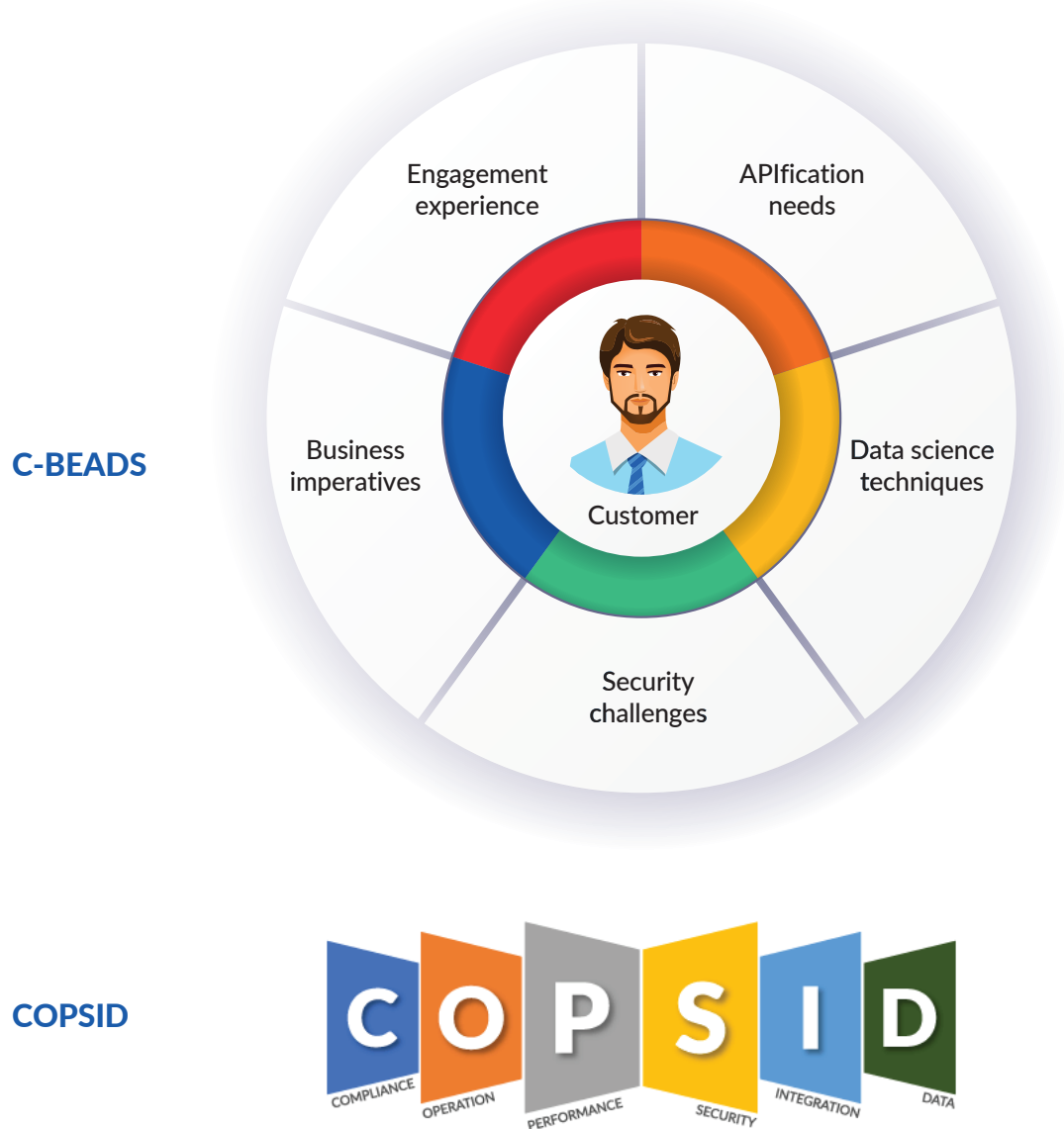
Thus, the six products taken for comparison are mapped on the #RightFitPath which represents a baseline version of how to compare among different products available in the market to help the bank in choosing the product that fits right with their business strategy.



5.3 Hexaware Approach

Hexaware helps banks who want to undergo the digital core transformation journey in consistency with its AUTOMATE EVERYTHING® – CLOUDIFY EVERYTHING® – TRANSFORM CUSTOMER EXPERIENCES® strategy. Hexaware assists the banks by first understanding their requirements and determining the phase they are in, in their digital transformation journey.

It helps firms analyze their position in the existing digital life-cycle vs. where they want to be; which can be achieved by leveraging the C-Bead framework which is the consulting kit of Hexaware banking domain. After determining their current position, another framework COPSID is used to implement and enable digital transformation while enabling the operational efficiency using integrated data exploration tool kit.



6 Conclusion

The core banking transformation product selection is the first and the most crucial step of the digital transformation journey. In order to evaluate the products, an evaluation grid is required. The parameters included in the grid are given different weightages depending on the business case of the bank. In the discussion above, core banking products are divided into four exhaustive categories and then 6 products are chosen in such a way that at least one product is selected from each category. The categories are traditional products, niche products, new age products and digital (SaaS and BPaaS) products. The products are compared on the basis of the evaluation grid and then rated on a scale of 1-10. This rating obtained in the individual parameters along with weightages depending on the business case of the bank is utilized to arrive at an aggregate score of each product. Thus, an evaluation grid and a baseline comparative chart of six different core banking products is created which will aid the bank in choosing the right fit banking suite. Along with this, the chosen products are mapped on the #RightFitPath, which is a digital banking advisory tool of Hexaware that helps banks in getting an overall estimate of how much the product will augment the Business Value as well as the Ease of Use for the bank.



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Cite the whitepaper and add the links here as References. It should contain the name of the topic, author's name and year in which it was published.

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About Hexaware

We are a global technology and business process services company empowering enterprises worldwide to realize digital transformation at scale and speed. Our platform-enabled strategy – featuring Amaze® for full cloud enablement, Mobiquity™ for digital product engineering, and Tensai® for extreme automation – drives human-machine collaboration to create immersive customer experiences and solve complex business problems. We believe technology is a magical thing, and our purpose is to create smiles through great people and technology.

With corporate headquarters in Mumbai and regional headquarters in New Jersey for North America, London for Europe, and Sydney for APAC, we service customers in over one hundred languages from every major time and regulatory zone. We serve customers in banking, financial services, capital markets, healthcare, insurance, manufacturing, retail, education, telecom, hi-tech & professional services, travel, transportation, and logistics. We deliver highly evolved services in rapid application prototyping, development, and deployment; build, migrate, and run cloud solutions; automation-based application support; enterprise solutions for digitizing the back-office; digital product engineering; business intelligence & analytics; digital assurance; infrastructure management services; and business process services.

Learn more about Hexaware at <https://www.hexaware.com>

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