

**Press contacts:***Vanessa McDonald**Tel.: +44 (0)870 238 2856**Email: [vanessa.mcdonald@capgemini.com](mailto:vanessa.mcdonald@capgemini.com)**Christel Lerouge**Tel.: +33 (0)1 47 54 50 76**Email: [christel.lerouge@capgemini.com](mailto:christel.lerouge@capgemini.com)*

## **Banks Should Replace Core Banking Systems to Stay Competitive**

*Capgemini's new study "Core Banking Systems Survey 2008" shows system modernization and replacement is key to success*

**Paris, March 25, 2008 – A changing economy and increased regulatory requirements have put increased pressure on banks and their core banking systems. However, according to the 2008 Core Banking Systems Survey\* from Capgemini, almost all of the top retail banks globally are still using legacy systems dating from the 1960s and 1970s in domestic markets; despite the growth of packaged banking solutions in international operations over the last three decades. To sustain growth under recent banking pressures and continued regulatory requirements, it is essential for banks to have the right core banking systems in place. While a large bulk of package sales are still within Tier 3 and 4 banks<sup>1</sup>, signs of larger, more strategic decisions are emerging with select Tier 1 and 2 banks that require sophisticated transaction processing software capable of handling large transaction volumes and giving banks the ability to gain ‘a single view of the customer’ in terms of their product usage.**

The survey provides recent trends, in-depth insights into the vendors and package solutions market and offers a guide for selecting and implementing a package solution in a structured, controlled and manageable way.

Beyond the financial drivers, IT globalization, increasing compliance and industry consolidation, are some of the other key motivators for core banking system replacement. As a result, the primary drivers for system replacement are shifting from cost reduction to growth. For example, regulations like SEPA (Single Euro Payments Area) have accelerated the payments industry transformation. To be among the major players in the new SEPA environment a bank must process at least five billion payment transactions a year. Tremendous industry consolidation, increased customer transaction demands and data management has led banks to feel increasingly limited by the capabilities of their core banking systems, and more than 90 per cent of banks interviewed are now willing to have a common architecture and a modular applications suite globally.

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<sup>1</sup> Tier 1 banks: assets greater than 400bln euros; Tier 2 banks: assets between 100-400bln euros; Tier 3 and Tier 4 banks: assets less than 100 bln euros

*“To react to these trends, a bank’s key support systems need to be transformed,”* comments Gert Jan van Dorsten, principal consultant, Capgemini Netherland B.V, Financial Services, *“International legislation and regulation necessitate more transparent and understandable products. Higher flexibility, such as adaptable mortgage products is required by some customers,. Changes to pricing structures such as the introduction of risk-based pricing and package-based pricing are required to attract customers. These kinds of changes would enable banks to strengthen their competitive position on the market.”*

Some players like Oracle who provide an integrated suite of standards-based, industry-specific applications for banks, insurance companies and capital market firms through their recently formed Global Financial Services Business Unit are leading the way in this market. While others like Misys and Callataj & Wouters are making in-roads with their strategic cooperation with SAP. There is a trend towards alignment with the architecture stacks and frameworks of the ERP giants SAP and Oracle in this market, and most independent vendors are also aligning themselves to one of these platforms.

Gert Jan van Dorsten, principal consultant, Capgemini Netherlands B.V, Financial Services, concludes, *“Package solutions have come a long way in terms of functionality, but implementations in tier one and two banks remain extremely large and complex. Banks willing to tackle planning and governance challenges can derive significant benefits by driving the replacement of outdated core banking systems, including meeting compliance demands, control over data management issues and a single view of their customer base. Banks should evaluate the packages available and work with technology partners to develop systems that deliver competitive advantage and enable them to prosper in this new environment.”*

\*\*Tier One

#### **\*Core Banking Systems Survey 2008**

The Capgemini 2008 Core Banking System Survey (CBSS) explores the major core banking systems available in Europe, North & South America and Asia-Pacific. Provided by Capgemini’s Global Financial Services Industry & Enterprise Packages Centre of Excellence, the survey highlights the core banking solutions for top-tier banks that have a strong position in the world’s top financial markets and require a solution in more than one country. The study provides insight on banking trends, package selection criteria, implementation methods and the package vendors providing solutions in the banking arena.

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