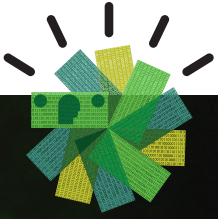


Core System Transformation and Simplification for Banking

5 smarter banking solutions to transform your infrastructure and reduce costs





Reliable transactions are critical to business. There are 15 million bank transactions mined each day. Poor quality data will cost the banking industry 27 billion USD in operations costs.¹

Why transform the banking infrastructure now?

For banks, the pressure has never been stronger to find smarter ways to do business. Their business networks—the broad network of partner, customer and supplier relationships and interactions that make up their business—are changing rapidly and becoming more dynamic. Consolidation is taking place in every market around the world. New players and nontraditional banks with specialized products and services are emerging. Customers are demanding tailored products and services, greater access and responsiveness, and increased transparency from their financial institutions. And regulators are taking action to restore market confidence. The pressure and pace of change is accelerating, and only financial institutions that can adapt to change and outmaneuver the competition will have the advantage. In fact, a recent IBM Study found that 50 percent of customers would only give their bank two chances to fail in meeting their requests for service or new products before considering a change in banks.¹ Addressing these and other challenges facing the banking industry in 2010 and beyond requires banks to reduce costs and improve their business agility, which begins with a thorough evaluation of their IT infrastructures across their entire business network.

Today, 70 percent of budgets are spent on maintaining current IT infrastructures. And on average, less than 30 percent is spent on new capabilities³ Heavily customized and inflexible legacy systems make it hard and expensive to support regulatory changes. Inflexible, “homegrown” legacy core banking applications are hard to integrate. And consolidations and mergers have created chaos with IT Infrastructures which have become a complex, incompatible mix of different platforms, networks, and devices.

Financial institutions that can reduce the cost of their existing infrastructure and reinvest in innovative, game changing, new technologies to transform their back office legacy systems into the banks of the future will achieve the fast pace of growth and change required to develop a dynamic business network and succeed in the banking industry today.

2009 CIO STUDY:

Fifty-five percent of CIOs' time is spent on activities that span innovation – including implementing new technologies. Forty-five percent of their time is spent on traditional tasks including managing the ongoing technology environment, including reducing IT costs, mitigating enterprise risk and leveraging automation to lower costs elsewhere in the business. ²



Smarter Banking Solutions based on Smart SOA Connectivity and Integration and a Dynamic Application Infrastructure

IBM can help clients transform back office legacy systems into a more strategic, agile and simplified solution infrastructure. In fact, most of the banks on the 2008 Global Fortune 500 list are already IBM customers who are transforming and simplifying their banking infrastructure to meet the increased pace of innovation and reduce IT costs with Smarter Banking Solutions.⁴

IBM core system transformation enables banking IT managers and executives to build an evolutionary architectural IT framework that introduces better control for internal and external regulation and supports growth over the next ten years. Transformation doesn't have to be painful or expensive. IBM is helping banks to work smarter by transforming banking infrastructures, one project at a time with assistance from the IBM Banking Industry Framework. The IBM Banking Industry Framework helps banks work smarter by enabling increased customer confidence, decreased transaction costs and a higher level of solvency. At the heart of the framework are both smart service-oriented architecture (SOA) connectivity and integration and dynamic application infrastructure capabilities delivered by IBM WebSphere®.

Take a look at the following five infrastructure transformation projects, each of which can deliver greater business agility, reduced cost and increased marketplace success.

Five ways to transform your infrastructure to reduce costs, respond quickly to customers and comply with regulations.

#1: Deliver personalized services through application innovation:

To exceed customer expectations and reach customers in new ways banks must make significant changes in strategies, processes and underlying technology. One way to personalize the online banking experience quickly is through application innovation. The Smart SOA Application Foundation provides you with the technology needed to build communications enabled applications that deliver the innovative and interactive features like “click to call” or “co-browsing” to existing banking applications. Using communications enabled applications, customers completing online loan applications can receive immediate assistance, online and in real time, with complicated forms and decisions. These interactive features normally require complex Session Initiated Protocol (SIP) programming skills which can be scarce. With IBM WebSphere Application Server V7 and the Communications Enabled Applications (CEA) Featurepack, the “click to call” and “co-browsing” features are free and as easy to implement as “cut and paste” and allow banks to better personalize existing services. Review the CEA Featurepack demo at ibm.com.appfoundation to learn more.

#2: Improve agility and responsiveness to respond to compliance regulations and fraud detection:

Many banks today are dealing with aging, complex and rigid core infrastructures that impede their ability to respond quickly to new and evolving regulations, and resist change that could identify and prevent attempted frauds earlier. These issues can be overcome by ensuring that banking applications connect together over a robust and reliable connectivity and integration layer. In such an environment, logging and auditing can be done on any information that flows over the bank’s net-

work, without the need for any changes to banking applications, today or tomorrow, ensuring your bank is always compliant. This connected infrastructure also provides a single point-of-view to review transactions to detect and prevent fraud by enabling business rules and actions to be defined within the enterprise service bus (ESB). With all information, whether transactions, messages or files flowing through a single point-of-control instead of multiple complex linkages, banks such as Allied Irish Banks (AIB) (detailed below), can add in key functions to control their regulation compliance and business operations without impacting their business needs to improve competitiveness in the market. Read the case study below.

