



The banking industry is stuck in a perpetual game of catch-up. Regulatory changes constantly force banks to rethink their products, services and business processes. The growing expectations of customers and intense competition among banks require them to react ever faster to the changing needs of the market.

Improving agility is a technology issue, and banks are facing the prospect of heavy investment in systems and processes to integrate their business lines, achieve efficiency across the organisation and respond quicker to customers' needs. For this reason, technology strategy will be crucial to banks' success in the coming years. Core systems is the area where much of the change will need to be made to accommodate the customer-centric, integrated approach that the market demands.

With the scale of changes required, banks can take an innovative approach to their systems infrastructure. This provides an opportunity for technology developers, whether or not they have had a long-standing relationship with banking clients, to introduce some fresh thinking that could enable their customers to differentiate their services and integrate their products. One systems developer that has spotted an opportunity to innovate around banking technology infrastructure is Microsoft, which has had its own game of catch-up to play.

'Microsoft is coming from behind in the banking market, as other providers have been in longer and have deeper relationships and deeper resources in terms of people,' says David Vander, Microsoft's worldwide industry manager for banking, 'but we have come from behind before. We want to focus on core banking because we see an appetite for change among the customer base. And we believe the current state of technology, our platform, and a services-oriented approach will allow customers, for the first time, to truly take a modular approach to renewing their core banking systems. They can take an incremental approach, to mitigate risk and manage project costs, yet ultimately end up with an overall core banking infrastructure that is both more agile and less expensive to maintain and run.'

# PLAYING CATCH-UP AND WINNING

MICROSOFT'S EXPERIENCE IN THE ENTERPRISE SECTOR HAS LED IT TO TARGET THE FINANCIAL SERVICES INDUSTRY AS A KEY MARKET. SUCCESSFULLY PENETRATING THIS MARKET DEPENDS ON UNDERSTANDING WHAT BANKING TECHNOLOGY NEEDS TO CHANGE IN THE PRESENT, AND WHERE IT NEEDS TO GO IN THE FUTURE.

**Knowing where the pain is**

Microsoft certainly has the credentials in the enterprise space, and is a key technology partner in many major industries. Its success in those markets has come from identifying problems and understanding how a versatile technology infrastructure could overcome them.

Vander recognises that each bank, with its own combination of legacy systems, proprietary software and vendor relationships, will require a different, customised solution. 'It is fair to say that there are many ways to skin a cat,' he notes. 'When banks look at where best to put their money, they need to ask where they feel the pain.'

However, he can also see that the pressures facing banks today have defined for them clear goals that go some way to determining the requirements of their technology strategies and budgets. 'Firstly, they need to improve customer experience and build around a service and distribution system,' he remarks. 'Secondly, they need to focus on process excellence. People want quicker loan approvals, straight-through processing, real-time information, less delay in the clearing of funds and so on. So, banks are investing in automating manual processes.'

'They also need to improve cost structures,' he adds. 'An important equation for the CIO and C-level executives in general is how to carve cost out of the business. Old core systems are a big part of the cost structure.'

Furthermore, Vander stresses the need for banks to improve the connect between their back-office systems and those of other providers, including outsourcing companies that take over back-office processes, as part of any BPO strategy, and also to broker/dealer networks. 'We have one of the best partner ecosystems in banking in this respect.'

**The right tools for the job**

For a technology provider trying to make its presence felt in the banking market, an integrated set of solutions is the first step. Microsoft has been able to leverage its significant investments in the development of enterprise systems to create its portfolio of products relevant for banking. In addition, Microsoft's broad ecosystem of partners applies its industry expertise to the product portfolio to more effectively develop and deliver leading business solutions and services. Notable partners in this space include Tata/FNS, SAP, SlaterLabs, and Temenos. Common products they often take advantage of include SQL Server, BizTalk Server, and Windows Server, which are constantly being revised, improved and used across critical business functions.

'SQL Server 2005 is the most binary example, but there are others – BizTalk Server 2006 or Windows Server 2003, Release 2,' says Vander. 'These are quantum leaps in security, reliability, innovation out of the box and developer reliability.'

SQL Server is Microsoft's comprehensive database platform. Incorporating business intelligence tools, it sits at the heart of the enterprise data management solution and includes analysis, reporting, integration and notification tools.

Biztalk is the business process management server that underpins the automation and optimisation of business processes. As well as being successfully used in large banks, it is also used widely in the automotive, chemical, manufacturing, high-tech and energy sectors. Microsoft's .NET web services architecture is another key element of its portfolio, providing the crucial systems connectivity that enables banks to improve their agility.

'There has been a large shift in the technology market around service-oriented architecture and web services interoperable standards,' believes Vander. 'They deliver change in an incremental and integrated way. That is the most dramatic impact on platform strategy.'

'Service-oriented architecture gives a tighter connection from the core to the mid-layer and to customer interaction systems, including self-service,' he adds. 'That connection is becoming tighter and more real-time.'

He also feels that Microsoft's People-Ready business tools, designed to increase connectivity within an organisation, are useful for banks as they move towards a horizontal business structure, where products and services are integrated across the entire organisation. 'The segmented silo mentality must change,' he notes.

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**Making the change**

If banks are hesitant about engaging in such major changes to core banking systems, Vander believes they need simply to ask themselves one question to make their choice clear. 'Banks want sustainable competitive advantage, so they need

to ask if their core systems will deliver that,' he says.

The answer, at present, is very probably no. However, if banks are worried about the disruption caused by the implementation of a new systems architecture, Vander can offer comfort. 'We don't espouse a complete revolution – a "rip and replace" – in financial services,' he says. 'That is not the way banks should conduct their business. The assets, information and knowledge need to be maintained. So technology needs to be interoperable in a heterogeneous environment.'

'Banks can use older systems and integrate safely into the new platform. The approach is rapid incrementalism.'

**Taking the lead**

With its understanding of the banks' challenges and its portfolio of proven products and partners, Microsoft feels that it can win its game of catch-up and become a vital technology partner for the industry. There has been an impressive uptake of SQL Server so far. Microsoft is working with key clients in the financial sector, including Nasdaq, Citigroup, HSBC and the London Stock Exchange, and is seeing a lot of momentum build behind the software.

'Microsoft takes the banking vertical very seriously,' says Vander. 'We have a focus on the enterprise segment in general and we have a growth strategy for it. We have a very rich portfolio of server-based offerings, and a good uptake in the data centre and in core applications, particularly in the banking sector.'

'Microsoft has the best partners, the best TCO outcomes, the best level of integration out-of-the-box and in a heterogeneous environment. The magic is in the software.' Clearly, Vander believes Microsoft can help its banking clients to win their game too. FBA

**Further information**

Further information: [www.microsoft.com](http://www.microsoft.com)