#3: Streamline payments and lower the cost of doing business:

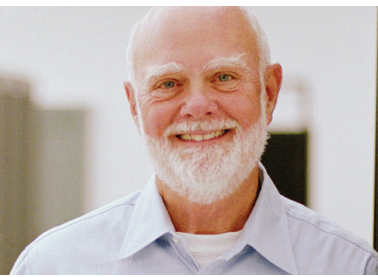
With payments being a major source of both revenue and costs for banks, cutting the time and costs of deploying and maintaining payment processing solutions can make major differences in how the banks differentiate themselves from their competition while boosting profits. IBM WebSphere offers solutions that accelerate delivery of payment and integrate with third party payment systems. WebSphere Transformation Extender with Industry Packs extends the connectivity and the reach of an ESB beyond organizational boundaries to facilitate the integration of in-house payment processing applications with customers and partners. Connecting payment applications in a payments hub can be simplified with this loosely coupled connection speeding the processing of payments, compliance with standards and reducing the ongoing costs of maintenance. IBM has worked with a leading Portuguese bank payments services company, SIBS (Sociedade Interbancaria de Servicos, S.A.), to help them create a payments system to support the Single European Payments Area (SEPA) while building scalability for future payment volume data through an ESB with industry leading partner content. As a result the bank found it was able to broaden its service portfolio and expand into international markets. ibm.com/software/industry/banking/

Learn more about WebSphere Transformation Extender Industry Packs here:

ibm.com/software/integration/wdatastage/x/packs.html

CIO 2009 STUDY REVEALED:

Seventy-six percent of CIOs include virtualization as a component of their visionary plan. ²



#4: Reduce rising IT infrastructure costs through intelligent application management and virtualization:

Today, banks are challenged to reduce IT operational costs while providing seamless, always-on, service to their customers. IBM WebSphere software provides a powerful and comprehensive set of cloud computing and virtualization solutions for managing banking applications and SOA services intelligently while reducing administration and management costs. Banks can deliver superior customer service by eliminating downtime during application upgrades by running multiple versions of applications at the same time. And efficient development of banking apps is delivered using cloud computing to quickly and easily set up application foundation software via cloud environments. Banks can increase solvency by reducing rising energy costs by virtualizing the application infrastructure to reduce the need for additional hardware and software. First Citizens Bank has been able to reduce their server count by 20 percent while providing uninterrupted online banking services to their customers using WebSphere Virtual Enterprise. IBM WebSphere software also lets you take full advantage of increasingly popular private clouds to utilize applications cost effectively by maximizing the reuse of application environments and paying just for the banking applications being used. The IBM WebSphere Cloudburst Appliance can lower development and deployment costs by dramatically reducing setup time for WebSphere environments from weeks to minutes with pre-defined application environments and virtual images. View the First Citizens video case study at ibm.com/Intellmgt to learn more.

#5: Improve responsiveness and handle extreme transaction volumes accurately and predictably to lower costs:

Banks need to provide innovative new services and deliver consistent, predictable responses to customers in a 24x7 environment, to improve customer confidence and trust regardless of location and channel. This must be accomplished transparently, cost effectively and without error even in the most demanding situations. IBM Extreme Transaction Processing technologies enable banks to ensure predictable, accurate and near instant customer service times independent of the customer location, online, at an ATM or in a bank branch location regardless of how many transactions are being processed at any given time. By using a powerful distributed cache to speed application access to data, IBM WebSphere eXtreme Scale can reduce customer service call time, measured in seconds, thereby reducing costs and improving customer satisfaction. See the demo at ibm.com/xtp to learn more.



CIO CHALLENGE: HOW CAN I REDUCE COSTS WHILE IMPROVING SERVICES? ²

The CIO today: Raises the return on investment (ROI) of IT and is the relentless cost cutter. CIOs spend 14 percent of their time (nine hours per week) removing costs from the technology environment.

“Our embrace of a bold transformation strategy is a measure of both the challenges we face and our commitment to success. By working with IBM, we’re gaining the agility and efficiency that are becoming essential for success—and we’re doing it today.”

— Steve Meadows, COO and Director of Operations and Technology, Allied Irish Banks



Case Study: Allied Irish Banks strengthens its position in Europe through core bank transformation

In the years—and sometimes decades—they’ve been in service, core banking systems tend to become highly customized and “brittle.” Additional connections and interfaces have been added continually throughout the systems’ lives creating increasing complexity and making maintenance onerous. More and more effort is expended on the increasing connectivity code rather than the key business logic, impacting the ability to make changes. Such was the challenge facing Allied Irish Banks (www.aibgroup.ie), Ireland’s largest bank.

Headquartered in Dublin, Allied Irish Banks (AIB) offers a wide range of personal banking services. AIB employs more than 25,000 people worldwide in more than 750 offices. Having expanded from its base in Ireland to Poland, the United Kingdom and the United States through acquisition, Dublin-based AIB, in many ways, epitomizes the increasing importance of cross-border growth for European banks. What makes AIB stand out from other banks is its willingness to take bold action to enable profitable growth in the future.

Business need:

With competition and regulation increasing, Allied Irish Banks needed to become more agile and cost-effective in serving its retail customers to remain a major player in the European banking market. Its aging and rigid core banking systems posed a significant barrier.

Solution:

AIB embarked on a complete transformation of its retail banking platform, with impacts extending from the heart of the bank’s core processes out to hundreds of branches. The new system provides a quantum improvement in speed to market and fundamentally changes the bank’s cost model.

By becoming the first large European bank to replace its entire retail core bank platform with an off-the-shelf package in its home market, AIB is positioning itself to thrive in the competitive and regulatory dynamism of the European banking market. By leveraging the scalability and lower cost of its main-frame environment, the new core bank system gives AIB a means to significantly improve its cost income ratio as the bank grows.

Benefits:

- *Faster time to market with new banking products and services*
- *Major reduction in time required for and cost of regulatory compliance*
- *Improved ability to offer targeted services through a portfolio view of the customer (not account-centric)*
- *Improved cost/income ratio through lower computing and IT support costs*

IBM’s Smart Application Infrastructure and Connectivity offerings are at the core of the AIB banking solution and provide a high-performance foundation for creating and implementing agile and reusable SOA applications and services. The SOA architecture provides the agility AIB requires to keep up with the challenges of changing regulatory requirements. The SOA architecture provides the ability for newly acquired banks to be rapidly integrated into the infrastructure which will enable AIB to achieve the rapid pace of growth they need to thrive.



Bank of America Merrill Lynch selects Fundtech Global PAYplus-Services Platform (GPP) as the next generation of its Online Banking Foundation for its treasury management banking platform. Fundtech GPP runs on the IBM WebSphere Application Server and WebSphere Process Server while using services from WebSphere Transaction Extender, DB2®, and other IBM middleware which is already running in most banks. The bank expects the new system to provide its clients with new levels of convenience and control in cash management.



CIO 2009 Study revealed:

Within five years up to 61 percent of "high growth" CIOs expect to:

- Implement completely standardized, low cost business processes
- Reach customers in new ways
- Enhance integration transparency
- Make the data "sing"
- Centralize the infrastructure

Ninety percent of CIOs expect moderate or substantial change ahead.

Conclusion

In order to address the issues that banks are facing today, core banking infrastructures must be simplified and transformed to be agile and responsive to change and more cost effective. This will ultimately enable a more dynamic business network and marketplace success. The IBM Banking Industry Framework, and the smart SOA application infrastructure and connectivity and dynamic application infrastructure capabilities associated with it, can help banks meet these objectives.

Additionally, IBM Global Financing can tailor financing solutions to your specific IT needs. For more information on great rates, flexible payment plans and loans, and asset buyback and disposal, visit: ibm.com/financing.

Talk to your IBM representative about scheduling an Industry Business Value Assessment or Information Agenda workshop to start to identify ways to get started.

For more information

IBM Application Infrastructure and Connectivity Banking Solutions visit:

ibm.com/software/websphere/banking

Banking Industry Framework, visit:

ibm.com/software/industry/frameworks/banking



© Copyright IBM Corporation 2009

IBM Corporation
Software Group
Route 100
Somers, NY 10589
U.S.A.

Produced in the United States of America
12-09
All Rights Reserved

IBM, the IBM logo, ibm.com, WebSphere and DataPower are trademarks or registered trademarks of International Business Machines Corporation in the United States, other countries, or both. If these and other IBM trademarked terms are marked on their first occurrence in this information with a trademark symbol (® or ™), these symbols indicate U.S. registered or common law trademarks owned by IBM at the time this information was published. Such trademarks may also be registered or common law trademarks in other countries. A current list of IBM trademarks is available on the Web at "Copyright and trademark information" at ibm.com/legal/copytrade.shtml.

Other product, company or service names may be trademarks or service marks of others.

- ¹ IBM "A Smarter Planet: Banking"
<http://www.ibm.com/ibm/ideasfromibm/us/smartplanet/topics/finance/20090126/index.shtml?&re=spf>
Verizon study, erfonline.com, fif.com
- ² IBM 2009 CIO Study
http://www-935.ibm.com/services/us/cio/ciostudy/?sa_campaign=message/lamm/gts/thoughtleadership/ciostudy
- ³ From Dynamic Infrastructure smarter planet
<http://www.ibm.com/ibm/ideasfromibm/us/smartplanet/topics/itinrastructure/20081215/index1.shtml>
- ⁴ From CNNMoney.com and Fortune magazine 2008
http://money.cnn.com/magazines/fortune/fortune500/2008/full_list/